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INVESTOR

Review of 2023

Annual roundup | Investment companies | January 2024

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Over the worst, and the bulls are loose

While there were plenty of financial headlines over 2023, inflation was still the main influence on markets. Rates of inflation are well below their 2022 peaks, but it was only towards the end of October 2023 that it became clear that interest rates had peaked. Markets reacted accordingly, with November being one of the best months for bond markets for decades.

Despite the uncertainty that prevailed for much of 2023, it was a strong year for the global equity market, with the MSCI All Countries World index ending up 20% higher than it started. The big driver of this was AI, the catalyst for the rise of the 'magnificent 7' – the seven largest US tech companies which drove the broader US market over the year. Elsewhere, China's predicted post-COVID rebound failed to materialise, with India ending up as the emerging market champion instead.

Going into 2024, there are questions as to whether the hype around AI will be sustained, will economies tip into recession, and what impact will elections have. However, investors in many parts of the market that have been out of favour in recent years – such as growth stocks, small caps, alternative income funds, and emerging markets – can afford to be more optimistic.

> The November rally stemmed the tide of widening discounts

> The expectations of falling interest rates supported both growth-strategy NAVs and property discounts. Though once again it was American equities and tech that lead the charge

> The investment trust market shrunk once again, on the back of widening discounts of closing trusts, with more money leaving the sector than was added.

At QuotedData, we:

- Celebrated our tenth anniversary;
- added several new members to the QuotedData team;
- Hosted our property and investment trust investor conferences, while expanding our presence at the Master Investor Show (2024's will be bigger still!); and
- continued our prolific output of news, notes, articles, and industry roundups, expressed our views in our weekly QD view articles, and upped our output of video content.

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Contents

Analysts

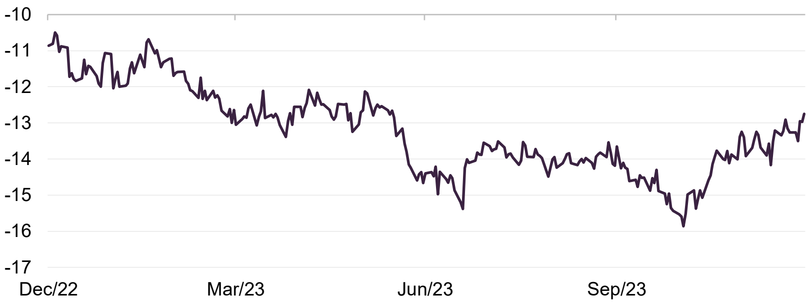
James Carthew
jc@quoteddata.com
Andrew Courtney
ac@quoteddata.com
David Johnson
dj@quoteddata.com
Matthew Read
mr@quoteddata.com
Richard Williams
rw@quoteddata.com

At a glance

All investment companies median discount

Much of 2023 was another year of deteriorating sentiment, with discounts widening. However, the last couple of months offered a silver lining, as softening interest rate expectations led to an improved investor outlook. Nevertheless, some sectors – such as infrastructure and renewables – still look to be oversold.

Figure 1: 1 January 2023 to 31 December 2023



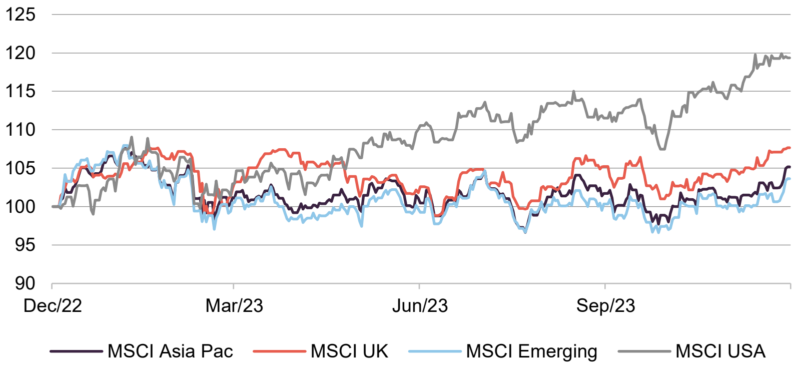
Source: Morningstar, QuotedData

MSCI indices in sterling, rebased to 100

After peaking in October, government bond yields tumbled, triggering rallies across major equity markets. The gold price climbed over the year.

The US market cemented its leadership position over 2023, helped by the aforementioned 'magnificent 7'. Oil was weak, reflecting weak demand as the Chinese economy is stuck in the doldrums.

Figure 2: 1 January 2023 to 31 December 2023



Source: Bloomberg, QuotedData

Figure 3: Currency, commodity, and bond movements over 2023

	31/12/2023	31/12/2022	Change y-o-y (%)
GBP / USD	1.273	1.208	5.4
USD / EUR	1.15	1.13	2.1
USD / JPY	141.04	131.12	7.6
USD / CHF	0.84	0.92	(9.0)
USD / CNY	7.10	6.90	2.9
Oil (Brent)	77.04	85.91	(10.3)
Gold	2062.98	1824.02	13.1
US Treasuries 10-year yield	3.88	3.87	0.1
UK Gilts 10-year yield	3.54	3.67	(3.7)
German government bonds (Bunds) 10-year yield	2.02	2.57	(21.2)

Source: Bloomberg, QuotedData.

