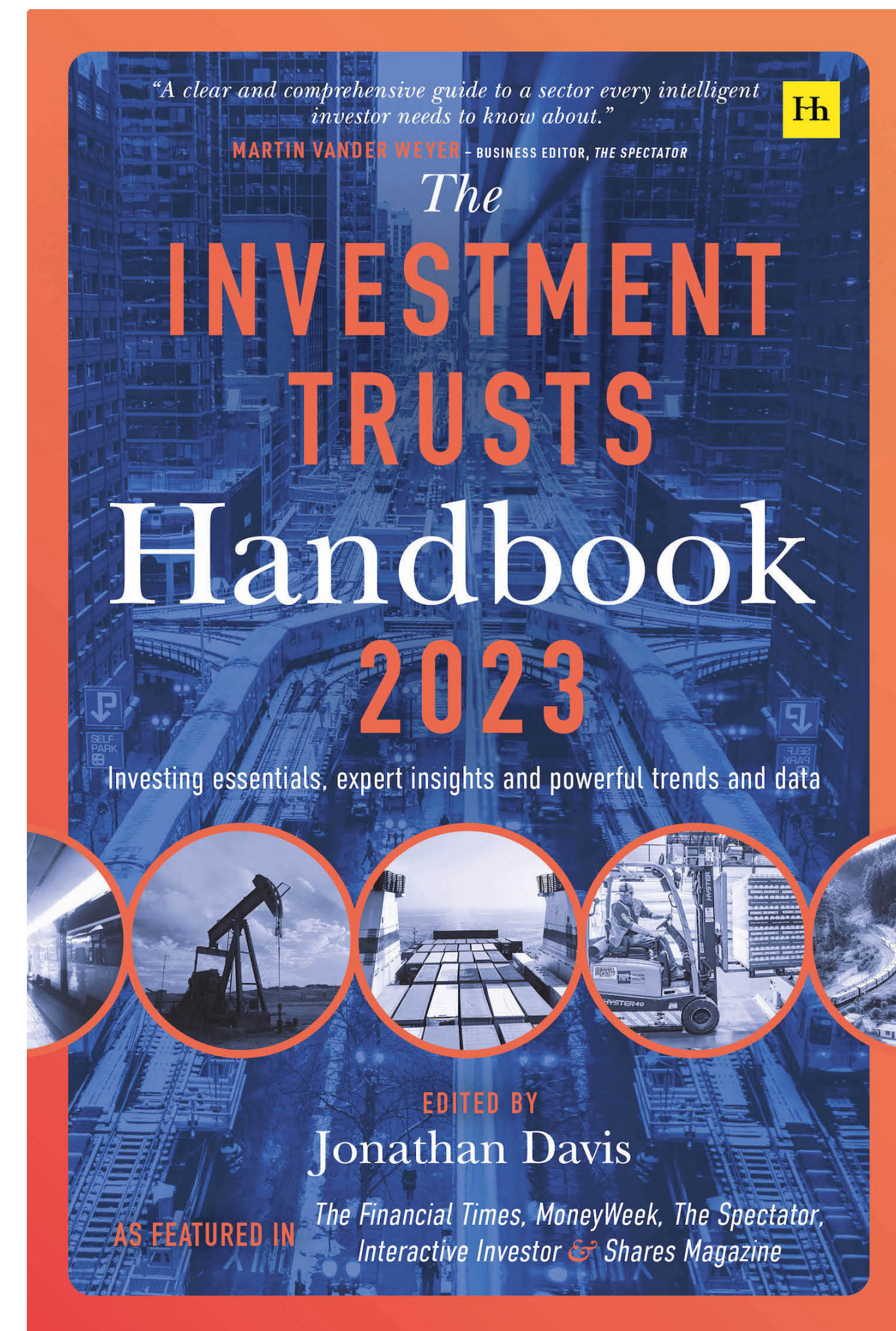


# Investment trusts: where next?

Riding the discount wave



*Jonathan Davis*  
Editor, *the Investment*  
*Trusts Handbook*



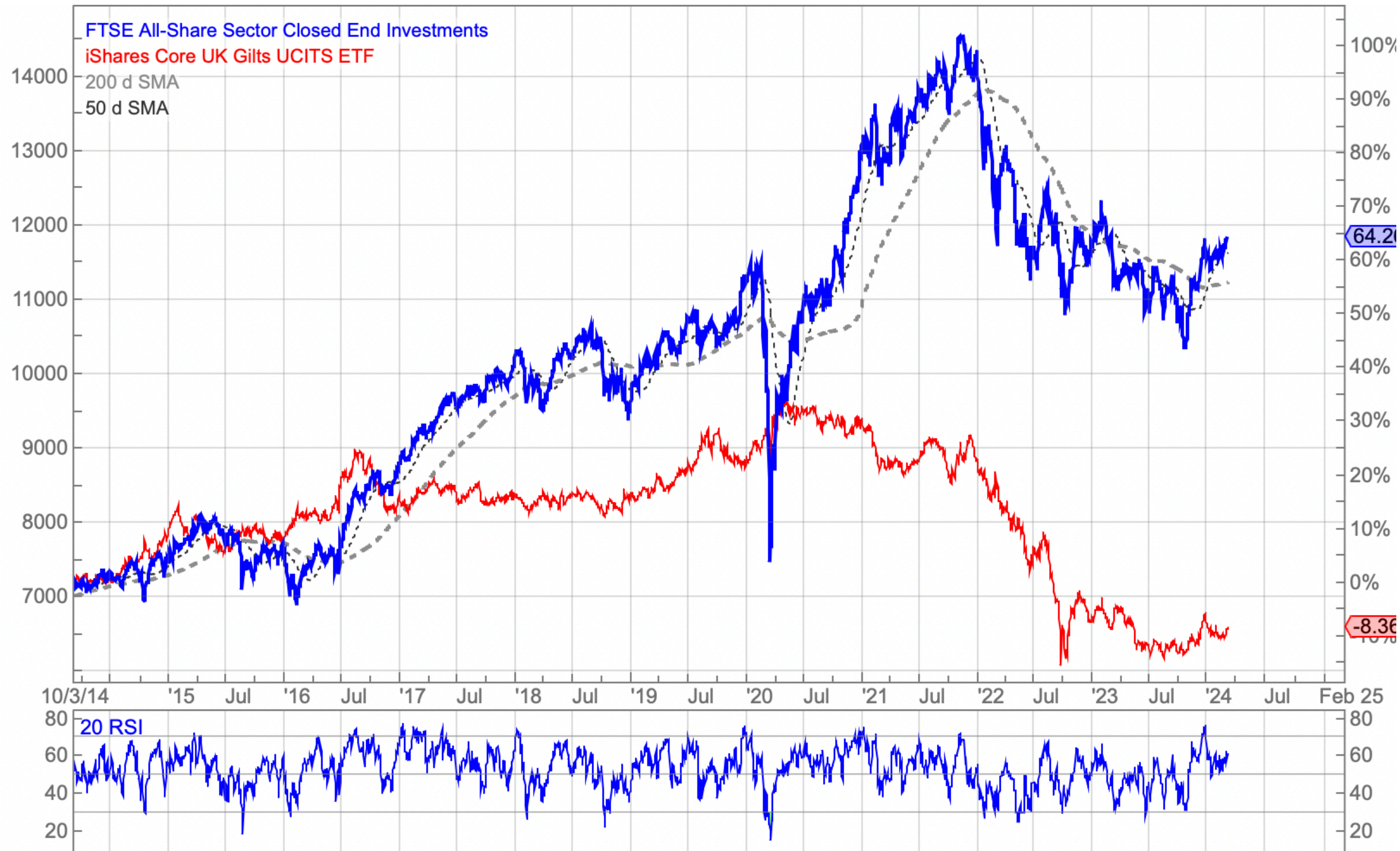
# Investment trust straws in the wind?

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- Troubles surfacing - social housing, HOME REIT, Scottish Mortgage
- Sector will shrink - Darwinian process at work - liquidations/wind ups
- Consolidation - eg abrdn Smaller Companies Income, Ediston Property
- IPOs nearly at a standstill; 2022 inflows down 90%
- Buybacks accelerating - boards' commitment being tested
- Extreme discounts in private equity/property/specialists suggest sector risks
- Liquidity not improving for smaller trusts but discounts appealing
- More important than ever to be discerning - quality will out

**These trends are likely to continue - but structural advantages will win out over time**

# Interest rates a key driving factor



# Discount opportunities Q3 2023

Name	Market Cap. (intraday) (m)	Close	% Total Return 1/9/23▼	% Total Return 24/10/23	Monthly Volatility (60)	Yield	Prem/Disc to NAV %	Average prem/disc % (750)
