QuotedData
BY MARTEN & CO

INVESTOR

Review of 2022

Annual roundup | Investment companies | January 2023

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A year to forget?

Any optimism that investors felt going into 2022 was dashed in February with Russia's invasion of Ukraine. Resultant jumps in energy and food prices helped entrench inflation, requiring more aggressive interest rate hikes from central banks. Investments valued on a discounted cash flow basis had to factor in higher discount rates. That reinforced the shift in sentiment away from growth and towards value. Tighter monetary conditions and the depressive effect of China's mishandling of COVID raised expectations of recession. That spelled potential bad news for lenders, meaning that debt funds had to cope with higher base rates and higher risk premiums. Top that off with some bizarre political decisions in the UK and you can see why many investors might want to forget 2022.

But, does that just set us up for a much better 2023?

> Discounts widened across the investment companies sector. Only when US inflation began to fall, did the tide turn.

> The shift in sentiment towards growth stocks, particularly untried and unprofitable companies, is reflected in the selloff in the growth capital sector, where even the best performer fell by 36%.

> There were no new issues over the year despite quite a few attempts. Nevertheless, by our reckoning more money still flowed into the sector than out of it over the year.

At QuotedData, we:

- moved into our new home in the City – 50 Gresham Street;
- continued our prolific output of news, notes, and investment company and real estate monthly and quarterly roundups, plus our many contributions to third-party publications;
- shared the thoughts of our four analysts in our regular 'QD view' column, and added an external voice in the form of Cherry Reynard;
- continued our weekly Friday news round-up and interview show, bringing together fund managers and experts from across the industry and giving you the opportunity to ask them questions; and
- welcomed investors back to physical events at Master Investor Show and the London Investor show.

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Contents

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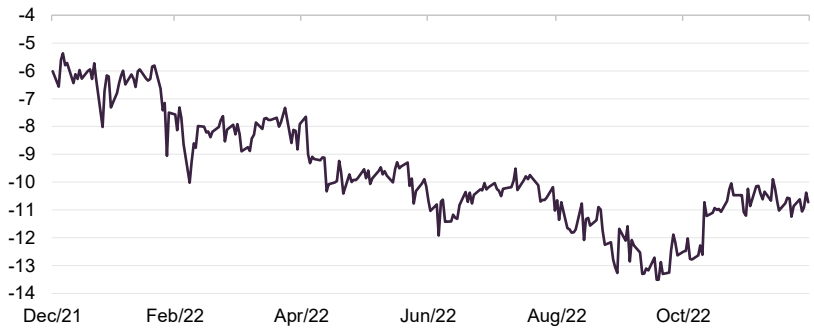
At a glance

All investment companies median discount

As sentiment deteriorated, discounts widened across the investment companies sector. Only when US inflation began to fall, did the tide turn. Within these figures, there has been a marked widening of discounts/dissipation of premiums within sectors that had long been investor favourites, such as infrastructure and renewables.

Figure 1: 1 January 2022 to 31 December 2022

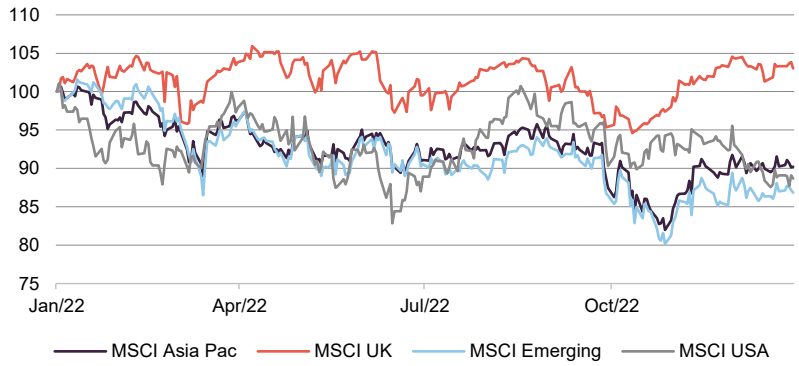


Source: Morningstar, QuotedData

MSCI indices in sterling, rebased to 100

The UK market made modest gains over 2022. However, those figures are perhaps misleading as the decent returns were driven by a handful of stocks. Small and mid-cap UK companies performed much worse than this. Asia and emerging markets were held back by China. Even US companies lost ground, despite a strong dollar.

Figure 2: 1 January 2022 to 31 December 2022



Source: Bloomberg, QuotedData

Figure 3: Currency, commodity and bond movements over 2022

Currency / indicator	31/12/2022	31/12/2021	Change y-o-y (%)
GBP / USD	1.2083	1.3532	(10.7)
USD / EUR	0.9341	0.8793	6.2
USD / JPY	131.1200	115.08	13.9
USD / CHF	0.9245	0.9129	1.3
USD / CNY	6.8986	6.3561	8.5
Oil (Brent)	85.91	77.78	10.5
Gold	1824.02	1829.2	(0.3)
US Treasury 10 yr yield	3.875	1.510	157
UK Gilt 10 yr yield	3.672	0.971	278
Bund 10 yr yield	2.565	(0.182)	n/a

Source: Bloomberg, QuotedData.