Investment company notes published in 2023

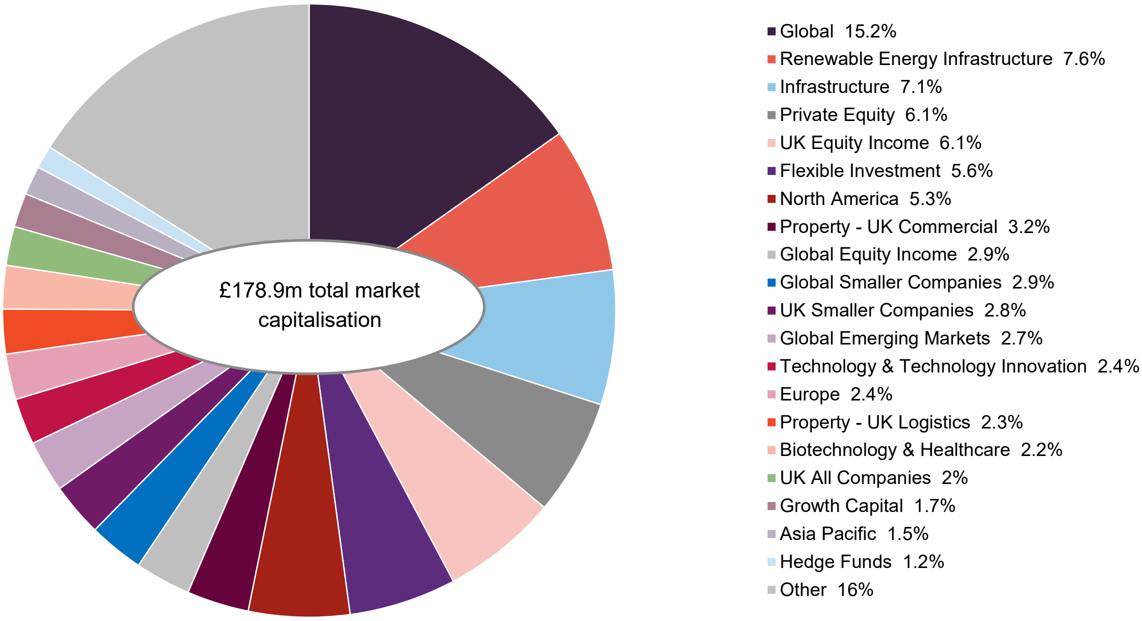
Figure 4: Notes published in 2023

Urban Logistics REIT – A re-rating candidate	AVI Japan Opportunity – Good governance, better returns
Polar Capital Technology – The AI's have it	Tritax EuroBox – Optimism returns
Rights and Issues Investment Trust – Old dog, new tricks	NextEnergy Solar Fund – Recycling champion
Vietnam Holding Limited – Bringing you redemption	Temple Bar – True Colours
Oakley Capital Investments – Walking the walk	Montanaro UK Smaller Companies – Riders on the storm
Henderson High Income – Improving outlook on a double discount	abrdn European Logistics Income – Riding out the storm
Polar Capital Global Financials Trust – Pessimism overdone, time to buy	Vietnam Holding Limited – Building on firmer foundations
Pacific Horizon – Consistent growth and quality bias	Aquila European Renewables – Sunny days are here again
Geiger Counter Limited – Powered up for growth	Polar Capital Technology – Me, myself and AI
North American Income Trust – The port in the storm	Polar Capital Global Financials Trust – Avoiding mishap
JLEN Environmental Assets – Backing the green hydrogen revolution	Urban Logistics REIT – Fundamentals strong as market stabilises
BlackRock Throgmorton Trust – Growth in all things	Edinburgh Worldwide – The output of innovation is alive and well
AVI Global Trust – An historic opportunity	HydrogenOne Capital Growth – Funding a green revolution
Alliance Trust – Coming into its own	JPMorgan Multi-Asset Growth & Income – Caution in the face of volatile markets
Downing Renewables and Infrastructure Trust – Powering ahead	Rights and Issues Investment Trust – Under new management, same high conviction approach
Herald Investment Trust – Patience and Power	Gulf Investment Fund – On the gulf of a new economy
European Opportunities Trust – 'Special' growth companies	RIT Capital Partners – A rare opportunity to buy a unique trust
Lar España Real Estate – Defying the retail gloom	Oakley Capital Investments – The best-performing UK-listed private equity fund
HydrogenOne Capital Growth – Sky is the limit for HGEN	JLEN Environmental Assets – Laying the foundations for NAV growth
Henderson High Income / Henderson Diversified Income – Merger terms agreed	JPMorgan Japanese Investment Trust – Backing the new Japan
Bluefield Solar Income Fund – Record year supports growth strategy	Pantheon Infrastructure – Reliable income streams with inflation protection
Grit Real Estate Income Group – Grit 2.0	India Capital Growth – Don't Stop Believin'
Baillie Gifford UK Growth Trust – A recipe for a rerating	AVI Global Trust – Doubly blessed
Pantheon Infrastructure – Travelling in the right direction	Civitas Social Housing – Time to buy?
abrdn Private Equity Opportunities Trust – Unrecognised success	abrdn New Dawn – A quality captain for a troubled Pacific
Henderson High Income – There's value in value	North American Income Trust – As headwind turns tailwind
Ecofin US Renewables Infrastructure Trust – Storm damage reparable	GCP Infrastructure – Green is good
Ecofin Global Utilities and Infrastructure Trust – Utilities and infrastructure at low tide	Ecofin US Renewables Infrastructure Trust – Back on track
GCP Infrastructure – Merger to unlock compelling value?	abrdn European Logistics Income – Negotiating choppy waters
abrdn Property Income Trust – Ready and waiting	Bluefield Solar Income Fund – Politicians cloud otherwise bright future
Montanaro European Smaller Companies – No Continental Drift	Herald Investment Trust – Efficiency savings
Chrysalis Investments – Putting growing pains behind it	

Source: QuotedData

State of play at the end of 2023

Figure 5: Split of the investment company market by AIC sector, as at 31 December 2023



Source: Morningstar, QuotedData. Note: this does not include 3i, which was included in our prior report.

The investment companies sector shrank from £186.2bn to £178.9bn over 2023 in market capitalisation terms, driven by market by widening discounts and the loss of several trusts. Figure 5 displays the relative composition of the industry by sector.

As we list on page 18, 16 funds were lost in 2023 and two new funds entered the sector, Ashoka WhiteOak Emerging Markets and Onward Opportunities.

Figure 6: Change in market cap across selected sectors

	Market cap 31/12/2023 (£m)	Market cap 31/12/2022 (£m)	Change (£m)	Change (%)
Technology & technology innovation	4,361	3,073	1,288	41.9
North America	9,529	7,942	1,587	20.0
India/Indian subcontinent	1,499	1,283	216	16.8
Global equity income	5,251	4,567	684	15.0
Property - UK logistics	4,208	3,669	538	14.7
Property - Europe	1,521	1,929	(408)	(21.2)
Property - rest of world	81	111	(30)	(27.1)
Royalties	871	1,308	(437.2)	(33.4)
Farmland & forestry	105	182	(77.0)	(42.3)
Financials	650	1,132	(481.7)	(42.6)

Source: Morningstar, QuotedData

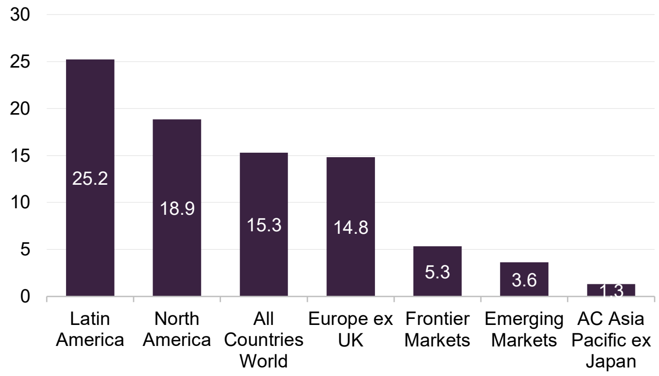
Absolutely and relative to 2022, the technology & technology innovation and North American sectors grew the most, increasing by 42% and 20% respectively (see Figure 6). The growth of these sectors came largely from performance, as their constituents remained static over the year.

Proportionately, on the negative side, financials & financial innovation saw the largest fall, thanks to the loss of Trian Investors. However, in absolute terms it was renewable energy infrastructure that was hit hardest, shrinking by £2.4bn.

Performance data

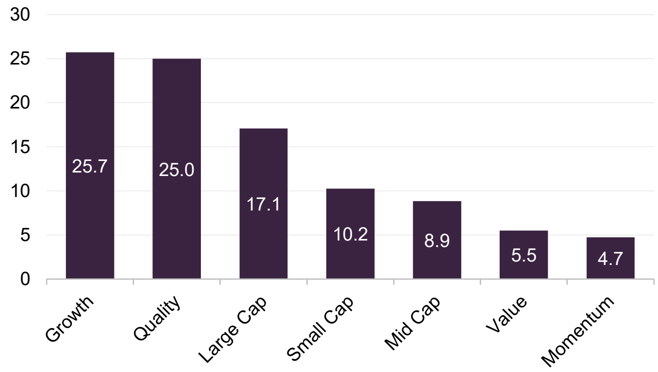
For a UK-based investor, while there was a fairly large dispersion of returns between regions and investment styles over 2023, for the most part equities made gains.**fl**

Figure 7: MSCI indices in sterling by region



Source: Morningstar, QuotedData

Figure 8: MSCI indices in sterling by style



Source: Morningstar, QuotedData

Latin America led the pack in performance terms. As Figure 8 shows on the next page, Argentina was the best-performing market, helped by the outcome of its election. However, Mexico and Brazil both did well too. The increasing expectation of US interest rate cuts and a weaker US dollar was factor in this. Not only did it reduce the opportunity cost associated with risk assets (with EM equities being one of the riskiest) but it also reduced the debt burden for dollar denominated debt.