Pershing Square Holdings Ltd	£7,289.2	£39.50	▲31.5	▲36.3	5.74	1.0		
HgCapital Trust PLC	£2,086.1	461p	▲19.2	▲24	5.75	1.5	-7.79	-11.95
AVI Global Trust PLC	£1,035.3	228.5p	▲16.9	▲21.8	5.37	1.5	-8.56	-9.24
LXI REIT PLC	£1,728.2	100.8p	▲14.8	▲22.3	6.22	6.3	-9.86	-5.42
ICG Enterprise Trust PLC	£830.7	£12.40	▲14.8	▲11.5	6.92	2.4	-36.55	-34.26
Monks Investment Trust (The) PLC	£2,419.9	£11.12	▲14.7	▲21.8	5.32	0.3	-12.03	-7.31
Scottish Mortgage Investment Tru...	£11,049.2	791.2p	▲14.7	▲20.1	7.87	0.5	-14.11	-8.98
Pantheon International PLC	£1,505.3	317p	▲13.7	▲9.06	7.23		-33.22	-34.39
Abrdn UK Smaller Companies Gr...	£344.1	451.5p	▲9.33	▲21.2	7.45	2.4	-11.25	-10.82
Oakley Capital Investments Ltd	£823.0	462.5p	▲4.17	▲10.5	6.45	1.0	-32.47	-28.46
Greencoat UK Wind PLC	£3,185.1	138p	▲3.17	▲9.03	4.12	7.2	-15.12	-2.06
Smithson Investment Trust PLC	£2,168.5	£13.78	▲1.43	▲15.2	6.58		-12.78	-5.86
BH Macro Ltd	£1,304.0	335p	▼-3.8	▼-9.26	4.32		-16.04	2.54
BH Macro Ltd	\$1,681.4	349¢	▼-3.83	▼-10.9	5.02		-15.90	3.02
RIT Capital Partners PLC	£2,574.9	£17.64	▼-7.17	▲0.573	4.75	2.2	-26.96	-12.25
Baillie Gifford Shin Nippon PLC	£382.8	125.4p	▼-7.77	▲5.86	7.10		-15.37	-6.01