Investment company notes published in 2022

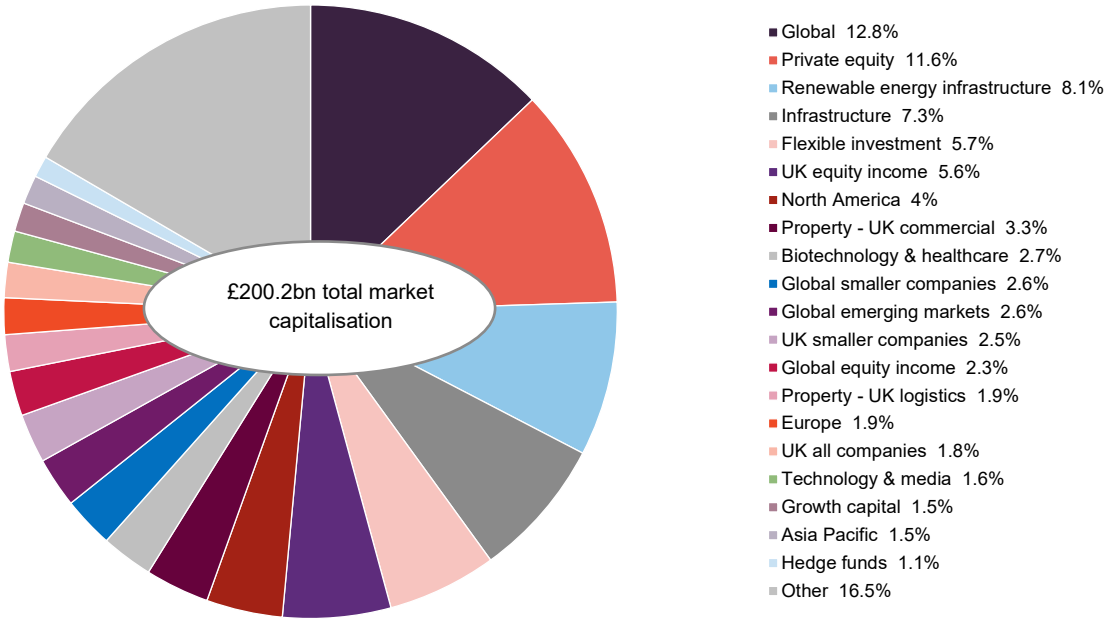
Figure 4: Notes published in 2022

GCP Infrastructure – The future is brighter and greener	Temple Bar – Time to shine
Edinburgh Worldwide – Tomorrow's winners	abrdn Private Equity Opportunities – Laying the foundations for future returns
Tritax EuroBox – Fast-tracked	Chrysalis Investments – Shepherding its portfolio through the storm
Herald Investment Trust – The future is bright	Baillie Gifford UK Growth – Patience will be rewarded
NextEnergy Solar Fund – Climbing inflation and power prices driving NAV uplift	JLEN Environmental Assets – Further portfolio diversification
AVI Japan Opportunity – The tortoise triumphs	Urban Logistics REIT – Long-term dynamics remain strong
abrdn European Logistics Income – Logistics safe haven with growth on the horizon	AVI Japan Opportunity – Maintaining its firepower
Henderson Diversified Income – Ahead of the curve	What the logistics is going on?
Strategic Equity Capital – Time to look forward	Alliance Trust – Stability in troubled waters
Montanaro European Smaller Companies – Unfazed by market turmoil	Tritax EuroBox – Opportunity knocks
Ecofin US Renewables Infrastructure – Clear path to growth	Ecofin Global Utilities and Infrastructure – A portfolio for all seasons
JLEN Environmental Assets – It's all about renewables	Conviction Life Sciences – CLSC Initial Public Offering
Polar Capital Global Financials – Riding out the storm	BlackRock Throgmorton – The strong have only gotten cheaper
Henderson High Income – Last man standing	Polar Capital Global Financials – Don't fear the dog that is yet to bark
Polar Capital Technology – Eyes on the prize	Polar Capital Technology – Jockeying for position
CQS New City High Yield – Interest rate rises maybe too little, too late	Pacific Horizon – Convergence opportunity
Standard Life Investments Property Income – Resilient income in uncertain times	NextEnergy Solar – Earnings visibility underpins dividend target
AVI Global Trust – Bargain hunting	Vietnam Holding – A real growth story that remains intact
Downing Renewables and Infrastructure – Proving its mettle	Abrdn Property Income – Laser focus on the basics
Civitas Social Housing – Fundamentals remain strong	Grit Real Estate Income – Going for growth
abrdn New Dawn – Over the trough	Henderson High Income – Does what it says on the tin
Montanaro UK Smaller Companies – Selloff provides opportunities	
Grit Real Estate Income – Transition underway	
JPMorgan Japanese – Unjustified sell off creates opportunities	
GCP Infrastructure – Improving outlook and room to grow	
North American Income Trust – Next generation dividend hero	
Gulf Investment Fund – Much more than just oil and gas	
JPMorgan Multi Asset Growth & Income – Navigating a changed landscape	

Source: QuotedData

State of play at the end of 2022

Figure 5: Split of the investment company market by AIC sector, as at 31 December 2022



Source: Morningstar, QuotedData

The investment companies sector shrank from £239.2bn to £200.2bn over 2022 in market capitalisation terms, driven by market movements and underperformance in some sectors. Figure 5 displays the relative composition of the industry by sector.

As we list on page 15, 12 funds were lost in 2022 and no new funds joined the sector.

Proportionately, the North American and farmland & forestry sectors were those that grew the most over 2022, increasing by 93% and 47% respectively (see Figure 6). The North American, renewable energy and global equity income sectors grew the most in market cap value terms. These figures were distorted by the reclassification of Pershing Square Holdings from hedge funds to North America and, in global equity income, JPMorgan Global Growth and Income's absorption of Scottish Investment Trust from the global sector and JPMorgan Elect from the global and UK equity income sectors.

Farmland and forestry's Foresight Sustainable Forestry and a clutch of funds in the renewable energy infrastructure sector were among the few funds to raise net new money in 2022 (see page 15).

On the negative side, buybacks, poor performance from titans such as Scottish Mortgage and the aforementioned loss of Scottish Investment Trust saw that sector shrink by about £2.6bn

Figure 6: Change in market cap across selected sectors

	Market cap 31/12/2022 (£m)	Market cap 31/12/2021 (£m)	Change (£m)	Change (%)
North America	7,080	3,667	3,413	93.1%
Renewable energy infrastructure	16,278	14,211	2,067	14.5%
Global equity income	4,725	3,895	830	21.3%
Commodities & natural resources	2,101	1,733	368	21.2%
Property - UK commercial	6,766	6,570	196	3.0%
Leasing	1,088	936	152	16.2%
Financials	957	847	110	13.0%
Property - Europe	1,986	1,898	88	4.6%
Farmland & forestry	183	125	58	46.4%
Infrastructure securities	275	237	38	16.0%
Global emerging markets	5,290	6,250	(960)	(15.4%)
UK all companies	3,707	4,728	(1,021)	(21.6%)
UK smaller companies	5,193	7,283	(2,090)	(28.7%)
Technology & media	3,308	5,450	(2,142)	(39.3%)
Property - UK logistics	3,868	6,285	(2,417)	(38.5%)
Global smaller companies	5,377	7,889	(2,512)	(31.8%)
Private equity	23,277	26,301	(3,024)	(11.5%)
Flexible investment	11,535	15,702	(4,167)	(26.5%)
Hedge funds	2,248	8,077	(5,829)	(72.2%)
Global	25,755	38,347	(12,592)	(32.8%)

Source: Morningstar, QuotedData

The median total share price return for all investment companies over 2022 was -11.1%, which – as Figure 7 shows – compares to a return of -8.1% for the MSCI All Countries World Index (MSCI ACWI), but remember that large parts of the investment companies market are invested in asset classes other than equities.

Performance data

As we highlighted on the front page, the main factors influencing markets over 2022 were inflation, rising interest rates, the war in Ukraine and China's zero-COVID policy. A lot of these factors are interconnected.

Looking at Figure 7, for a UK-based investor the only part of the world to make headway in 2022 was Latin America. The region has been unloved for many years, and was perhaps oversold, but rising commodity and energy prices were good news for this region and correspondingly bad news for areas dependent on commodity or energy imports, such as Europe. Investors were also looking for alternatives to Russia (once sanctions started to bite) and China. The dominant markets of Chile, Brazil and Mexico all did well.

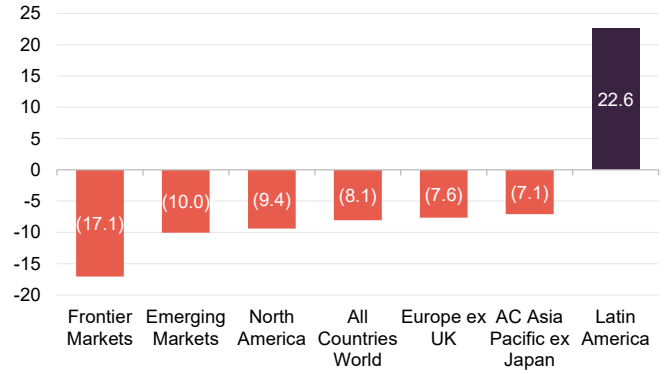
Mexico is also a beneficiary of an increasing trend to switch manufacturing activity away from China. The constant disruption to supply chains associated with lockdowns in that country and growing distrust between China and the US, exacerbated by sabre-rattling over Taiwan, encouraged a search for alternatives.

Elsewhere, the positive commodities/energy story is reflected in the returns generated by countries such as Indonesia, South Africa and the Gulf states.

Adverse sentiment towards the Chinese market (not helped by the run-up to the 20th National People's Congress) dragged down both the Asia Pacific and emerging markets indices.