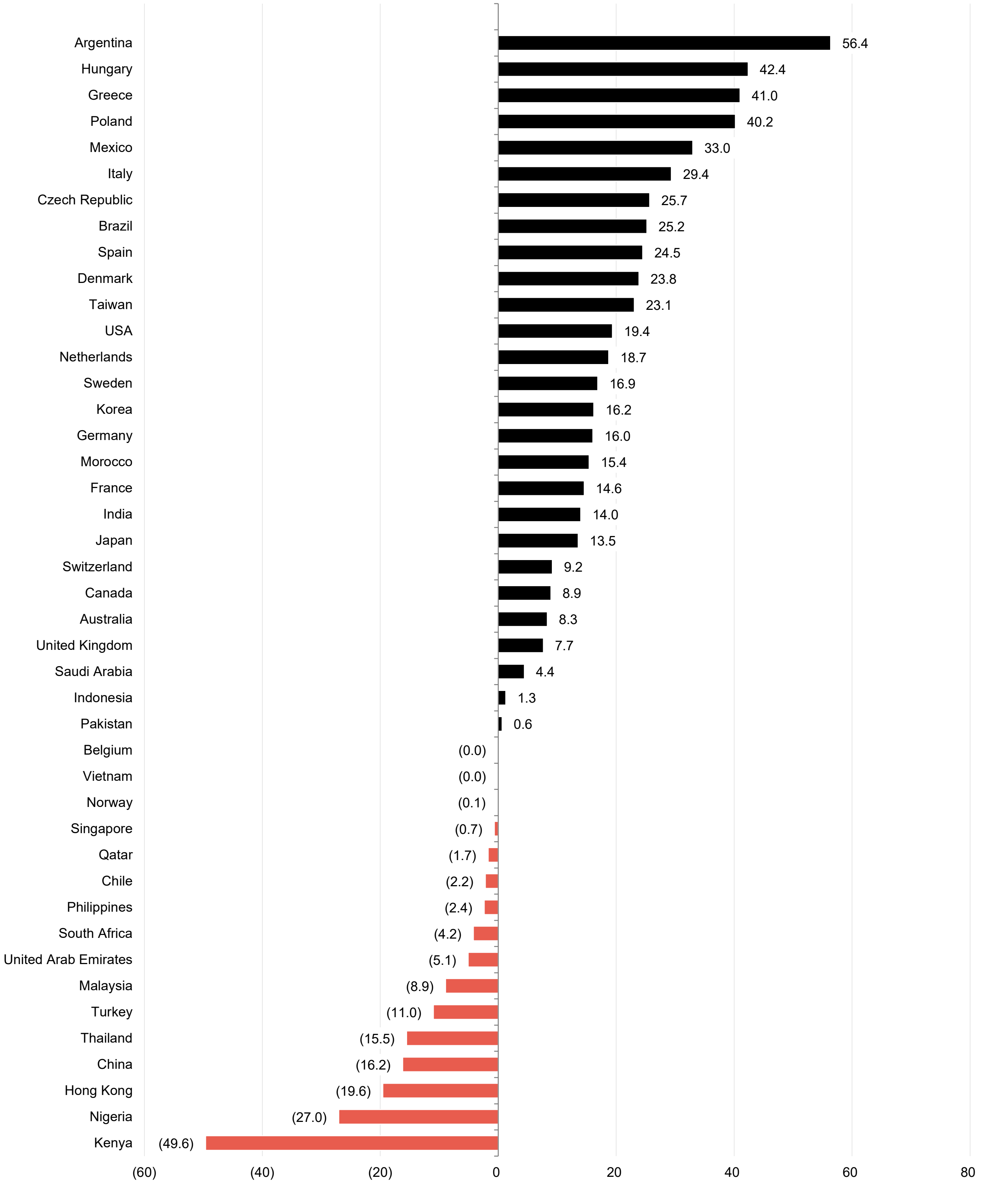
Other frontier markets did not benefit from the dollar weakness in the same way as Latin America did, and Kenya and Nigeria were amongst the worst-performing markets in sterling terms.

China's lacklustre economy (the reported 5.2% GDP growth for 2023 reflects a modest rebound from pandemic-related lockdowns) weighed on the emerging markets and Asia Pacific indices. Not only did the rebound disappoint, there were wider concerns around its heavily indebted property sector. Nevertheless, the Emerging Market and pan-Asian indices were buoyed by the stronger performance of the Indian market.

The style indices are heavily distorted by the 'magnificent 7', as a quick glance at the returns of most growth- and quality-focused investment companies outside of those exposed to large cap technology reveals.

The market rally was heavily concentrated in only a few months, which limited the benefit of the momentum trade.

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



Source: Morningstar, QuotedData

Performance by sector and fund

Positives

Looking at Figure 10, the best-performing sector was once again the insurance and reinsurance. This was this was driven by the ongoing recovery in the share price of CatCo Reinsurance Opportunities which remains in wind up mode. However, with a market cap of only £13m (the combination of its ordinary and C share classes) its impact is hugely outsized and warping the figures, 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.

Technology is well thanks to the powerful tailwinds supporting the sector over 2023, as we discussed earlier, with both trusts in the sector, Polar Capital Technology and Allianz Global Technology, returning impressive results.

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	334.7	CATCo Reinsurance Opps	654.9	Life Settlement Assets A	14.4
Technology & technology innovation	47.5	Polar Capital Technology	50.5	Allianz Technology Trust	44.5
Leasing	30.4	Doric Nimrod Air Two	48.2	Taylor Maritime Investments	(21.2)
Latin America	27.6	BlackRock Latin American	27.6	BlackRock Latin American	27.6
India/Indian subcontinent	22.4	India Capital Growth	34.1	JPMorgan Indian	13.3
Europe	19.1	European Opportunities T	22.9	Baillie Gifford European Growth	10.4
Global	12.5	Manchester & London	70.4	Lindsell Train	(13.9)
Japan	12.3	CC Japan Income & Growth	23.0	Baillie Gifford Japan	(5.6)
North America	12.3	Pershing Square Holdings	28.4	Middlefield Canadian Income	(10.6)
UK all companies	10.4	Aurora	28.8	Henderson Opportunities	(1.0)
Japanese smaller companies	8.2	Nippon Active Value	41.1	Baillie Gifford Shin Nippon	(14.1)
Global smaller companies	7.9	North Atlantic Smaller Cos	9.0	Edinburgh Worldwide	(10.9)
Debt - loans & bonds	7.7	CVC Income & Growth	19.0	NB Distressed Debt Inv Extended	(20.5)
Liquidity funds	7.3	Home REIT	0.0	Home REIT	7.3
Asia Pacific smaller companies	7.1	Scottish Oriental Smaller Cos	14.4	abrdn Asia Focus	6.6
Private equity	6.9	Literacy Capital	30.4	JPEL Private Equity	(19.2)
European smaller companies	6.7	The European Smaller Companies Trust	14.0	Montanaro European Smaller	1.3
North American smaller companies	6.5	Brown Advisory US Smaller Companies	9.1	JPMorgan US Smaller Companies	4.0
UK smaller companies	6.2	Rockwood Strategic	18.8	Miton UK Microcap	(24.9)
Global emerging markets	4.9	JPMorgan Emerg E, ME & Africa	55.0	Barings Emerging EMEA Opportunities	(19.0)
UK equity income	4.3	Temple Bar	12.5	Shires Income	(8.0)
Debt - structured finance	4.2	Fair Oaks Income 2021	23.6	EJF Investments	(15.5)
Property - UK healthcare	4.1	Target Healthcare REIT	16.0	Impact Healthcare	(7.8)
Global equity income	1.1	JPMorgan Global Growth & Income	22.6	Henderson International Income	(19.4)
Property - UK logistics	1.1	Tritax Big Box	28.1	Warehouse REIT	(5.4)
UK equity & bond income	0.9	Henderson High Income	0.9	Henderson High Income	0.9
Environmental	0.5	Menhaden Resource Efficiency	13.6	Impax Environmental Markets	(3.7)
Asia Pacific	0.2	Schroder Asian Total Return	10.3	Asia Dragon	(12.6)
Country specialist	0.2	VietNam Holding	24.8	Vietnam Enterprise	(4.5)
Financials & financial innovation	(0.1)	Polar Capital Global Financials	0.8	Augmentum Fintech	(0.9)
Asia Pacific equity income	(2.5)	Schroder Oriental Income	3.1	Henderson Far East Income	(13.1)
Biotechnology & healthcare	(3.0)	RTW Biotech Opportunities	9.4	Syncona	(31.8)