# Income trust portfolio

Name	Market Cap. (intraday) (m)	Close	Z- statistic 1y current	Prem/Disc to NAV %	Average prem/disc % (750)	Income yield (inv. trusts)▼	% Total Return 24/10/23	ann %TR 5y to 1td
AEW UK REIT PLC	£140.2	88.5p	-1.35	-10.83	-6.06	9.21	▼-5.8	▲6.17
TwentyFour Select Monthly Incom...	£198.8	81.8p	1.33	1.96	1.71	9.01	▲13.4	▲4.69
Impact Healthcare REIT PLC	£341.0	82.3p	-1.14	-27.88	-6.46	8.57	▲8.46	▲1.73
Bluefield Solar Income Fund Ltd	£635.4	104p	-1.45	-23.23	-2.82	8.53	▼-4.84	▲2.37
BioPharma Credit PLC	\$1,115.7	89¢	0.44	-9.76	-6.29	7.87	▲14.5	▲5.14
Supermarket Income Reit PLC	£978.3	78.5p	-0.29	-19.68	-1.76	7.78	▲12.1	▲0.933
BlackRock World Mining Trust PLC	£982.7	514p	-1.48	-5.95	-1.91	7.74	▼-3.08	▲13.6
Greencoat UK Wind PLC	£3,194.4	138.7p	-0.43	-14.71	-2.07	7.25	▲9.33	▲5.44
The Renewables Infrastructure Gr...	£2,583.7	104p	-0.64	-18.35	-0.03	7.24	▲7.59	▲3.33
Ct Global Managed Portfolio Trust...	£143.4	110p	-1.19	-1.85	0.62	6.54	▲5.47	▲1.85
International Public Partnership Ltd	£2,445.9	128.2p	-0.62	-18.36	0.61	6.54	▲6.48	▲1
HICL Infrastructure PLC	£2,604.4	128.2p	-0.28	-19.36	-1.23	6.46	▲8.1	▲0.602
Merchants Trust (The) PLC	£781.7	527p	-2.55	-1.63	0.57	5.26	▲10.1	▲6.38
PRS REIT (The) PLC	£418.5	76.2p	-0.67	-36.46	-14.47	5.25	▲7.86	▼-0.96
Diverse Income Trust (The) PLC	£265.0	83.2p	0.13	-6.33	-3.96	4.86	▲10.8	▲2.77
Murray International Trust PLC	£1,526.0	247p	-1.36	-10.49	-3.68	4.63	▲13.4	▲5.3
Murray Income Trust PLC	£891.4	831p	-2.55	-10.32	-6.81	4.58	▲9.82	▲5.65
JPMorgan Global Emerging Mark...	£387.2	131.5p	-0.95	-12.28	-10.16	4.08	▲11.9	▲4.02
Law Debenture Corp (The) PLC	£1,027.2	783p	-1.67	-2.73	0.70	4.06	▲9.71	▲10.2
JPMorgan Global Growth & Incom...	£2,445.6	549p	-0.40	1.11	1.33	3.36	▲20.4	▲15.7

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editormm124@gm  
ail.com

# Growth portfolio

Name	Market Cap. (intraday) (m)	Close	% Total Return 1/9/23	% Total Return 24/10/23	Monthly Volatility (60)	ann % Total Return 10y	Yield	Prem/Disc to NAV %	Average prem/disc % (750)
HgCapital Trust PLC	£2,093.0	461p	▲19.6	▲24.4	5.75	▲17	1.5	-7.79	-11.95
TR Property Investment Trust PLC	£996.5	310p	▲13	▲24.4	7.53	▲5.75	5.0	-4.60	-5.63
Henderson Smaller Companies In...	£587.2	785p	▲11.1	▲22.8	8.11	▲4.88	3.3	-12.05	-10.76
Aberforth Smaller Companies Tru...	£1,149.8	£13.60	▲15	▲22.8	9.07	▲3.89	3.1	-9.19	-12.13
AVI Japan Opportunity Trust PLC	£180.5	128.5p	▲10.6	▲21.8	4.77		1.2	-2.51	-0.68
Polar Capital Global Financials Tr...	£486.5	158.4p	▲16.7	▲20.8	6.82	▲6.24	2.9	-8.59	-4.92
JPMorgan Global Growth & Incom...	£2,445.6	549p	▲18.8	▲20.4	4.39	▲13.4	3.1	2.16	1.33
Scottish Mortgage Investment Tru...	£11,036.6	791.2p	▲14.6	▲20	7.87	▲14.7	0.5	-14.11	-8.98
Baillie Gifford Japan Trust (The) P...	£677.0	762p	▲2.97	▲18.1	5.72	▲8.75	1.3	-10.38	-4.98
Edinburgh Worldwide Investment ...	£564.6	147.6p	▼-3.54	▲16.3	7.78	▲5.03		-12.52	-10.60
Smithson Investment Trust PLC	£2,166.1	£13.78	▲1.32	▲15.1	6.58			-12.78	-5.86
European Opportunities Trust PLC	£583.5	872p	▲9.24	▲14.5	6.33	▲7.31	0.4	-9.33	-12.20
BioPharma Credit PLC	\$1,115.7	89¢	▲16.4	▲14.5	3.02		7.9	-9.73	-6.29
Murray International Trust PLC	£1,530.7	248.5p	▲4.14	▲13.7	5.50	▲5.8	4.6	-9.71	-3.67
Odyssean Investment Trust PLC	£185.1	153.5p	▲0.822	▲13.5	5.86			2.44	0.90
Fidelity Special Values PLC	£909.9	281p	▲6.7	▲12.1	7.18	▲5.87	3.1	-7.65	-4.30
Worldwide Healthcare Trust PLC	£1,805.6	329p	▲5.27	▲10.4	4.57	▲9.73	0.9	-12.19	-6.15
Merchants Trust (The) PLC	£778.7	525p	▲0.785	▲9.71	6.49	▲4.44	5.3	-1.68	0.57
Greencoat UK Wind PLC	£3,185.1	138p	▲3.17	▲9.03	4.12	▲7.21	7.2	-15.12	-2.06