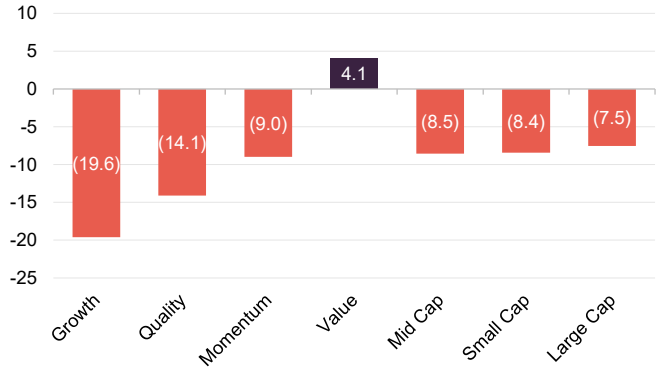
Risk aversion and a strong dollar were also unhelpful for emerging and frontier markets.

Figure 7: MSCI indices in sterling by region



Source: Morningstar, QuotedData

Figure 8: MSCI indices in sterling by style



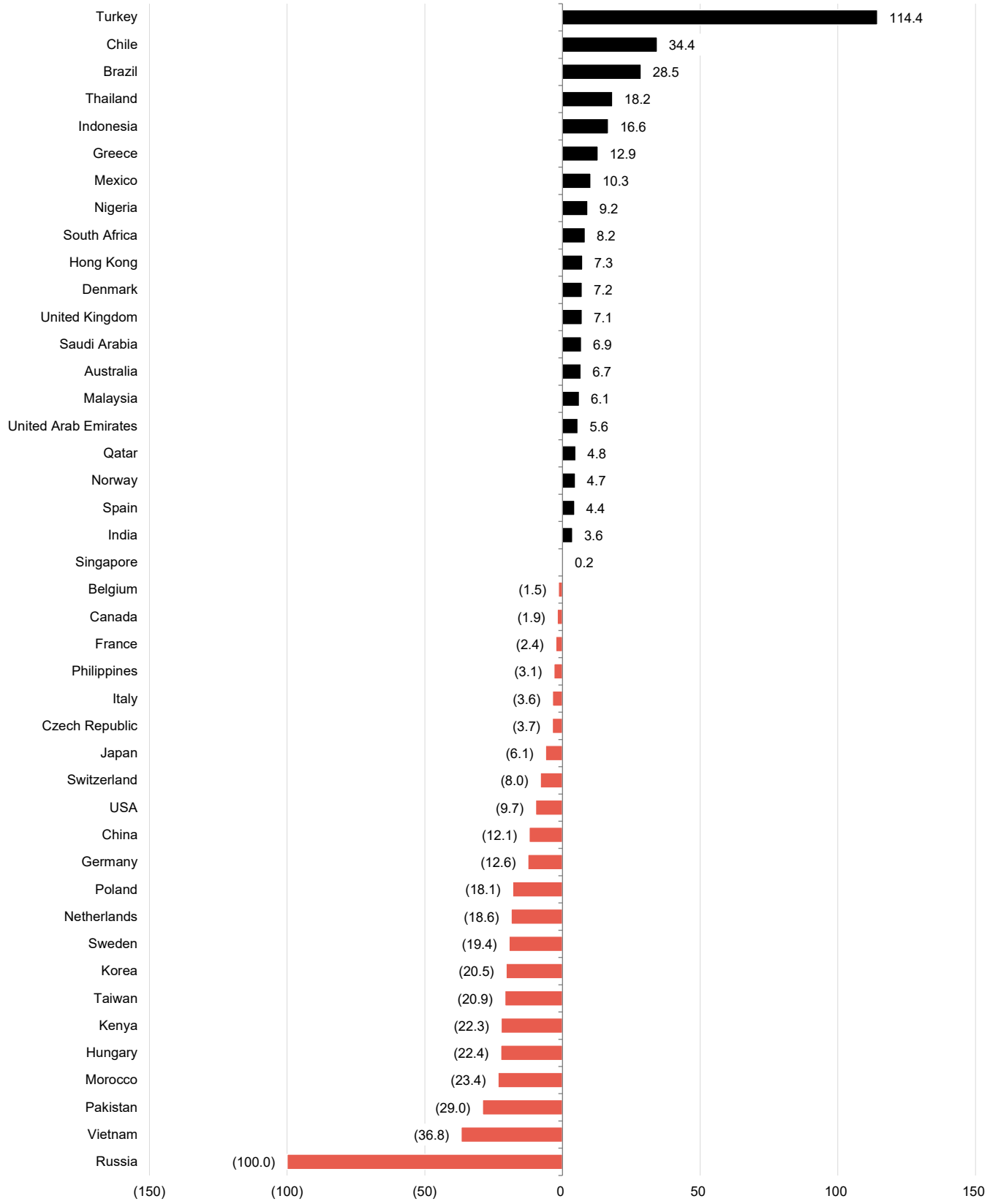
Source: Morningstar, QuotedData

The interest rate hikes prolonged and deepened a switch from growth to value-style investing that had begun in 2021. This hit a swathe of large cap companies in the US, driving that market down.

The surprise might be the underperformance of quality, which you might have thought would be in demand in the face of potential recession. However, it seems as though valuations in this part of the market were just too stretched going into this new phase of the cycle.

Risk aversion meant that large cap beat small cap, but globally the gap between the two was not as wide as it was in selected markets such as the UK.

Figure 9: Performance of a selection of MSCI indices over 2022 in GBP terms



Source: Morningstar, QuotedData

Performance by sector and fund

Looking at Figure 10, the best-performing sector by some distance was insurance and reinsurance but this was driven by a remarkable recovery in the share price of CatCo Reinsurance Opportunities, which is in wind up mode. However, the figures are misleading as, in April, ahead of the jump in the share price, the company redeemed 99% of its ordinary and C shares. The remaining NAV in the fund related to funds locked-up in side-pockets – money set aside to meet certain reinsurance claims. Sufficient money was released from these to redeem a further 92.3% of ordinary shares and 90.5% of C shares in December 2022.

Leasing funds also did relatively well. In this case, the driver was the post-COVID recovery in the aviation market and, in particular, Emirates' decision to retain its fleet of Airbus A380 aircraft. The first of the Doric Nimrod funds succeeded in selling its sole aircraft to Emirates and will wind up shortly.

We have talked about the relative success of Latin America already. Foresight Sustainable Forestry appears to have got off to a good start – it recently announced that it has invested all of the money that it has raised in line with targets.