Sector	Sector median total price return %	Best performing trust in named sector	Total price return %	Worst performing trust in named sector	Total price return %
Flexible investment	(3.3)	Majedie Investments	20.9	UIL	(48.7)
Property - UK commercial	(3.8)	Ediston Property Investment Com	26.1	Regional REIT	(46.7)
Property - debt	(4.0)	Starwood European Real Estate Fin	10.5	ICG-Longbow Senior Sec. UK Prop Debt	(45.4)
Infrastructure	(4.6)	Sequoia Economic Infrastructure Inc	5.8	Digital 9 Infrastructure	(64.1)
Growth capital	(5.3)	Schroder British Opportunities	9.5	Schiehallion Fund	(25.7)
Debt - direct lending	(5.5)	Pollen Street	36.5	GCP Asset Backed In	(14.1)
Hedge funds	(8.5)	Boussard & Gavaudan EUR	12.6	BH Macro USD	(21.3)
Property - Europe	(8.6)	Tritax EuroBox Euro	6.1	Globalworth Real Estate Investments	(32.4)
Property - UK residential	(10.0)	Triple Point Social Housing REIT	13.9	Ground Rents Income Fund	(34.3)
Commodities & natural resources	(11.9)	Geiger Counter	26.3	Baker Steel Resources	(67.9)
Royalties	(12.4)	Hipgnosis Songs	(12.4)	Hipgnosis Songs	(12.4)
Renewable energy infrastructure	(12.5)	Greencoat UK	5.4	HydrogenOne Capital Growth	(37.4)
Infrastructure securities	(18.0)	Ecofin Global Utilities & Infra	(16.7)	Premier Miton Glb Renewables Trust	(19.2)
Property - rest of world	(23.5)	Macau Property Opportunities	(22.3)	Ceiba Investments	(42.7)
China / greater China	(24.5)	Fidelity China Special	(9.3)	JPMorgan China Growth & Income	(32.8)
Farmland & forestry	(42.3)	Foresight Sustainable Forestry	(42.3)	Foresight Sustainable Forestry	(42.3)

Source: Morningstar, QuotedData

Leasing funds once again benefited from the recovery in air travel, and in particular, Emirates' decision to retain its fleet of Airbus A380 aircraft, which accounts for the entirety of Doric Nimrod 2 and 3 portfolios. Doric Nimrod 2 sold a couple of aircraft to Emirates and is returning the proceeds. The shipping industry was hit by the slowdown in Chinese demand.

We discussed the regional winners, Latin America, and the developed markets earlier. In the case of India, it was supported by its own improving economic outlook and increased domestic activity, with 150 IPOs in the first 9 months of 2023 alone, as well as benefiting from investors' aversion to China. Small caps beat large caps in this market.

Negatives

On the negative end of the table, farmland and forestry's poor performance reflected the widening discount of its sole constituent, the Foresight Sustainable Forestry trust.

China's poor performance reflected the weak performance of its economy, and the concerns surrounding its property sector, as well as the fallout from increased regulation, which affected several of its large consumer software companies. China's economic woes were also reflected in the property – rest of the world sector, as it only has two constituents, one of which being Macau Property Opportunities, which solely invests in China.

Infrastructure and renewable energy securities saw a general selloff across virtually all of their numerous constituents. Rising interest rates were the main culprit, putting downward pressure on NAVs and diverting investors into other income producing assets. However, the structural issues facing the sector had a big influence too.

Royalties saw a severe selloff as Round Hill got taken over and the remaining fund Hipgnosis disappointed on performance and governance grounds.

Best performing trusts

Figure 11: Best performing trusts in price terms in 2023

	Sector	Return (%)
Manchester & London	Global	70.4
JPMorgan Emerg E, ME & Africa	Global emerging markets	55.0
Polar Capital Technology	Technology & technology innovation	50.5
Doric Nimrod Air Two	Leasing	48.2
Allianz Technology Trust	Technology & technology innovation	44.5
Nippon Active Value	Japanese smaller companies	41.1
Pollen Street	Debt - direct lending	36.5
India Capital Growth	India/Indian subcontinent	34.1
Amedeo Air Four Plus	Leasing	30.4
Literacy Capital	Private equity	30.4

Source: Morningstar, QuotedData. Note: excludes trusts with market caps below £15m at 31/12/23

Manchester and London, with its mega-cap, AI-focused technology portfolio, was the best performing trust in share price terms, and the biggest beneficiary of the tech rally. Its high allocation to the likes of Microsoft and Nvidia put it front and centre of the AI-frenzy, as well as the wider rally in growth stocks over Q4. Its impressive returns were compounded by increased demand for its shares in the latter months of 2023. For similar reasons, Polar Capital Technology and Allianz Technology Trust saw strong share price performance, compounding both their NAV returns with a narrowing discount. However, they lacked the high concentration of Manchester and London's portfolio and thus benefited less from the rally.

The performance of JPMorgan Emerging Europe, Middle East, and Africa was less a reflection of its NAV returns, as it generated a mere 5.1% over the period, but a quirk of its previous life as a Russian equity strategy. With its previous portfolio having been effectively written down to zero, its share price rally reflects investors speculating on the potential value that they may one day be able to realise from the stranded Russian assets.

The rally in the airline leasing trusts was evidenced by the returns of Doric Nimrod Air Two and Amedeo Air Four Plus. However, DNA2, which has more exposure to the previous unloved A380, generated stronger NAV returns, at 32% versus 6%.

Nippon Active Value benefited from the double whammy of the broader rally in Japanese equities and within that the impact of further corporate governance reforms. Trust-specific factors included mergers with abrdn Japan and Atlantis Japan, its migration to a premium listing, and several of its activist campaigns bearing fruit over the year.

Pollen Street proposed to leave the investment trust sector and re-list as a commercial company. Its discount narrowed on the back of the proposal being passed in its October AGM.

India Capital Growth was the standout performer in a buoyant Indian market. It generated both the highest NAV and share price returns in the period in this market thanks to some good stock picking.

Literacy Capital was once again the winner within the private equity sector and was the only constituent to achieve double-digit NAV returns. Its performance can be placed at the feet of its management team, who made several profitable disposals over the year, often at impressive premiums to carrying value.