# Interesting: trusts with negative z scores

TIDM	Name	Market Cap. (intraday) (m)	Close	Z- statistic 1y current	Prem/Disc to NAV %	Average prem/disc % (750)
<b>TEM</b>	Templeton Emerging Markets Inve...	£1,695.1	151.6p	-3.14	-15.45	-11.95
<b>AEI</b>	Abrdn Equity Income Trust PLC	£131.6	274p	-3.12	-7.17	-4.27
<b>UEM</b>	Utilico Emerging Markets Trust PLC	£420.9	217p	-2.80	-18.27	-13.57
<b>LABS</b>	Life Science Reit PLC	£155.6	44.5p	-2.79	-51.42	-18.51
<b>VSL</b>	VPC Specialty Lending Investmen...	£146.1	52.4p	-2.69	-36.68	-21.48
<b>MRCH</b>	Merchants Trust (The) PLC	£775.7	525p	-2.65	-1.68	0.57
<b>SONG</b>	Hipgnosis Songs Fund Ltd	£752.7	61p	-2.49	-56.97	-26.84
<b>HEIT</b>	Harmony Energy Income Trust PLC	£82.9	35p	-2.38	-66.37	-10.63
<b>BRSA</b>	BlackRock Sustainable American ...	£147.5	187p	-2.24	-13.24	-5.75
<b>CTY</b>	City of London Investment Trust (...)	£1,979.7	394.5p	-2.19	-1.85	1.31

**A: Yes, this does appear to be a game changer in the investment climate**

# Avoid or defer: trusts with high positive z-scores

TIDM	Name	Market Cap. (intraday) (m)	Close	Z- statistic 1y current	Prem/Disc to NAV %	Average prem/disc % (750)
<b>ATST</b>	Alliance Trust PLC	£3,396.2	£12.00	3.06	-4.31	-5.92
<b>LSAA</b>	Life Settlement Assets PLC	\$84.7	172.5¢	2.89	-21.96	-30.48
<b>PGHZ</b>	PCGH ZDP PLC	£144.9	119.5p	2.71	-2.01	-1.76
<b>ATT</b>	Allianz Technology Trust PLC	£1,378.5	355p	2.66	-8.55	-9.72
<b>BRGE</b>	BlackRock Greater Europe Invest...	£649.8	650p	2.65	-2.67	-3.10
<b>SWEF</b>	Starwood European Real Estate F...	£293.3	94p	2.61	-7.64	-11.38
<b>PCT</b>	Polar Capital Technology Trust PLC	£3,633.2	£29.90	2.60	-9.55	-10.82
<b>APEO</b>	Abrdn Private Equity Opportunitie...	£807.5	525p	2.58	-31.49	-33.01
<b>BUT</b>	Brunner Investment Trust PLC	£541.1	£12.65	2.58	-6.93	-11.41
<b>HRI</b>	Herald Investment Trust PLC	£1,185.3	£21.45	2.46	-11.52	-14.91
<b>ASL</b>	Aberforth Smaller Companies Tru...	£1,149.8	£13.60	2.33	-9.19	-12.13
<b>HGT</b>	HgCapital Trust PLC	£2,102.1	461p	2.28	-7.79	-11.95



# Conclusions: is your portfolio fit for purpose?

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- More important than ever to be discerning - value quality and experience
- Be patient - this cycle touched bottom in October 2023, now improving
- Don't be seduced by big discounts - always look behind the numbers
- Equally remember that premiums rarely last - it is okay to top slice
- Keep a list of trusts you really want to buy - track their discounts, pounce
- Keep the faith - investment trusts strengths will come through again

**Investment trust universe is reshaping itself and has survived much worse**

# Global outlook at Master Investor 2023

---

- For the first time in years there is income potential in bonds, money markets and cash
- Higher bond yields also drive down valuations of long duration assets
- Alternatives such as property, private equity, ventures also face higher debt costs
- In the short term though inflation and recession are the critical variables
- Fiscal and monetary policy are pushing in opposite directions
- The challenge for central banks - 2% inflation target versus stability worries
- So-called “soft landing” is possible in theory, quite rare in practice