Figure 10: Best and worst performers by sector in total price return terms over 2022

Sector	Sector median total price return %	Best performing trust in named sector	Total price return %	Worst performing trust in named sector	Total price return %
Insurance & Reinsurance Strategies	972.4	CATCo Reinsurance Opps C	3239.8	Life Settlement Assets A	12.6
Leasing	70.8	DP Aircraft 1	237.8	Tufton Oceanic Assets	0.7
Latin America	15.9	BlackRock Latin American Income	18.0	abrdn Latin American Income	13.9
Farmland & Forestry	10.2	Foresight Sustainable Forestry	10.2	n/a	
Financials	5.9	Trian Investors 1	21.0	Polar Capital Global Financials	(9.3)
Debt - Structured Finance	4.5	Chenavari Toro Income	11.7	TwentyFour Income	(8.0)
Hedge Funds	3.6	BH Macro USD	26.9	Alternative Liquidity Fund	(31.4)
Renewable Energy Infrastructure	3.5	Gresham House Energy Storage	29.6	HydrogenOne Capital Growth	(33.6)
Asia Pacific Smaller Companies	2.1	Fidelity Asian Values	10.4	abrdn Asia Focus	(9.4)
UK Equity & Bond Income	(1.1)	Henderson High Income	(1.1)	n/a	
Asia Pacific Equity Income	(1.1)	Henderson Far East Income	0.8	JPMorgan Asia Growth & Income	(15.6)
Debt - Direct Lending	(1.4)	SME Credit Realisation	37.7	Pollen Street	(40.6)
Global Equity Income	(1.9)	Murray International	20.7	Majedie Investments	(10.4)
UK Equity Income	(2.3)	City of London	9.4	Diverse Income	(16.8)
North America	(2.3)	North American Income Trust	12.8	Baillie Gifford US Growth	(52.8)
Infrastructure Securities	(2.4)	Ecofin Global Utilities and Infrastructure	12.9	Premier Miton Global Renewables	(17.7)
Property - Debt	(2.5)	Drumz	47.8	ICG Longbow Senior Secured UK Property Dbt	(24.1)
India	(2.5)	India Capital Growth	7.7	Aberdeen New India	(9.7)
Liquidity Funds	(3.4)	Invesco Select Liquidity	(3.4)	n/a	
Debt - Loans & Bonds	(4.2)	NB Distressed Debt New Global	11.9	TwentyFour Select Monthly Income	(14.9)
Infrastructure	(8.6)	GCP Infrastructure	0.5	Infrastructure India	(37.0)
Flexible Investment	(11.4)	JZ Capital Partners	44.7	Riverfort Global Opportunities	(46.0)
Global Emerging Markets	(12.3)	Gulf Investment Fund	25.4	JPMorgan Emerging Europe, Middle East and Africa	(87.7)
Europe	(12.5)	JPMorgan European Growth & Income	(3.1)	Baillie Gifford European Growth	(41.3)
Private Equity	(13.2)	Literacy Capital	24.7	Seed Innovations	(67.9)
Biotechnology & Healthcare	(14.6)	International Biotechnology	(1.5)	RTW Venture	(23.5)
Asia Pacific	(15.1)	Pacific Assets	(3.1)	Pacific Horizon	(32.5)
Property - UK Commercial	(16.0)	Alternative Income REIT	(1.0)	Regional REIT	(31.3)
Global	(16.8)	F&C Investment Trust	(0.9)	Blue Planet	(63.8)
Property - UK Healthcare	(17.3)	Impact Healthcare REIT	(7.0)	Target Healthcare REIT	(27.5)
North American Smaller Companies	(17.8)	JPMorgan US Smaller Companies	(15.7)	Brown Advisory US Smaller Companies	(19.9)
Commodities & Natural Resources	(19.1)	Riverstone Energy	45.8	GRIT Investment Trust	(77.6)

Sector	Sector median total price return %	Best performing trust in named sector	Total price return %	Worst performing trust in named sector	Total price return %
Royalties	(20.1)	Round Hill Music Royalty	(13.0)	Hipgnosis Songs	(27.2)
Japan	(20.9)	CC Japan Income & Growth	1.8	JPMorgan Japanese	(30.5)
UK All Companies	(22.6)	Fidelity Special Values	(5.0)	JPMorgan Mid Cap	(31.9)
Environmental	(22.8)	Menhaden Resource Efficiency	(20.4)	Jupiter Green	(26.5)
Japanese Smaller Companies	(22.9)	AVI Japan Opportunity	(6.0)	Baillie Gifford Shin Nippon	(30.5)
China / Greater China	(24.2)	Fidelity China Special Situations	(21.2)	JPMorgan China Growth & Income	(26.3)
Country Specialist	(24.2)	VinaCapital Vietnam Opportunity	(11.1)	VietNam Holding	(25.4)
Property - Rest of World	(24.9)	Macau Property Opportunities	10.5	Ceiba Investments	(36.7)
European Smaller Companies	(27.2)	The European Smaller Companies Trust	(14.7)	Montanaro European Smaller	(37.9)
Property - UK Residential	(27.7)	PRS REIT	(15.9)	Home REIT	(68.6)
UK Smaller Companies	(28.5)	Rockwood Strategic	22.8	Chelverton Growth Trust	(46.2)
Global Smaller Companies	(28.9)	The Global Smaller Companies Trust	(15.6)	Edinburgh Worldwide	(39.8)
Property Securities	(35.6)	TR Property	(35.6)	n/a	
Property – Europe	(36.7)	Schroder European Real Estate	(19.0)	Tritax EuroBox	(44.6)
Technology & Media	(36.8)	Augmentum Fintech	(29.0)	Allianz Technology	(40.4)
Property – UK Logistics	(38.1)	Urban Logistics REIT	(24.5)	Tritax Big Box REIT	(42.2)
Growth Capital	(62.6)	Schroder British Opportunities	(36.1)	Chrysalis Investments	(68.6)

Source: Morningstar, QuotedData

Trian Investors jumped in price after investors persuaded the board to shift the fund into realisation mode.

At the other end of the table, the shift in sentiment towards growth stocks, particularly untried and unprofitable companies, is reflected in the selloff in the growth capital sector, where even the best performer fell by 36%. Towards the end of the year, as US inflation started to fall and hopes that an end to interest rate rises could be in sight, these stocks started to pick up, and that recovery has continued into 2023.

Rising interest rates also triggered sharp falls across most property stocks as investors reasoned that yields would have to rise (implying that capital values would have to fall), while some companies also faced rising interest costs. The logistics sector found itself at the sharp end of the sell off. Previously, it had been a favoured destination for investors' capital and yields had been driven down to what turned out to be unsustainable levels. Comments from Amazon, which had been growing its operations aggressively and had been a major source of occupier-demand, that it had over-extended itself were another blow to sentiment. However, there is some hope here as a shortage of suitable space is still driving rent increases in the sector.

Unsurprisingly, in an environment where growth was unloved, technology stocks were amongst the worst affected.

Best performing trusts

Figure 11: Best performing trusts in price terms in 2022

	Sector	Return (%)
Doric Nimrod Air One	Leasing	159.9
Doric Nimrod Air Three	Leasing	73.7
Doric Nimrod Air Two	Leasing	70.8
Amedeo Air Four Plus	Leasing	56.1
Riverstone Energy	Commodities and natural resources	45.8
JZ Capital Partners	Flexible investment	44.7
SME Credit Realisation	Debt – direct lending	37.7
BlackRock Energy and Resources Income	Commodities and natural resources	36.6
CQS Natural Resources Growth and Income	Commodities and natural resources	30.2
Gresham House Energy Storage	Renewable energy infrastructure	29.6

Source: Morningstar, QuotedData. Note: excludes trusts with market caps below £15m at 31/12/22

We have discussed the rally in the leasing sector already. Riverstone Energy has been gradually shifting its portfolio towards projects that support decarbonisation. However, the big jump in energy prices that accompanied Russia's invasion of Ukraine was good news for the fund's legacy positions in the oil and gas sector. JZ Capital Partners had lost a lot of credibility with an expensive and unsuccessful diversification into property. Concern was also building over its ability to meet debts as they fell due. In the event, some profitable disposals from its private equity portfolio helped calm nerves. SME Credit Realisation is making progress with its wind up.

Higher commodity and energy prices were good news for both BlackRock Energy and Resources Income and CQS Natural Resources Growth and Income. Gresham House Energy Storage is not widely exposed to the level of electricity prices but can benefit from volatility within these. Its good returns were also driven by the successful rollout of its portfolio of battery storage investments and attractively priced contracts from the National Grid to help stabilise the energy network.