Figure 12: Best performing trusts in NAV terms in 2023

	Sector	Return (%)
Doric Nimrod Air Three	Leasing	81.0
Manchester & London	Global	56.7
Allianz Technology Trust	Technology & technology innovation	46.4
Polar Capital Technology	Technology & technology innovation	45.9
Geiger Counter	Commodities & natural resources	44.1
Aurora	UK all companies	33.2
Doric Nimrod Air Two	Leasing	31.9
BlackRock Latin American	Latin America	30.1
India Capital Growth	India/Indian subcontinent	28.8
JPMorgan American	North America	24.7

Source: Morningstar, QuotedData. Note: excludes trusts with market caps below £15m at 31/12/23

Moving on to Figure 12, we covered many of the best NAV returning trusts previously, including the reasons behind the performance of aircraft leasing, technology, Latin America, India, and North America in previous sections. We note that in the case of JPMorgan America, a new mention in this note, it is a ‘core’ style of investing, intentionally capturing multiple styles of investing, and is arguably the best reflection of its broader US market performance.

Geiger Counter’s performance reflected the rally in the price of uranium over 2023, which almost doubled over the year, with its price moving from 48 USD to 91 USD.

Aurora’s performance came on the back of the takeover Hotel Chocolat and the recovery in airline travel, having a large exposure to low-cost airlines.

Worst performing trusts

Share price moves

On the negative side, Digital 9 Infrastructure led the pack. It was impacted by issues surrounding its debt, having been too aggressive with its leverage and exposure to cash-hungry companies in prior years. Its debt burden had become so high that the board was required to cut to its dividend, widening its discount in the process. It was also impacted by the delay to the sale of its prize asset Verne Global. The terms of this sale then disappointed investors. Digital 9 now trades on a roughly 70%

discount, having traded on a premium in 2022. Its board has announced a strategic review.

Figure 13: Worst performing funds in price terms in 2023

	Sector	Return (%)
Digital 9 Infrastructure	Infrastructure	(64.1)
ICG-Longbow Senior Sec. UK Prop Debt	Property - debt	(45.4)
Foresight Sustainable Forestry	Farmland & forestry	(42.3)
HydrogenOne Capital Growth	Renewable energy infrastructure	(37.4)
US Solar Fund	Renewable energy infrastructure	(34.5)
Ground Rents Income Fund	Property - UK residential	(34.3)
JPMorgan China Growth & Income	China / greater China	(32.8)
Globalworth Real Estate Investments	Property - Europe	(32.4)
Ecofin US Renewables Infrastructure	Renewable energy infrastructure	(32.1)
Syncona	Biotechnology & healthcare	(31.8)

Source: Morningstar, QuotedData. Note: excludes trusts with market caps below £15m at 31/12/23

Second on the list is ICG-Longbow Senior Secured UK Property Debt, which is in wind-up mode, and this distorts its returns.

In a world of 6% cash deposits, the returns from forestry assets seem pale in comparison. This has certainly been true for Foresight Sustainable Forestry, which returned -6.3% in NAV terms. Rather than there being any trust specific announcement, it seems that the return profile of the trust is no longer attractive in the current market environment, especially when one considers that it pays no dividend.

HydrogenOne is invested in cash consumptive growth stocks and like other funds with similar exposures has suffered since interest rates began to climb. The portfolio is still quite new and will take time to mature. Nevertheless, encouraging progress is being made within many portfolio companies.

Hydrogen is a beneficiary of the Inflation Reduction Act, which also supports the development of renewable energy generation in the US. However, sentiment towards US Solar (USF) and Ecofin US Renewables (RNEW) have been hit hard by higher interest rates. USF underwent a management change during the year and tried and failed to sell its portfolio. RNEW was forced to suspend its dividend following a tornado strike on the grid link to its wind farm investment.

Ground Rents Income Fund will wind-up in light of a more challenging market environment, specifically the likely reforms from the Leasehold and Freehold Bill introduced by the government. Its independent valuer took the opinion that there was material uncertainty around the value of the trust’s assets because of the bill.

Globalworth Real Estate Investments invests in central and eastern European properties and continues to trade. Though given the economic weakness of Europe and large portfolio of corporate properties, investors may have become concerned around the return potential of these assets.

We have covered the reasons behind the decline in demand for Chinese equities, and JPMorgan China Growth & Income, previously.

Despite an active 2023 for Syncona, its discount has still widened, reflecting the general lacklustre returns of the biotech and healthcare sector over the year, increasing costs of capital, and stock specific issues. Syncona was forced to write off a £54.5m earn out from the sale of its Gyroscope experimental eye treatment after the buyer Novartis elected to stop its development.

NAV moves

Moving on to Figure 14, which shows the worst performing trusts in NAV terms, we can see several common trends that have been presented previously in this article. The dire Chinese market is evident once again, with three Chinese strategies present in the top 10 worst performers, and JPMorgan China Growth & Income taking the crown as the worst performing trust. The impact of the decline in Chinese trade also be seen in the NAV returns of Taylor Maritime.

Figure 14: Worst performing funds in NAV terms in 2023

	Sector	Return (%)
JPMorgan China Growth & Income	China / Greater China	(31.7)
Symphony International Holding	Private Equity	(28.3)
abrdn China Investment	China / Greater China	(27.5)
Phoenix Spree Deutschland	Property - Europe	(27.0)
Baillie Gifford China Growth Trust	China / Greater China	(24.0)
Tritax EuroBox Euro	Property - Europe	(23.2)
Taylor Maritime Investments	Leasing	(22.0)
Miton UK Microcap	UK Smaller Companies	(20.2)
Value and Indexed Property Income	Property - UK Commercial	(20.1)
ICG-Longbow Senior Sec. UK Prop Debt Inv	Property - Debt	(18.0)

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

Symphony International Holding's Asian private equity focus was affected by COVID and China. It has failed to deliver attractive NAV returns and the board has elected to call time on the trust after activist pressure. It will run off its portfolio over time.

While the worst of their share price falls was concentrated in the fourth quarter of 2022, several property trusts continued to feel the pinch over 2023, reflecting the rising rate environment. This pushed up property yields/drove down valuations. Fears of declining economic activity also weighed on sentiment. Europe and the UK both posted weak GDP figures over 2023, barely dodging recession. Tritax EuroBox was hit by rising yields, but tight supply is helping drive up rents in the European logistics market. Phoenix Spree Deutschland, the worst performer of the three property funds on the list, was forced to adopt a more conservative approach in light of higher interest rates weighing on condominium sales, reducing its debt levels and cutting its dividend.

Miton UK Microcap was a casualty of the general aversion to UK equities and smaller, less liquid stocks. Money has been flowing out of funds invested in UK small caps but micro-cap stocks are often too small to attract the attention of corporate buyers.

Money in and out

2023 was another difficult year for fundraising within the investment trust sector, with the majority of trusts trading on discounts throughout the year. This limited their ability to raise new capital. However, there was a handful bright spots, with select strategies raising capital at the start of the year, as we highlight in the next section. Nevertheless, more money left the market than was added over the year, with about a net £4.4bn leaving the sector.

Just two tiny trusts launched in the year, Ashoka WhiteOak Emerging Markets, which was able to raise £30.5m at IPO, and Onward Opportunities, which has a market cap of just £16m.

Money coming into existing funds

Early in the year, taking advantage of strong performance, BH Macro was able to issue £315m worth of shares. The investors might have been seeking a safe haven, as those putting money in Ruffer were, but both sets of investors were disappointed.

For another year, JPMorgan Global Growth and Income topped the tables for regular share issuance in response to demand (the £198m in the table reflects this). However, other equity income funds saw sizeable influxes too, including City of London, and Merchants Trust. TwentyFour Income was able to take advantage of rising interest rates to attract more capital. A buoyant Indian market helped Ashoka India Equity expand.

Castlenau grew as it placed stock to help finance its purchase of funerals group, Dignity.

3i Infrastructure raised £100m in January but it was Gresham House Energy Storage, raising £50m to fund a battery project in May, that was the last to get across the line before widening discounts shut off fundraises in the alternative income sectors.