**Nobody knows for sure which way this two-way pull is going to settle short term....**

**But longer term unlikely that what worked until now will work as well from here**

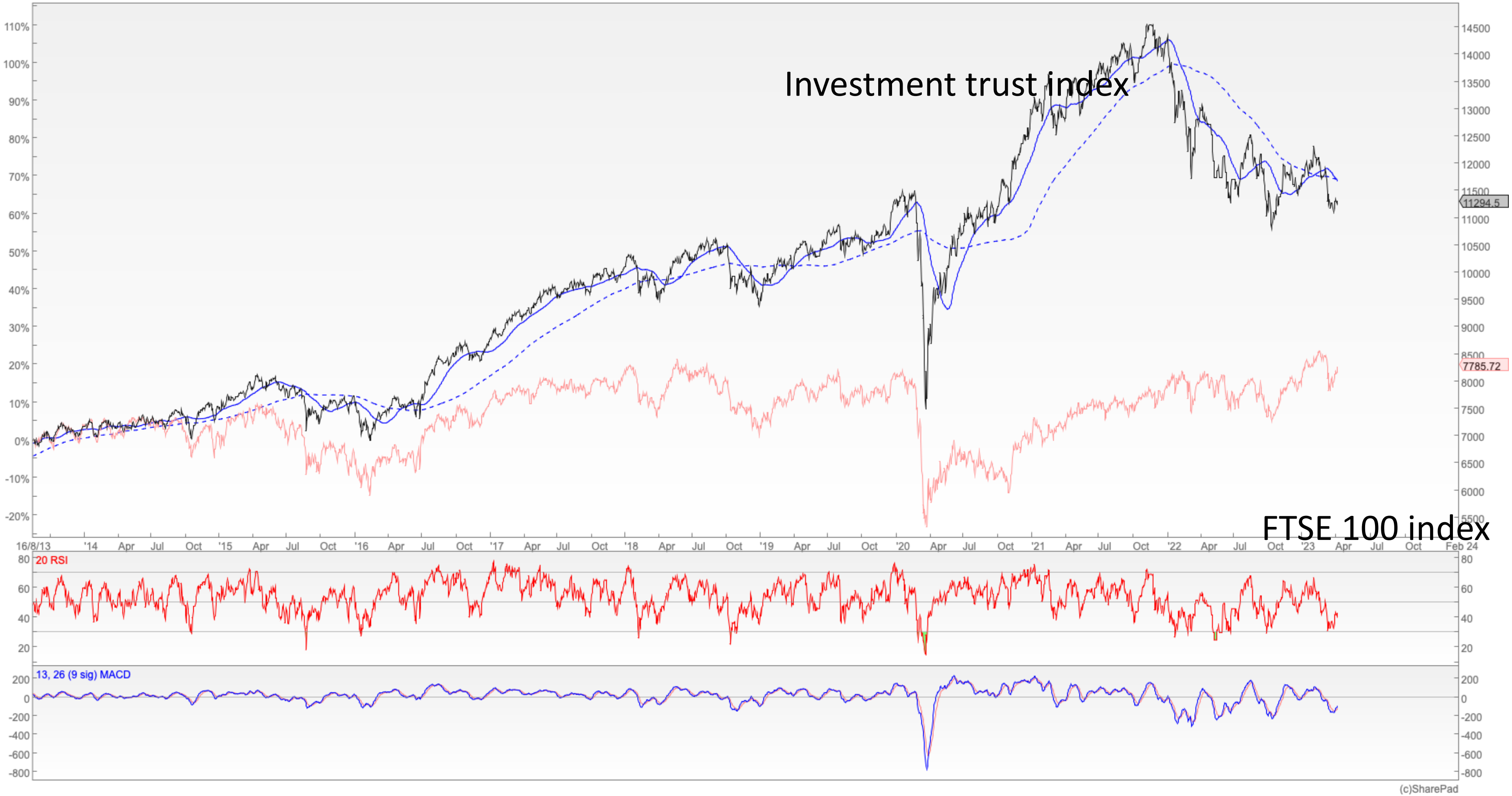
# Investment trust outlook - 2023 Master Investor show

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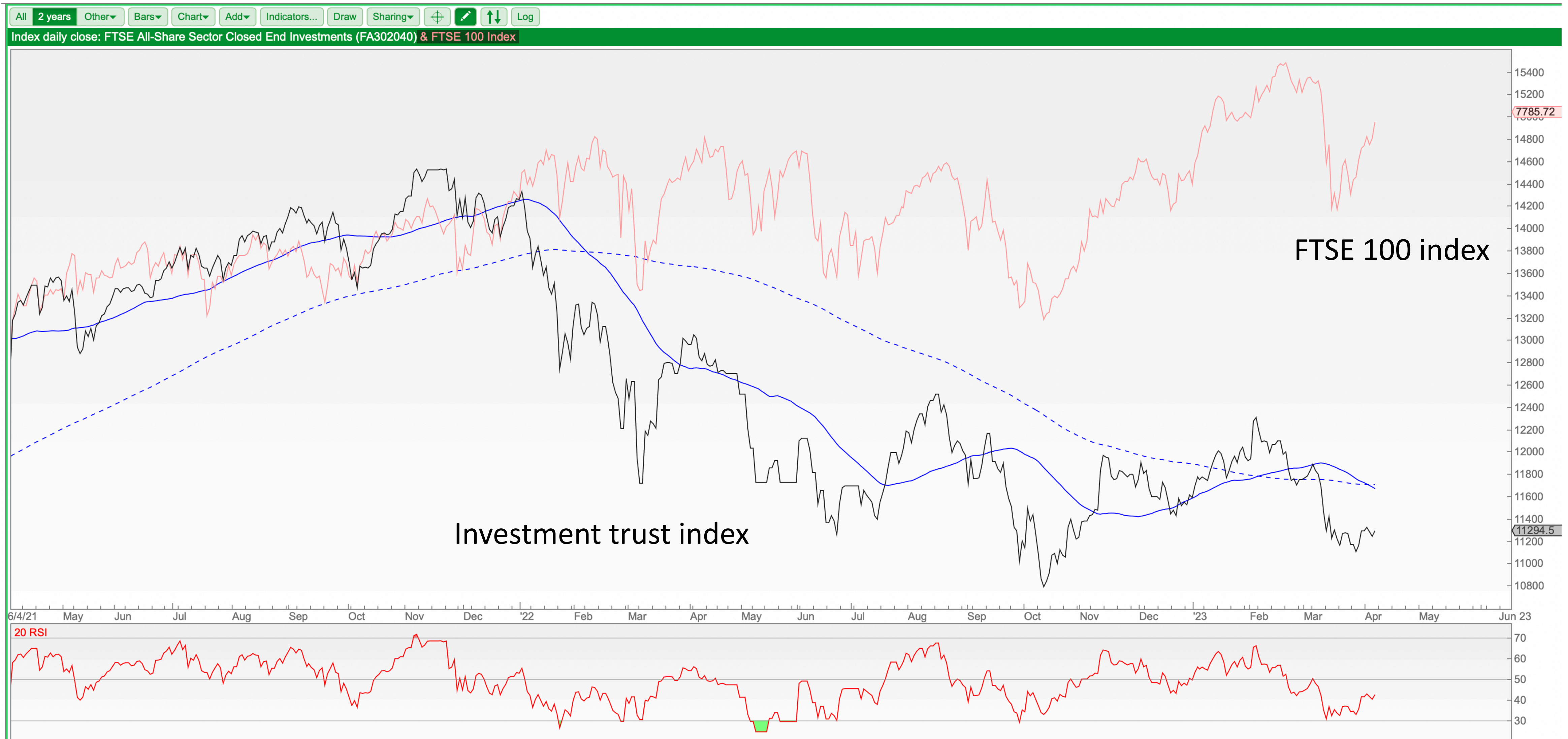
- 2022 brought to an end decade of strong relative + absolute performance
- Macro/market cycles drive discounts in both directions
- Short term prepare for more volatility until inflation/growth outlook clarifies
- Discounts also create opportunities - but not all discounts are bargains
- NAVs may be out of date - so look at discounts to what?
- Majority of alternatives have yet to be tested by a real bear market
- Trusts not totally immune from the bezzle or poor governance (HOME REIT)
- Liquidity is a growing issue for a number of smaller trusts
- We will see more mergers, wind downs, consolidation