Turning to Figure 12, which shows NAV moves, aircraft leasing fund Amedeo Air Four plus tops the table, for reasons already discussed. UK small cap trust Rockwood Strategic had a turbulent start to the year as management groups competed for the right to run the fund. However, it was takeover bids for a number of its portfolio companies that were the main driver of its decent NAV return for the year. Its strategy of assessing companies through the eyes of a potential private equity acquiror paid off.

Riverstone Energy was discussed above. Taylor Maritime has been a significant beneficiary of a relatively buoyant shipping market. It bought and sold ships well and is chartering its fleet on attractive yields.

Literacy Capital was the standout winner within the private equity sector. A number of funds made progress as profitable disposals drove NAVs higher. Literacy Capital seems to have listed with a relatively mature portfolio but all credit must go to its management team for its stock selection.

BH Macro is a hedge fund that benefits from volatility and there was no shortage of that in 2022.

Hipgnosis Songs is an interesting inclusion in this list as its share price went in the opposite direction to its NAV. Some commentators have queried why the discount rate used to value its portfolio has not risen as interest rates have increased. However, in the absence of this, increased royalty rates for songwriters, a return to public performances, price hikes implemented by music streaming sites such as Spotify and Apple, and some good results from the manager's activities in promoting the use of the catalogue in areas such as films and advertising, pushed the NAV higher.

Riverstone Credit Opportunities has, like its sister fund Riverstone Energy, been shifting its portfolio towards funding decarbonising businesses. However, it is further along the road in this process and benefited as a number of borrowers refinanced their loans early, incurring pre-payment penalties, which benefit the fund.

Figure 12: Best performing trusts in NAV terms in 2022

	Sector	Return (%)
Amedeo Air Four Plus	Leasing	72.3
Rockwood Strategic	UK smaller companies	53.7
Riverstone Energy	Commodities and natural resources	42.3
Taylor Maritime	Leasing	42.3
Literacy Capital	Private equity	38.9
Gresham House Energy Storage	Renewable Energy Infrastructure	36.7
BlackRock Energy and Resources Income	Commodities and natural resources	36.0
BH Macro (USD)	Hedge funds	35.7
Hipgnosis Songs	Royalties	34.5
Riverstone Credit Opportunities	Debt – direct lending	32.9

Source: Morningstar, QuotedData. Note: excludes trusts with market caps below £15m at 31/12/21

Worst performing trusts

On the negative side, the standout loser was the former JPMorgan Russian securities, now renamed JPMorgan Emerging Europe, Middle East and Africa. Sanctions imposed on Russia and a ban on foreigners taking money out of the country left its Russian investments practically worthless. A rump of cash and investments outside Russia has been repurposed to a new mandate.

Next-worst performer was Chrysalis Investments. Investors were already disgruntled by the size of the managers' performance fee (which attracted a lot of criticism, leading to some significant improvements in the way it will be calculated going froward), but write-downs in the values of some of its largest investments unnerved them and contributed to sharp falls in its share price. However, the stock is well off its lows as the company has drawn attention to the considerable potential of many of the companies in the portfolio and hopes have grown that interest rates will soon peak.

Home REIT was a darling of investors, offering a way to invest in something socially useful while receiving an attractive and growing dividend. However, a short-seller

attack, with serious governance questions being raised; a class action lawsuit; tenants withholding rents; and a share suspension on the back of a failure to produce accounts have combined to erode faith in the company.

Seraphim Space's portfolio contains many exciting investments but the majority of these are yet to make a profit. Shifting sentiment knocked it for six. The same could also be said of Schiehallion, but it also suffered from having previously traded on what we thought was an unsustainable premium. It is still relatively highly rated within its sector and may have further to fall.

EPE Special Opportunities has a large exposure to lighting company Luceco, its share price fell over 2022. Schroder UK Public Private is what remains of Woodford Patient Capital. It was forced to write off what was once its largest investment – Rutherford Health – during the year. We had previously argued that Woodford had taken too big a bet on the company.

Baillie Gifford US Growth, which was the worst performing trust in the North American sector over the year, suffered from the growth selloff. Sharp falls in the share prices of stocks such as Tesla, Shopify and Amazon took their toll on its NAV. Its relatively high exposure to unquoted companies was also seen as a potential problem. This was replicated for Scottish Mortgage.

As was the case for UK logistics companies, European logistics companies also suffered from rising yields and shifting sentiment, hitting Tritax EuroBox.

Figure 13: Worst performing funds in price terms in 2022

	Sector	Return (%)
JPMorgan Emerging Europe, Middle East and Africa	Global emerging markets	(87.7)
Chrysalis Investments	Growth capital	(68.6)
Home REIT	Property – UK residential	(68.6)
Seraphim Space	Growth capital	(64.0)
Schiehallion Fund	Growth capital	(62.6)
EPE Special Opportunities	Private equity	(56.3)
Schroder UK Public Private	Growth capital	(53.3)
Baillie Gifford US Growth	North America	(52.8)
Scottish Mortgage	Global	(45.7)
Tritax EuroBox	Property - Europe	(44.6)

Source: Morningstar, QuotedData. Note: excludes trusts with market caps below £15m at 31/12/21

Turning to Figure 14 (which shows losers in NAV terms), we see many of the same names as in Figure 13. River and Mercantile Micro Cap makes the list. A general aversion to domestically-focused UK stocks was compounded by the many political missteps of 2022, and a growing recognition that the UK economy was likely to be amongst the hardest hit of all developed markets. Small cap stocks were perceived to be more sensitive to the UK economy and the problem was compounded by a preference for stocks with better liquidity.

Another Baillie Gifford fund, Baillie Gifford European Growth, makes this list. Manchester and London has a high exposure to the unloved technology sector. UIL has an eclectic portfolio but its NAV moves are also amplified by its share capital structure.

The former Standard Life UK Smaller Companies, now abrdn UK Smaller Companies Growth, suffered from its exposure to UK and small cap – as was the case for River and Mercantile Micro Cap – but it also has a growth bias to its portfolio, which was as an additional headwind.

Figure 14: Worst performing funds in NAV terms in 2022

	Sector	Return (%)
JPMorgan Emerging Europe, Middle East and Africa	Global emerging markets	(94.3)
EPE Special Opportunities	Private equity	(52.8)
Baillie Gifford US Growth	North America	(44.1)
Scottish Mortgage	Global	(41.4)
River & Mercantile Micro Cap	UK smaller companies	(40.2)
Baillie Gifford European Growth	Europe	(38.7)
Manchester & London	Global	(38.0)
Chrysalis Investments	Growth capital	(37.9)
UIL	Flexible investment	(37.2)
abrdn Uk Smaller Companies Growth	UK smaller companies	(37.2)

Source: Morningstar, QuotedData. Note: excludes trusts with market caps below £15m at 31/12/21

Money in and out

The market turmoil of 2022 proved an insurmountable obstacle for funds looking to IPO. There were no new issues over the year despite quite a few attempts. Nevertheless, by our reckoning more money still flowed into the sector than out of it over the year – about £1bn in aggregate.

Money coming into existing funds

Unsurprisingly, given the market backdrop, money flowed into trusts designed to protect investors' capital such as Ruffer and Capital Gearing. In the first half of the year, there was also demand for infrastructure and renewable energy infrastructure funds. However, as the year progressed concerns about the potential impact of higher interest rates on these funds' NAVs led to them being de-rated. For example, International Public Partnerships, Cordiant Digital Infrastructure and The Renewables Infrastructure Group all finished the year trading on a discount.