Figure 15: Money raised in 2023

	Sector	£m
BH Macro GBP	Hedge funds	258.6
JPMorgan Global Growth & Income	Global equity income	198.4
City of London	UK equity income	108.4
Castelnau Group	Flexible investment	101.7
3i Infrastructure	Infrastructure	99.4
TwentyFour Income	Debt - structured finance	52.7
Ruffer	Flexible investment	50.2
Merchants Trust	UK equity income	45.3
Gresham House Energy Storage	Renewable energy infrastructure	35.0
Ashoka India Equity	India	30.2

Source: Morningstar, QuotedData. Note: based on approximate value of shares at 31/12/23

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 2023, led by Worldwide Healthcare (on the back of another poor year for biotech) and Pershing Square (despite decent returns). Pantheon International's £200m buyback programme was big news. So too was RIT Capital Partners decision to repurchase stock.

The real surprise on here, given it ranked as one of the best-performing trusts for the year, is Polar Capital Technology Trust.

Figure 16: Money returned in 2023

	Sector	£m
Worldwide Healthcare	Biotechnology & Healthcare	(238.8)
Pershing Square Holdings	North America	(196.5)
Pantheon International	Private Equity	(171.8)
Smithson Investment Trust	Global Smaller Companies	(165.8)
Polar Capital Technology	Technology & Technology Innovation	(163.6)
RIT Capital Partners	Flexible Investment	(162.2)
Capital Gearing	Flexible Investment	(146.5)
Bellevue Healthcare	Biotechnology & Healthcare	(143.7)
Personal Assets	Flexible Investment	(139.1)
Monks	Global	(131.6)

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

Liquidations, de-listings and trading cancellations

This was probably one of the most active years for corporate actions since the wake of financial crisis of 2008. In 2023, we said goodbye to Civitas Social Housing (bid for at too low a price), Reconstruction Capital II, Cheverton Growth Trust, Highbridge Tactical Credit Fund, Trian Investors 1, Axiom European Financial Debt, CT Property Trust (bid for by LondonMetric Property), Secured Income Fund, SME Credit Realisation, Momentum Multi-Asset Value, Atlantis Japan Growth (merged with Nippon Active Value), abrdn Latin American Income Fund (very poor timing – just before South America had its best year in ages), abrdn New Dawn (merged with Asia Dragon), abrdn Smaller Companies Income (merged with Shires Income), and Round Hill Music Royalty (bid for).

Significant ratings changes

Figure 17 breaks the investment companies universe down by sector and looks at the biggest rating improvements and deteriorations over the course of 2023 within each sector. The overall trend was of discount widening, with just 17 of 43 sectors in a better position at end December 2023 than at the start of the year.

Figure 17: Biggest percentage point changes to discounts and premiums by sector over 2023

Sector	Premium/ (discount) 31/12/23 (%)	Change in discount (%)	Biggest rating riser in named sector	Change in discount (%)	Biggest rating faller in named sector	Change in discount (%)
Insurance & reinsurance	0.5	56.8	CATCo Reinsurance Opps	101.2	Life Settlement Assets A	12.5
Property - UK logistics	(20.9)	7.0	Tritax Big Box	15.1	Urban Logistics REIT	5.3
Growth capital	(42.3)	6.8	Schroder Capital Global Innovation	9.5	Schiehallion Fund	(16.7)
Property - UK commercial	(18.8)	5.6	Ediston Property Investment	23.8	Regional REIT	(30.8)
Property - UK residential	(44.2)	4.6	Triple Point Social Housing REIT	9.6	Residential Secure Income	21.4
Property - Europe	(37.0)	4.5	Tritax EuroBox Euro	18.2	Globalworth Real Estate Investments	(16.7)
UK smaller companies	(10.4)	3.6	Investment Company	13.2	Montanaro UK Smaller Companies	(15.6)
Private equity	(35.8)	3.5	Princess Private Equity	13.4	EPE Special Opportunities	(7.1)
India/Indian subcontinent	(10.0)	2.5	India Capital Growth	3.8	JPMorgan Indian	0.7
Europe	(10.4)	1.7	European Opportunities Trust	4.2	Fidelity European Trust	(1.9)
Japanese smaller companies	(8.6)	1.3	Nippon Active Value	12.1	Baillie Gifford Shin Nippon	(4.4)
North American smaller companies	(9.7)	1.2	Brown Advisory US Smaller Companies	2.7	JPMorgan US Smaller Companies	(0.6)
Property - debt	(11.9)	0.8	Starwood European Real Estate Finance	3.0	ICG Longbow Senior Secured UK Property Debt	(30.7)
Technology & tech innovation	(10.0)	0.8	Polar Capital Technology	2.8	Allianz Technology Trust	(1.2)
Global	(8.4)	0.7	Manchester & London	6.7	Lindsell Train	(17.4)
UK all companies	(11.6)	0.4	Mercantile	4.9	Artemis Alpha Trust	(6.7)
European smaller companies	(12.2)	0.4	JPMorgan European Discovery	4.6	Montanaro European Smaller	(4.7)
Japan	(9.5)	(0.1)	CC Japan Income & Growth	4.1	Baillie Gifford Japan	(4.7)
Country specialist	(12.8)	(0.2)	VietNam Holding	6.7	Vietnam Enterprise	(7.4)
Debt - structured finance	(17.3)	(0.2)	Fair Oaks Income 2021	9.8	Chenavari Toro Income Fund	(10.3)
Asia Pacific equity income	(9.2)	(0.4)	JPMorgan Asia Growth & Income	(0.3)	Henderson Far East Income	(8.3)
Debt - loans & bonds	(5.7)	(0.8)	NB Distressed Debt Inv Extended Life	2.3	CVC Income & Growth GBP	(3.8)
China / greater China	(9.8)	(1.1)	abrdn China Investment	5.6	Baillie Gifford China Growth Trust	(2.9)
Asia Pacific	(10.3)	(1.2)	Pacific Assets	3.9	Pacific Horizon	(4.4)

Sector	Premium/ (discount) 31/12/23 (%)	Change in discount (%)	Biggest rating riser in named sector	Change in discount (%)	Biggest rating faller in named sector	Change in discount (%)
Leasing	(34.8)	(1.3)	Doric Nimrod Air Two	11.3	Doric Nimrod Air Three	(46.0)
Global emerging markets	(11.8)	(1.4)	JPMorgan Emerg E, ME & Africa Sec	89.4	Barings Emerging EMEA Opportunities	(10.2)
Biotechnology & healthcare	(9.7)	(1.4)	RTW Biotech Opportunities	6.4	Syncona	(24.9)
Global smaller companies	(13.4)	(1.5)	North Atlantic Smaller Companies	5.1	Edinburgh Worldwide	(5.9)
Environmental	(19.6)	(2.2)	Jupiter Green	(2.6)	Impax Environmental Markets	(8.0)
Global equity income	(1.8)	(2.4)	British & American	13.5	Murray International	(7.1)
Asia Pacific smaller companies	(12.6)	(2.4)	Scottish Oriental Smaller Companies	(0.2)	abrdn Asia Focus	(4.2)
Flexible investment	(14.4)	(3.2)	Castlenau	21.4	Livermore Investments	(9.8)
Hedge funds	(15.1)	(3.4)	Boussard & Gavaudan EUR	13.0	BH Macro GBP	(17.9)
UK equity income	(6.3)	(3.6)	Merchants Trust	0.0	Shires Income	(10.9)
North America	(11.9)	(4.2)	Pershing Square Holdings	4.4	Middlefield Canadian Income	(9.4)
Property - rest of world	(68.0)	(7.3)	Macau Property Opportunities	(3.7)	Ceiba Investments	(15.2)
Infrastructure securities	(14.9)	(8.4)	Premier Miton Global Renewables Trust	(6.5)	Ecofin Global Utilities & Infrastructure	(10.2)
Property - UK healthcare	(22.5)	(9.1)	Target Healthcare REIT	3.1	Impact Healthcare REIT	(16.5)
Debt - direct lending	(22.7)	(9.6)	Pollen Street	12.9	GCP Asset Backed	(18.3)
Infrastructure	(16.8)	(10.9)	Sequoia Economic Infrastructure	(2.3)	Digital 9 Infrastructure	(49.7)
Commodities & natural resources	(19.5)	(11.3)	Riverstone Energy	6.2	Golden Prospect Precious Metals	(11.3)
Financials & financial innovation	(20.0)	(13.2)	Polar Capital Global Financials	(2.8)	Augmentum Fintech	(3.0)
Renewable energy infrastructure	(22.7)	(16.4)	Greencoat UK Wind	0.4	HydrogenOne Capital Growth	(32.5)