**But be patient: investment trusts have survived much worse than this**

# Strong performance over ten years

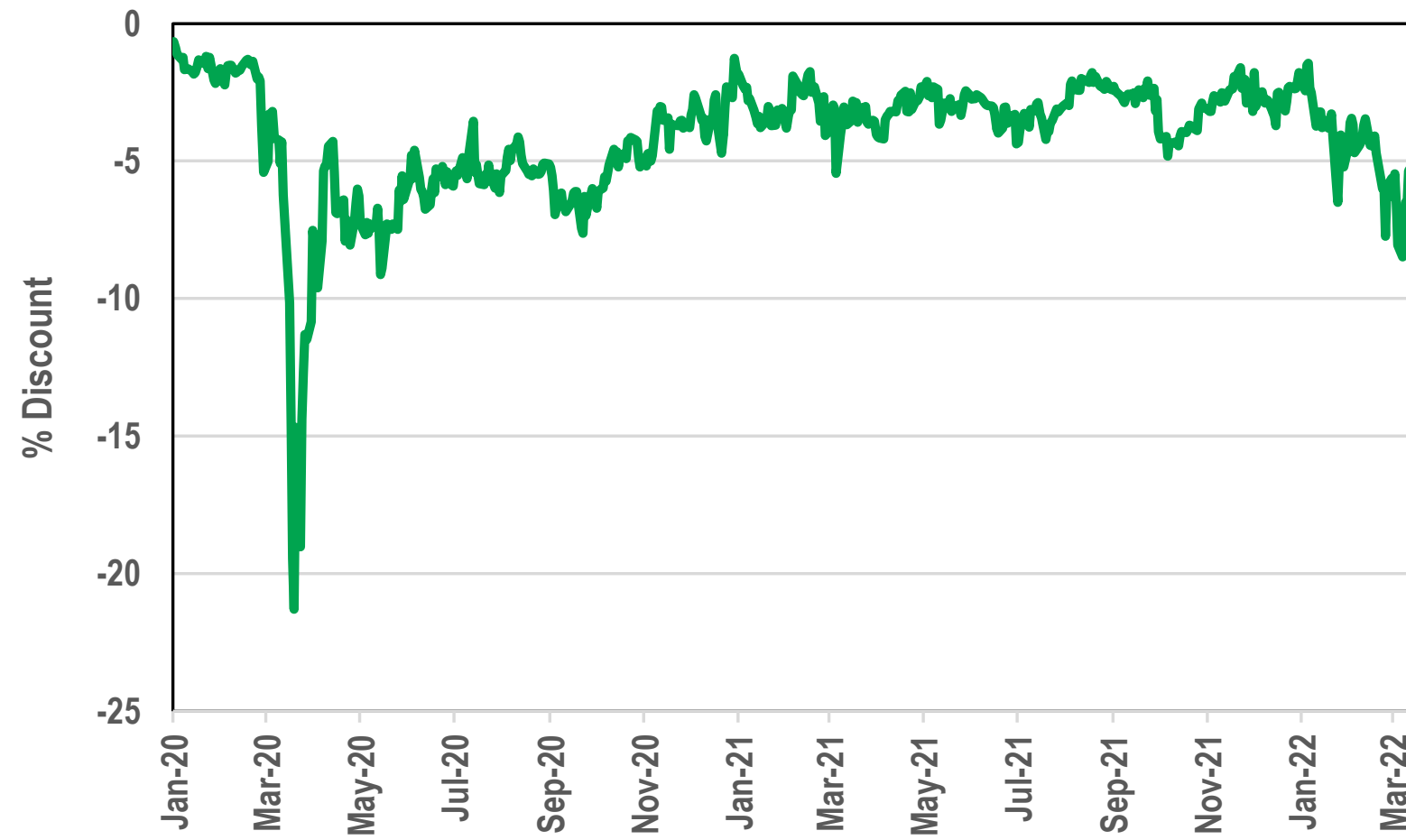


# Weak performance over two years

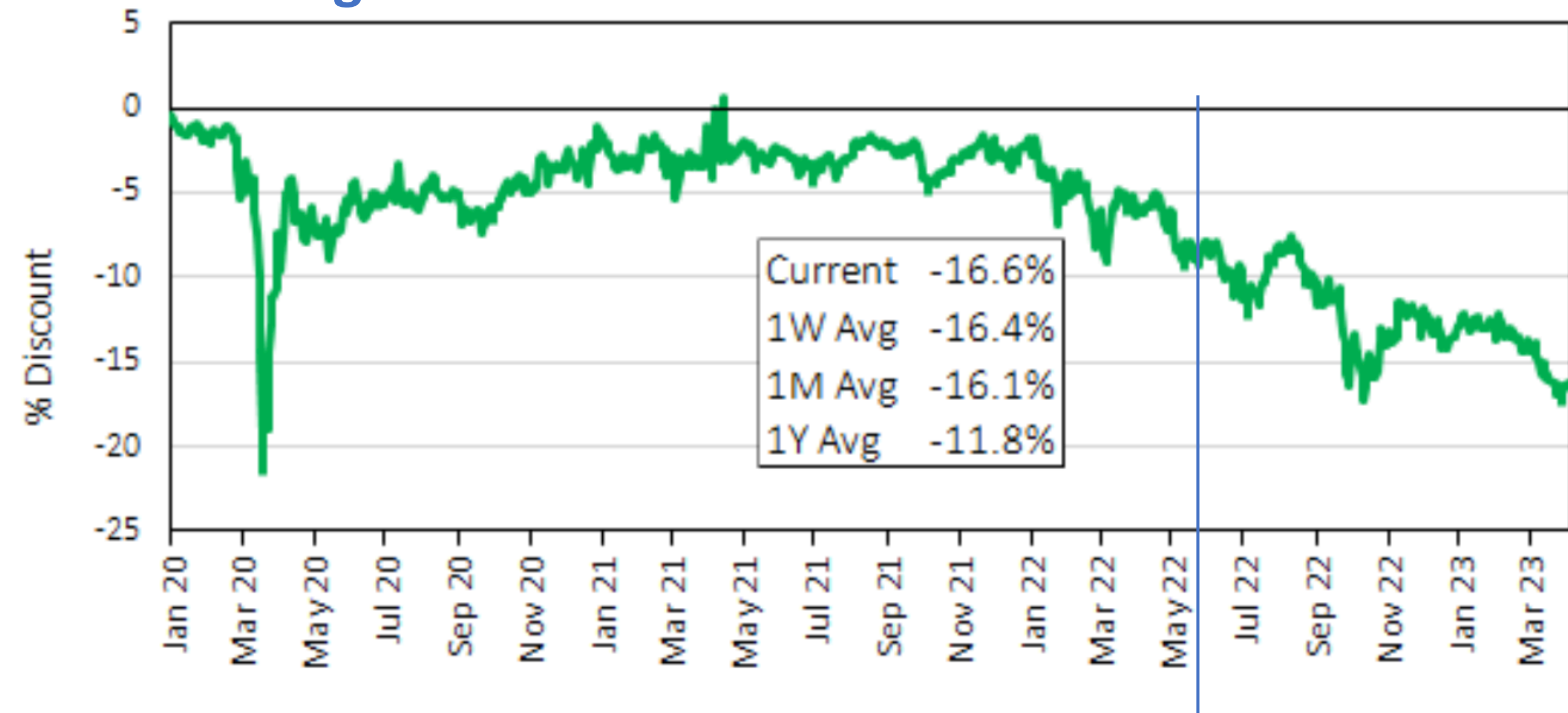


# Investment trust discounts have taken the strain

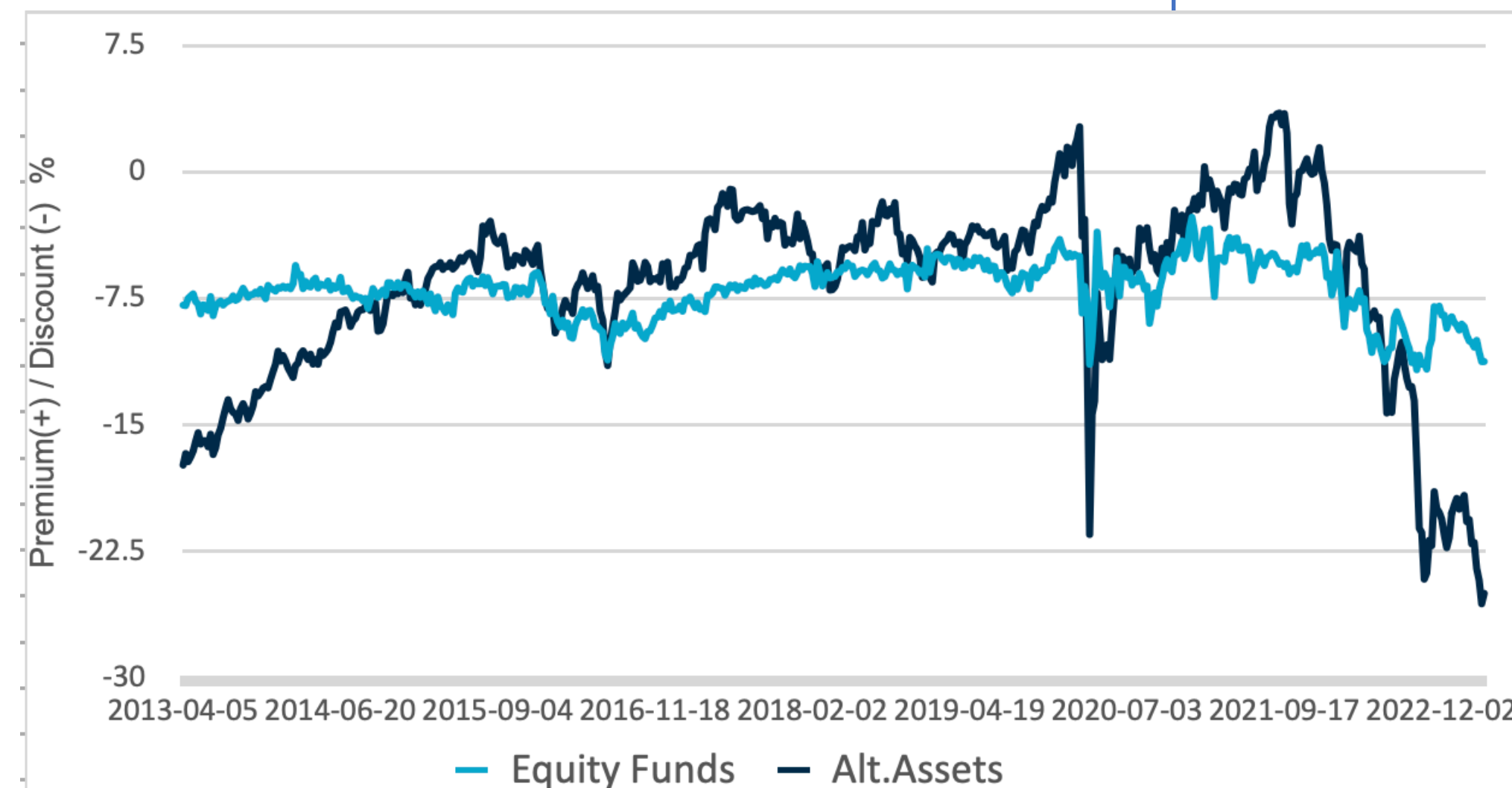
## Average discount last year



## Average discount now



Share prices	YTD	Since 2/22	5 years
Risers	141	60	161
Fallers	235	323	166
<b>NAV Total Return</b>			
Positive	178	104	250
Negative	205	280	77
<b>Source</b>	Sharepad	390 trusts	>£50m Market cap



Equity trusts

Alternatives trusts

# Market leadership over the next few years

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If the premise of a new environment is right, market leadership will change

That suggests **tilting** towards

- Value/dividends rather than long duration/capital growth
- Rest of World versus US equities (UK, Japan look particularly cheap)
- Commodities/equity income rather than tech/growth
- Non-US currencies versus the dollar
- Public versus private equities
- Strong balance sheets versus smaller/riskier geared structures

**Your time horizon, risk tolerance, experience should drive your choices**

# Investment trust performance

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- IT index up 13% since end of October: flat this year: 5% TR over ten years
- Alternatives taking the brunt of the derating but they rallied Q4
- Increasing evidence of Darwinian consolidation/M&A/winding down
- Interest rate expectations remain the key to discounts