A further 8 investment companies issued shares worth at least £100m over 2022 including Personal Assets, Gresham House Energy Storage, Bluefield Solar Income Fund, HICL Infrastructure, Gore Street Energy Storage, Digital 9 Infrastructure, City of London, and VH Global Sustainable Energy Opportunities.

Figure 15: Money raised in 2022

	Sector	£m
Ruffer Investment Company	Flexible investment	369.3
Capital Gearing Trust	Flexible investment	357.0
International Public Partnerships	Infrastructure	311.0
Cordiant Digital Infrastructure	Infrastructure	307.0
The Renewables Infrastructure Group	Renewable energy infrastructure	280.3
Supermarket Income REIT	Property – UK commercial	263.6
Greencoat Renewables	Renewable energy infrastructure	254.2
LXI REIT	Property – UK commercial	238.5
SDCL Energy Efficiency Income	Renewable energy infrastructure	198.2
TwentyFour Income Fund	Debt – structure finance	187.0

Source: Morningstar, QuotedData. Note: based on approximate value of shares at 31/12/22

Money going out of existing funds

In an effort to reduce discount volatility and provide some liquidity to investors, a number of large funds bought back stock in 2022, led by Pershing Square Holdings. The list continues to be dominated by global equity trusts. Top of the list for these though were Scottish Mortgage and Monks, reversing the direction of flows into those companies. In terms of controlling the absolute levels of discounts, there were mixed results from these buybacks. F&C, Alliance, Witan, and Finsbury Growth and Income succeeded in narrowing their discounts. Scottish Mortgage, Monks and Pershing Square were less successful.

Figure 16: Money returned in 2022

	Sector	£m
Pershing Square Holdings	North America	(237.7)
Scottish Mortgage	Global	(206.7)
Monks	Global	(180.0)
F&C Investment Trust	Global	(164.8)
Alliance Trust	Global	(147.3)
Witan	Global	(128.8)
Polar Capital Technology	Technology and media	(96.6)
Finsbury Growth and Income	UK equity income	(88.1)
Third Point Investors	Hedge funds	(86.1)
Fidelity China Special Situations	China/greater China	(55.3)

Source: Morningstar, QuotedData. Note: based on approximate value of shares at 31/12/22

Liquidations, de-listings and trading cancellations

In 2022, we said goodbye to Cambium Global Timberland, CIP Merchant Capital, Fundsmith Emerging Equities, Jupiter Emerging and Frontier Income, ScotGems,

UK Mortgages and Yew Grove REIT. In addition, Electra became a trading company – Unbound.

Honeycomb merged with its manager to become Pollen Street. In addition, Independent Investment Trust was absorbed by Monks, Secure Income REIT was absorbed by LXI REIT, and both Scottish Investment Trust and JPMorgan Elect were absorbed by JPMorgan Global Growth and Income.

Significant ratings changes

Figure 16 breaks the investment companies universe down by sector and looks at the biggest rating improvements and deteriorations over the course of 2022 within each sector.

The first couple of these – financials and leasing – have been discussed already. In the relatively small country specialist sector, which now has just four constituents, Vietnam Enterprise narrowed its discount despite enduring a relatively disappointing period of performance, both for that trust and the Vietnamese market in general. We recently interviewed Thao Ngo, one of its managers, to get some insight into this.

The value versus growth shift is evident in the re-rating of Murray Income relative to some of the other funds in the global equity income sector, many of which opted to invest in lower yielding stocks and top up distributions from capital, rather than invest in higher yielding stocks. Consequently, Murray Income had a higher to value stocks than they did.

Sometimes the relative re-rating reflects underlying performance, as was the case for India Capital Growth or Ecofin Global Utilities and Infrastructure, which led their respective sectors in NAV performance terms over 2022.

The huge premium ascribed to JPMorgan Emerging Europe, Middle East and Africa reflects the option value in its portfolio of Russian stocks. Investors are gambling on a normalisation of relations with Russia, which looks to us as a distant prospect.

At the other end of the table, we have already discussed those sectors with most pronounced discount widening – Property - Europe, Growth capital, and Property - UK logistics.

We also mentioned the Royalties sector when talking about how Hipgnosis had made the list of best-performing companies in NAV terms. Its share price went in the other direction. There is the question mark over the discount rate used to calculate its NAV (on a discounted cash flow basis) but the company also seemed to be caught out by rising interest rates. At the start of 2022, the debt it had used to boost its exposure to song catalogues was floating rate. By the time that it was able to fix this, rates had risen to the point where we reckon the songs that it bought with debt are only just throwing off enough cash to meet the interest cost. However, there is a hope that cash flow from the portfolio will pick up and this could help get the fund re-rated in time.

Figure 17: Biggest percentage point changes to discounts and premiums by sector over 2022

Sector	Premium/ (discount) 31/12/22 (%)	Change in discount (%)	Biggest rating riser in named sector	Change in discount (%)	Biggest rating faller in named sector	Change in discount (%)
Financials	(15.9)	13.3	Trian Investors 1	35.8	Polar Capital Global Financials	(9.1)
Leasing	(37.5)	2.9	Doric Nimrod Air Three	82.9	Taylor Maritime	(27.6)
Country specialist	(15.4)	2.8	Vietnam Enterprise	10.7	Weiss Korea Opportunity	(4.6)
Global equity income	(2.5)	2.8	Murray International	9.1	Invesco Select Global Equity Income	(4.8)
Farmland & forestry	(2.0)	2.8	Foresight Sustainable Forestry	2.8	n/a	
UK equity income	(4.6)	1.5	Chelverton UK Dividend	10.9	Invesco Select UK Equity	(5.8)
UK equity & bond income	(0.2)	0.9	Henderson High Income	0.9	n/a	
India	(12.9)	0.7	India Capital Growth	3.5	Ashoka India Equity	(2.9)
Infrastructure securities	(6.6)	0.1	Ecofin Global Utilities and Infrastructure	6.4	Premier Miton Global Renewables	(6.2)
Global emerging markets	(9.6)	(0.3)	JPM. Emerging Europe, Middle East and Africa	101.9	BlackRock Frontiers	(4.8)
Debt - loans & bonds	(5.4)	(0.6)	Henderson Diversified Income	8.9	NB Distressed Debt Extended Life	(15.6)
UK smaller companies	(12.6)	(0.8)	Rockwood Strategic	9.9	Oryx International Growth	(16.1)
Hedge funds	(11.3)	(1.0)	Boussard & Gavudan (EUR)	1.0	BH Macro (USD)	(7.3)
North America	(6.7)	(1.0)	Middlefield Canadian Income	6.2	Brown Advisory US Smaller Companies	(10.8)
UK all companies	(10.3)	(1.2)	Aurora	1.3	Baillie Gifford UK Growth	(10.3)
Asia Pacific smaller companies	(9.0)	(1.4)	Fidelity Asian Values	2.7	Scottish Oriental Smaller Companies	(3.4)
Asia Pacific	(7.4)	(1.6)	abrdn New Dawn	0.0	Pacific Horizon	(14.8)
Japan	(7.4)	(2.1)	CC Japan Income & Growth	1.9	Baillie Gifford Japan	(8.1)
Europe	(9.4)	(2.4)	JPMorgan European Growth & Income	0.6	Baillie Gifford European Growth	(9.1)
Latin America	(8.7)	(2.9)	BlackRock Latin American Income	(2.1)	abrdn Latin American Income	(3.6)
European smaller companies	(8.5)	(3.6)	European Assets	(0.7)	Montanaro European Smaller	(11.6)
Debt - structured finance	(13.5)	(4.0)	Marble Point Loan Financing	9.4	Blackstone Lona Financing	(11.3)
Global smaller companies	(7.9)	(4.0)	The Global Smaller Companies Trust	(4.0)	Smithson Investment Trust	(10.3)
Commodities & natural resources	(5.3)	(4.2)	Golden Prospect Precious Metals	9.2	Geiger Counter	(24.1)
Debt - direct lending	(10.1)	(4.3)	SME Credit Realisation	5.3	Pollen Street	(42.7)