Source: Morningstar, QuotedData. Note: excludes trusts with market caps below £15m at 31/12/23, trusts launched in 2023 and any sectors with only one company

As we have mentioned, CatCo's winddown process is distorting its returns.

There is a large presence of property sectors within the largest positive movers. This is a reflection of the improving outlook for interest rates, as falling rate expectations improves the valuation outlook for the property sector.

For similar reasons the growth capital sector also saw a positive re-rating. Although the re-rating of growth-focused strategies has some way to go yet as discounts are still very wide on these funds.

The private equity sector's considerable efforts to attract new investments, pantheon's £200m buyback and the sector's great track record nudged discounts tighter, but again there is a long way to go.

The Indian/Indian subcontinent sector is one of only four peer groups to see all of its members positively re-rate over the period. The small cap/large cap divide is evident here – working to India Capital Growth's advantage.

Given the general aversion to small caps in the UK, it was perhaps surprising to see discounts narrow here. There has been a fair bit of share buyback activity in the sector that might account for it.

On the other end of the table, the discount widening in the renewable energy infrastructure and infrastructure sectors hit almost every fund. Interest rates are the principal culprit, but the cost disclosure issue that we have discussed in recent QD views has had a big impact too.

Financials funds were knocked in March's banking crisis. Commodities and natural resources trusts wilted in the face of weak Chinese demand. Riverstone Energy has been active in reorientating its portfolio.

QD views from 2023

Our weekly opinion pieces

REIT consolidation on the cards in 2023 – 6 Jan
Unloved Japan worth a look – 13 Jan
Chinese new year in review – 20 Jan
In defence of growth – 27 Jan
And now for something completely different – 3 Feb
Bonds will return… but when?' – 10 Feb
Nadir point close for property values – 17 Feb
In search of storage solutions – 24 Feb
Discounts – time to get serious? – 3 Mar
Global voyage in search of income – 10 Mar
A Silicon Valley bust? -17 Mar
Beyond dividend heroes – 24 Mar
Discount opportunity on digital disruptor, DGI9 – 31 Mar
Unpicking Dolphin Capital's chequered past – 4 Apr
How to build a board – 14 Apr
Jury out on latest IPO – 21 Apr
Finding courage in uncertain times – 28 Apr
Spreading your bets – asset allocating for uncertain times – 5 May
Growth capital – fast growing companies at compelling prices? – 12 May
Time to buy Scottish Mortgage? – 19 May
REIT mergers could combat vicious discount circle – 26 May
Can we just stop oil? Contrasting the fortunes of two UK equity income trusts – 2 Jun
AI mania driving tech recovery – 9 Jun
Emerging Asia, much more than India and China – 16 Jun
Bargain Britain – 23 Jun
University challenge – 30 Jun
Divining higher income in an inflationary environment – 7 July
Infrastructure sits on solid foundations – 14 July
Where there's smoke is there fire? – 21 July
The new reality for renewables – 28 July
The future of growth Investing – 4 Aug
Renewables – an inevitable part of our future? – 11 Aug
Diversity rules for The Renewables Infrastructure Group – 11 Aug
Time is right for this European logistics specialist – 18 Aug
What if the tide goes out further? – 25 Sug
Mind the gap – 1 Sep
The right fund in the right structure – 8 Sep
Opportunities in commodities? – 15 Sep
Lehman terms – 22 Sep
The retail REIT defying the doom and gloom – 29 Sep
Are some investment trust discounts now detached from reality? – 6 Oct
Are cracks appearing in US markets – 13 Oct
Back an alpha hero – 20 Oct
Is there an easy fix to the sector's discount problem? – 27 Oct
The curious case of abrdn Diversified Income and Growth – 3 Nov
Japan: more to play for? – 10 Nov
Positive inflation data to reignite real estate sector – 17 Nov
AI euphoria gone too far? – 24 Nov
A sector in turmoil – 1 Dec
Your vote will count in Arb fight – 8 Dec
An early Christmas present – 15 Dec
An update on charges disclosure problem – 22 Dec

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Manager interviews from 2023

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

Manager interviews from the weekly show

13 January	Thao Ngo	Vietnam Enterprise
20 January	Stephanie Sirota	RTW Venture Fund
27 January	Eileen Fargis	Ecofin US Renewables
3 February	Will Fulton	UK Commercial Property REIT
10 February	Colm Walsh	ICG Enterprise
17 February	James Dow	The Scottish American Investment Company
24 February	Jean Hugues de Lamaze	Ecofin Global Utilities and Infrastructure
03 March	David Bird	Octopus Renewables Infrastructure Trust
10 March	Anthony Catachanas	VH Global Sustainable Energy Opportunities
17 March	James Hart	Witan Investment Trust
24 March	Richard Staveley	Rockwood Strategic
31 March	Alex O'Cinneide	Gore Street Energy Storage Fund
14 April	Stephen Inglis	Regional REIT
21 April	Jean Roche	Schroder UK Mid Cap Fund
28 April	Craig Baker	Alliance Trust
5 May	Nicholas Weindling	JP Morgan Japanese Investment Trust
12 May	Kamal Warraich	Canaccord Genuity Wealth Management
19 May	Michael Anderson	Aquila Capital European Renewables
26 May	Andy Ho & Khanh Vu	VinaCapital Vietnam Opportunity Fund
2 June	Iain McCombie	Baillie Giff UK Growth
9 June	James Thom	abrdn New Dawn
16 June	Matthias Siller	Barings Emerging EMEA Opportunities
23 June	Jonathan Hick	Triple Point Energy Transition
16 June	Gervais Williams	Milton UK Microcap
23 June	Stephen Inglis	Regional REIT
30 June	Jean Roche	Schroder UK Mid Cap Fund
7 July	Steve Marshall	Cordiant Digital Infrastructure
14 July	David Smith	Henderson High Income
21 July	Ian Lance	Temple Bar
28 July	Uzo Ekwue & Pav Sriharan	Schroders British Opportunity Trust
4 August	Fotis Chatzimichalakis	Impax Asset Management
11 August	Helen Steers	Pantheon International
18 August	Richard Moffit	Urban Logistics
25 August	Iain Pyle	Shires Income
1 September	Ed Simpson	GCP Infrastructure
8 September	Prashant Khemka	Ashoka WhiteOak
15 September	Dean Orrico	Middlefield Canadian Income
22 September	Andrew Jones	LondonMetric Property
29 September	Carlos Hardenberg	Mobius Investment Trust

6 October	**Alan Gauld**	abrdn Private Equity
13 October	**James de Uphaugh**	Edinburgh Investment Trust
20 October	**Tom Williams**	Downing Renewables and infrastructure
27 October	**Richard Sem**	Pantheon Infrastructure
10 November	**Craig Martin**	Vietnam Holding
17 November	**Joe Bauernfreund**	AVI Global Trust
24 November	**Ben Green**	Supermarket Income REIT
1 December	**Charles Luke**	Murray Income
8 December	**Joe Bauernfreund**	AVI Japan Opportunity Trust.