- Plenty of discount opportunities available in equities
- Strong balance sheets versus smaller/riskier geared structures key

**Your time horizon, risk tolerance, experience should drive your choices**



# Investment trust opportunities 1

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Steady proven performers with experienced managers

- J.P.Morgan Global Growth and Income (JGGI)/Pershing Square Holdings (PSH)
- Fidelity European (FEV)/Fidelity Asian Values (FAV)
- Temple Bar (TMPL)/Finsbury Growth and Income (FGI)/Merchants (MRCH)
- BioPharma Credit (BCPR) - specialist debt trust
- Bluefield Solar (BSF)/Greencoat UK Wind (UKW) - best of the renewables
- Asset Value Investors (AVI) /MIGO Opportunities - discount hunters
- Blackrock World Mining (BRWM)/Blackrock Energy and Resources (BERI)
- Defensives - PNL/CGT/Ruffer

**“There are old pilots and bold pilots, but no old bold pilots” - experience is important**

# Investment trust opportunities 2

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Investable discount opportunities that are worth a look

- Pershing Square Holdings (PSH)
- Global Opportunities Trust (GOT)/maybe RIT (RCP)
- Henderson Smaller Companies (HSL)/Aberforth Smaller Companies (ASL)
- Odyssean (OIT)/Rockwood Strategic (RKW)
- Oakley Capital (OCI)/Literacy Capital (BOOK)/HG Capital (HGT)
- TR Property (TRY)/LXI REIT (LXI)
- AVI Japan Opportunity (AJOT)/Nippon Active Value (NAVF)

**Look for the opportunities to buy trusts that you know already you want to own**

# Investment trust opportunities 3

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Special situations and much riskier discount opportunities