Sector	Premium/ (discount) 31/12/22 (%)	Change in discount (%)	Biggest rating riser in named sector	Change in discount (%)	Biggest rating faller in named sector	Change in discount (%)
Property securities	(1.8)	(4.8)	n/a		TR Property	(4.8)
Asia Pacific equity income	(3.3)	(5.6)	Henderson Far East Income	2.9	JPMorgan Asia Growth & Income	(10.1
China / greater China	(3.0)	(5.6)	JPMorgan China Growth & Income	(4.3)	abrdn China	(7.8)
Global	(2.5)	(6.3)	F&C Investment Trust	4.5	Scottish Mortgage	(11.4)
Japanese smaller companies	(2.8)	(7.1)	Atlantis Japan Growth	(1.1)	Nippon Active Value	(13.5)
Property - Debt	(3.7)	(8.6)	Develop North	2.2	Alpha Real Trust	(18.5)
Property - rest of world	(55.3)	(9.4)	Macau Property Opportunities	4.0	Ceiba Investments	(33.8)
Biotechnology & healthcare	0.6	(9.5)	Polar Capital Global Healthcare	4.3	RTW Venture	(17.7)
North American smaller companies	(1.1)	(9.6)	JPMorgan US Smaller Companies	(8.4)	Brown Advisory US Smaller Companies	(10.8)
Renewable energy infrastructure	4.8	(9.9)	Foresight Solar Income	0.3	HydrogenOne Capital Growth	(42.4)
Flexible investment	(2.1)	(11.2)	JZ Capital Partners	7.2	Castlenau Group	(21.3)
Environmental	(5.5)	(11.6)	Menhaden Resource Efficiency	(2.8)	Jupiter Green	(11.6)
Technology & media	1.3	(13.9)	Polar Capital Global Technology	(8.7)	Augmentum Fintech	(39.0)
Infrastructure	10.4	(16.2)	GCP Infrastructure	(10.8)	Cordiant Digital Infrastructure	(32.6)
Private equity	(20.0)	(17.1)	Symphony International	7.9	Princess Private Equity	(34.7)
Property - UK commercial	(13.4)	(23.1)	Value and Indexed Property	(11.0)	Regional REIT	(39.5)
Property - UK healthcare	6.9	(26.1)	Impact Healthcare REIT	(17.4)	Target Healthcare REIT	(34.8)
Property - UK residential	(10.2)	(34.9)	Ground Rents Income	(16.7)	Home REIT	(87.9)
Royalties	(2.9)	(37.5)	Round Hill Music	(28.8)	Hipgnosis Songs	(46.3)
Property - Europe	(8.2)	(39.0)	Globalworth Real Estate	(26.2)	Tritax EuroBox	(53.3)
Growth capital	(4.9)	(44.2)	Schroder UK Public Private	(17.9)	Schiehallion	(78.9)
Property - UK logistics	14.9	(45.9)	Urban Logistics REIT	(41.0)	Tritax Big Box REIT	(55.7)

Source: Morningstar, QuotedData. Note: excludes trusts with market caps below £15m at 31/12/21, trusts launched in 2021 and any sectors with only one company

QD views from 2022

Our weekly opinion pieces

Feeling the pinch? – 7 January
Ecofin Global Utilities and Infrastructure – better value than you might think – 14 January
Private companies dominate in 2021 – 21 January
Every cloud – 28 January
Co-living la vida loca – 4 February
CQS New City High Yield – inflation premium – 11 February
The real dividend heroes – 18 February
Russia and Ukraine – can we really continue to turn the other cheek? – 24 February
Feeling resourceful? – 4 March
Cushion the inflation blow – 11 March
Why AVI Japan is blooming – 18 March
Two years since the world changed – 24 March
Circling the Pershing Square – 1 April
To B or not to B – 8 April
Are you still watching? – 22 April
What's going on? – 29 April
Is logistics a house of cards? – 6 May 2022
Delhi's dilemma – navigating geopolitics – 13 May
What's the craic, Scottish Mortgage? – 20 May
Unloved quality – 27 May
Fishing for an Asian fund?, China or Vietnam? – 10 June
Riding out stagflation – 17 June
Discounted opportunity – Not all private equity is exuberant growth plays – 24 June
GP struggles may significant – 1 July
Multi-manager trusts – a safe haven in current choppy markets? – 8 July
(Half) year in review – 15 July
Is the tide finally turning for biotech? – 22 July
More power to battery growth story – 29 July
The logistics paradox – 5 August
Meaningful mergers – 12 August
Small is beautiful – 19 August
Here comes the rain again – 9 September
If you can't beat 'em, join 'em? – 16 September
Supermarket sweep – 23 September
Managers question UK small cap weakness – 30 September
Sweet Harmony – 7 October 2022
Navigating troubled waters – 14 October 2022
Has logistics been oversold? – 21 October 2022
Biotech sector is ripe for investment but collectives are the way forward – 28 October 2022
India, the new darling of emerging markets? – 4 November
JLEN Environmental Assets – a world of possibilities! – 11 November
IPOs back on the agenda? – 18 November
The right REIT? – 25 November
Investing in Europe at a time of recession – 2 December
Finsbury Growth and Income – time to jump aboard the Train? – 9 December
The inflation trade – an early Christmas present – 16 December
Rear (QD)view mirror – 28 December

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Manager interviews from 2022

Click on the company name to view the interview, or visit our youtube channel.

Manager interviews from the weekly show

7 January	Andrew McHattie	2021 roundup
14 January	Jason Baggaley	Standard Life Investments Property Income
21 January	Keith Watson	Geiger Counter
28 January	Jonathan Maxwell	SDCL Energy Efficiency
4 February	Sebastian Lyon	Personal Assets
11 February	Richard Aston	CC Japan Income & Growth
18 February	Carlos Hardenberg	Mobius
25 February	Ian Francis	New City High Yield
4 March	Thomas Moore	abrdn Equity Income
11 March	James Harries	Securities Trust of Scotland
18 March	Tom Moore & Henrik Dahlström	Downing Renewables & Infrastructure