Source: *Visit www.quoteddata.com or more on these and other stories plus in-depth analysis on some funds, the tools to compare similar funds and basic information, key documents and regulatory news announcements on every investment company quoted in London*

Outlook for 2024

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

On the investment companies sector

Nick Greenwood, MIGO Opportunities Trust: "*We have heard the death knell sounded for investment trusts many times before. The sector has always evolved and progressed. There are self help measures which can be adopted. Oversupply can be dealt with via buy backs. The law of natural selection is alive and well in the world of closed end funds and we expect to see the recent trend of mergers and wind downs to continue. There are new audiences to focus on, such as self-directed investors and newer wealth management businesses often staffed by individuals who have departed the vast chains. Despite experimental capital structures being mooted, the closed end fund is the best structure for accessing illiquid asset classes. The travails of open ended property funds sum up the challenges and explain why investment trusts will continue to exist.*"

On the global economy

Our January 2024 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.

David Higgins, Majedie Investments: *"Markets have largely completed a transition to a new regime that will be characterised by higher interest rates, variable liquidity, and more geopolitical and cyclical volatility. Many of the tailwinds upon which the fortunes of conventional investment strategies rode have turned into headwinds. Against a backdrop that is likely to be more challenging, an investor's ability to identify - and capitalise upon - idiosyncratic, bottom-up situations will be critical to success.*

The global economic outlook is uncertain and is likely to remain so. When framing our decisions, we do not dismiss the possibility of a recession over the next 12-24 months. We can identify numerous possible threats to the equilibrium of markets, which include a sharper-than-expected economic slowdown, geopolitical instability, a possible resurgence of inflation (which would most likely be caused by rising commodity prices), or some other extraneous variable. The 'equity risk premium' is low by historic standards, i.e. the projected earnings yield on equities is very close *to the yield on long-dated government bonds, which suggests that stocks are expensive at an aggregate level."*

On the UK

Graeme Proudfoot, chair, BlackRock Income and Growth Investment Trust: *"Despite the negative sentiment around the outlook, the UK economy has displayed notable resilience, with household balance sheets and corporate earnings in better shape than many anticipated. In fact, the UK managed to avoid a much feared recession in 2023 and although the economic data indicates our economy shrank in October 2023, it is forecast to return to modest growth in 2024. As a result, the likelihood of a 'soft landing' – a slowdown in economic growth that avoids a recession - may well have increased, although this remains to be seen. In any case, the current cycle of monetary policy tightening appears to have peaked, and markets are now focused on if and when interest rates will be cut; an event that may be the catalyst for a broader change in market sentiment towards UK equities."*

On Aisa

Ayaz Ebrahim and Robert Lloyd, portfolio managers, JPMorgan Asia Growth & Income: *"Asia is set to fare better. The Chinese economy is expected to continue slowing, realising growth of around 4% next year, but this is still an enviable pace compared to western economies. And the Chinese government's more pro-growth stance may see further efforts to reinvigorate the property market and support household incomes. India looks set to maintain its current pace of growth above 6% pa, consistent with the government's long-term target, and the region as a whole, which accounts for 40% of the world's GDP, is projected to grow at around 5% both this year and next.*

The region's longer-term outlook is also very positive. Asian nations are undergoing major structural and social changes such as rising incomes, urbanisation, infrastructure investment and digitalisation, which will ensure the region continues to grow rapidly, with domestic demand supported by the increasing prosperity of Asia's burgeoning middle class. Furthermore, Asia is home to many innovative and dynamic companies that are leading the world in a wide range of industries, including semiconductor manufacturing, healthcare, renewable energy, next generation automotive production and financials. This provides us with many attractive long-term investment opportunities."

On Japan

Nicholas Weindling and Miyako Urabe, managers, JPMorgan Japanese: *"The reforms underway in Japan's corporate sector are not the only positive recent development in the Japanese market. The economy has been on an improving trend since the government lifted its strict border controls in October 2022 and removed the last pandemic related restrictions earlier this year. Since then, tourist numbers have risen very sharply. This activity is benefiting a broad array of tourism and hospitality businesses.*

There are also signs of a very welcome shift in Japan's labour market. The country has labour shortages in many fields due to its aging population. Yet historically, companies have been resistant to raising wages to attract and retain workers, and

Japanese wages barely increased for 30 years. However, this is beginning to change. Recent wage increases have been significant and broad-based.

Although Japanese inflation remains relatively low in absolute terms and relative to other countries, it is noteworthy that inflation is the highest for decades at around 3%. The Bank of Japan (BoJ) response has been muted so far and it continues to pursue a negative interest rate policy although there have been some recent tweaks to yield curve control. It is possible that we see further shifts in policy and this may, in turn, have implications for the Japanese yen which has been weak against major currencies over the last year.

After a long period during which Japanese equities have been unloved and under-owned by global investors, Japan's improving fundamentals have begun to attract attention. The stock market has reached multi-decade highs and outperformed global markets over the year ended 30th September 2023 - the MSCI ACWI and the S&P 500 both rose by c 11.0% over the period in GBP terms, compared to the TOPIX index's 14.7% rise. One of the most welcome aspects of this market rebound is that it has been driven in part by foreign investors."

On technology

Ben Rogoff, manager, Polar Capital Technology Trust: *"AI continues to dominate technology performance at both headline and stock level. While it is still early days, we are seeing encouraging signs for the adoption of AI and the impact of the AI transformation on companies up and down the supply chain. AI services accounted for 3pts of Microsoft Azure's y/y growth, compared to just 1pt last quarter, indicating a $1.5bn revenue run-rate. Microsoft Azure-OpenAI customers increased to 18,000 from 11,000 last quarter, and 40% of the Fortune 100 are trialling the M365 Copilot product (which launched on 1 November). Meta Platforms spoke to a mid-single digit increase in time spent on their main platforms due to AI-powered recommendation improvements. Meanwhile Alphabet said generative AI projects on its AI Vertex platform were up 7x from last quarter.*

This is unsurprising to us given early productivity gains across a range of tasks and applications (estimated at between 30-50%) and broad GenAI applicability since a majority of jobs in advanced economies are knowledge workers. Despite this, there has been a healthy tempering of expectations for some of the leading suppliers into the AI infrastructure buildout after earlier exuberance. While tighter US export restrictions may have played a part in this, we anticipate continued strong demand and as such see this as a buying opportunity given the build out of the new AI computing stack remains in its infancy. According to Gartner, 73% of CIOs plan to increase AI investments in 2024."

We wish you good luck and good health with all your endeavours in 2024

Ed, James, Matt, Richard, David, Andrew, Aiman, Emma, Eiman

Harry, Colin, Nick, Trevor, Jemima, and Veronica

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50 Gresham Street, London EC2V 7AY
0203 691 9430

www.QuotedData.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ

Edward Marten (em@quoteddata.com)

Colin Edge (ce@quoteddata.com)

Nick Potts (np@quoteddata.com)

INVESTMENT COMPANY RESEARCH:

James Carthew (jc@quoteddata.com)

Matthew Read (mr@quoteddata.com)

Richard Williams (rw@quoteddata.com)

David Johnson (dj@quoteddata.com)

Andrew Courtney (ac@quoteddata.com)