25 March	Blake Hutchins	Troy Income & Growth
1 April	Ian Lance	Temple Bar
8 April	Yoojeong Oh	abrdn Asian Income
22 April	Viktor Szabó	abrdn Latin American Income
29 April	Robert Guest	Foresight Sustainable Forestry
6 May	Gary Moglione	Momentum Multi-Asset Value Trust
13 May	Richard Sem	Pantheon Infrastructure
20 May	James Thom	Aberdeen New Dawn
27 May	Paul Bridge	Civitas Social Housing
10 June	Craig Martin	Vietnam Holding
17 June	Laura Elkin	AEW UK REIT
24 June	Pedro Gonzalez de Cosio	BioPharma Credit
1 July	Andrew Beal	Schroder BSC Social Impact
8 July	David Conlon & Joanne Fisk	GCP Asset-Backed Income
22 July	Philip Kent	GCP Infrastructure
29 July	Stuart Widdowson	Odyssean Investment Trust
5 August	Kamal Warraich	Canaccord Genuity Wealth Mgmt
12 August	David Smith	Henderson High Income
19 August	Fiona Yang	Invesco Asia
26 August	Nick Brind	Polar Capital Global Financials
2 September	Tim Levine	Augmentum Fintech
9 September	Joe Bauernfreund	AVI Global
16 September	Stuart Gray	Alliance Trust
23 September	Matthias Siller	Baring Emerging EMEA Opportunities
30 September	Masaki Taketsume	Schroder Japan Growth
7 October	Simon Farnsworth	Life Science REIT
14 October	Jonathan Maxwell	SDCL Energy Efficiency
21 October	Ross Driver	Foresight Solar Fund
28 October	Joe Bauernfreund	AVI Japan Opportunity
4 November	Jason Baggaley	abrdn Property Income
11 November	James de Uphaugh	Edinburgh Investment Trust
18 November	Jeff O'Dwyer	Schroder European Real Estate
25 November	Bruce Stout	Murray International
2 December	Rhys Davies	Invesco Bond Income Plus
9 December	Stuart Widdowson	Odyssean
16 December	Richard Aston	CC Japan Income and Growth

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Outlook for 2023

Here are some recent comments from managers and directors drawn from our latest economic and political summary that you may find interesting.

On the global economy

Our January 2023 economic and political roundup has much more detail and many more comments on sectors including Europe, Japan, private equity, biotechnology & healthcare and renewable energy infrastructure.

Nalaka De Silva, Heather McKay, Simon Fox, and Nic Baddeley, managers, Aberdeen Diversified Income and Growth: *"The global economy continues to face many headwinds, which is likely to lead to a deeper and earlier global recession than previously forecast. The UK and EU economies are facing a commodity price induced real income squeeze, amplified by central bank actions. We expect interest rate hikes from the US Federal Reserve, the European Central Bank and the Bank of England, as they seek to control inflation. To a degree, markets have already responded to this uncertainty: equity valuations are cheaper and credit spreads wider than they were at the start of the year - as such, many asset classes look more attractive now on a 5-year view. However, the compounding effects of these various shocks will mean that the investment environment will remain volatile and we may see further weakness across asset classes in the shorter-term."*

On the UK

Robert Talbut, chairman, Shires Income: *"Recent months have been challenging for financial markets and there are a number of economic dark clouds impacting the investment outlook, with the Bank of England now predicting a "prolonged recession". While this is certainly a challenging time for equities, there are reasons to be more constructive. Firstly, a recession is now largely expected by financial markets; and secondly many companies are significantly cheaper than they were at the start of the year. In addition, there are reasons to support a view that we are close to the peak of inflation and interest rate fears, and as these factors moderate, valuations can find support. Hence a time of widespread gloom could well be providing investors with attractive opportunities, and we have already seen signs of this with the strong rally across global equity markets since the middle of October.*

In the shorter term, there is the likelihood of continued market turbulence. However, for those willing to take a longer-term view, there are strong supportive arguments that UK equity valuations look attractive. The market is on a multi-year high discount to other developed markets and has a record high yield premium. Furthermore, as the majority of company earnings come from overseas, any earnings downgrades will largely be offset by the currency benefit of weak Sterling."

On Europe

Tom O'Hara and John Bennett, managers, Henderson European Focus Trust: "*There are more reasons than ever to dismiss Europe as a region worthy of equity investment. And dismissed it is. We have never known it to be more disliked than it is now, which is quite a feat. The constraints to doing business we have referenced since the onset of Covid are now even more acute due to Russian aggression next door. Consumers face a tougher set of disposable income choices than they have*

for decades, with the further possibility of winter blackouts leaving households without heat and power and our industrial complex compromised.

Added to this, we cannot rule out the potential for an accident in a financial system increasingly under stress due to: 1) the speed of retreat from the free money era, and 2) the multiples of debt now in existence compared to the last time interest rates reached these levels. The tantrum caused in UK gilts and sterling by the fiscal ill-discipline of the uniquely short-lived Truss premiership, may well just be a dress rehearsal for something bigger on other shores. It goes without saying that such an event would be bad news for most assets in the short term.

And so, taking a dispassionate view of what is in front of us today, while acknowledging the many short-term tangible and tail risks, we can only conclude one thing: Europe is too cheap. Not all of it, of course, certainly not many of the darlings of the low interest rate paradigm, where investors appear to be in denial as to just how seismic the shift in the valuation regime really is. Muscle memory exerts strong influence in markets and we expect many investors to keep returning to the familiarity of what made them warm and cosy before. Eventually they will learn new behaviours. Where we see opportunity is in the sectors so brutally jettisoned that they already price in a 'normal' recession and worse in some cases: quality, cash generative champions across energy, materials and industrials, with strong management teams and, most importantly, pricing power. This latter point is critical for us since we continue to believe inflation will settle at structurally higher rates than pre-Covid, driven by socio-political and geo-political factors; labour will command a bigger share of the economic pie as the Western world 'onshores' critical aspects of industrial supply chains, energy included."

On Japan

Nicholas Weindling and Miyako Urabe, managers, JPMorgan Japanese: *"With the vaccine programme having been rolled out effectively, the Government has recently lifted the last of its Covid restrictions and the country is now fully reopened to foreign tourism. Furthermore, exporters will receive a fillip from the yen's recent depreciation thanks to the wide disparity between US and Japanese interest rates. While the US has rapidly increased rates, the Bank of Japan (BoJ) has so far maintained an ultra-loose monetary policy stance.*

Conversely, the weak yen makes imports more expensive - a particular problem for Japan as it has almost no natural resources, so it must import energy and other commodities. The weaker yen has increased the cost of these imports, adding to price increases triggered by pandemic-related shortages and the war in Ukraine. As a result, inflation has begun to rise in Japan, but remains lower than in most other developed countries.

Despite a tight labour market, wage growth remains low and there has been no significant increase in property rents. While we do not expect these developments yet to elicit any change in BoJ policy, we are aware that policy may shift with the likely appointment of a new BoJ governor next spring.

Improvements in Japan's corporate governance continue, with more companies focused on improving shareholder returns. The country is in the process of a major technological transformation that should deliver growth and productivity gains over the medium term. Japanese equity markets are more vibrant than some investors appreciate, with many new and interesting listings on the Tokyo Stock Exchange each year."

On Technology

Ben Rogoff, manager, Polar Capital Technology Trust: *"Markets continue to reprice risk against a backdrop of an unusually wide range of outcomes. However, we have not given up on the hope that this period will - in time - be understood as another Covid-related episode where excess liquidity, supply shortages and collective trauma have left demand and supply in a state of disequilibrium. The risk of inflation becoming embedded has left policymakers with little choice, their own credibility and personal legacies dependent on the war against inflation. Until there is more certainty about the outcome of this battle, our interests are likely to remain uncomfortably at odds with policymakers. However, we also know that market narratives can change quickly should macroeconomic headwinds and/or exogenous risks subside. Less than three years ago, we were faced with one of the world's deadliest pandemics. Technology kept the world spinning while biotechnology and AI developed vaccines that broke the link between Covid cases and deaths. Even if technology stocks have struggled to live up to their pandemic billing, we remain believers in the primacy of technology and excited about humankind's ability to innovate and reimagine industries. This - above all else - should provide a fertile backdrop against which to invest.*

We wish you good luck and good health with all your endeavours in 2023

Ed, James, Matt, Richard, David, Dave, Padraig, Aiman, Emma, Robin, Colin, Nick, Trevor, Brice, Jemima and Veronica

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