- Biotech sector looks oversold on many measures
- Civitas Social Housing (CSH)/smaller property companies
- Hipgnosis (SONG)/Round Hill Music Royalty (RHM)
- Continuation vote/consolidation candidates could go out well above current share prices
- M&A eg recent Blackstone agreed bid for Industrials REIT at 30% premium
- Chrysalis (CHRY)/microcap trusts - not for me, but.....

**Don't be a hero - keep high risk bets to a manageable % of your portfolio**

*The stock market "transfers wealth from the impatient to the patient" (Warren Buffett)*

# The single most important answer (April 2023)?

US 10yr Treasury Bond Yield (USGG10YR INDEX) 3.3387 -0.13

2023-04-0



**A: Yes, this does appear to be a game changer in the investment climate**

# Investment trust outlook

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- Troubles painfully resolving - social housing, HOME REIT, Asian Energy Income
- Sector is shrinking - Darwinian process now at work - liquidations/wind ups
- Consolidation - eg abrdn Smaller Companies Income, Ediston Property
- IPOs still at a standstill; net outflows for two years plus
- Buybacks/asset sales accelerating - boards' commitment being tested
- Alternatives still suffering from change in interest rates + expectations
- Liquidity still poor for smaller trusts but discounts appealing
- More important than ever to be discerning - quality will out

**These trends are likely to continue - but structural advantages will win out over time**

# Investment trusts: stick or twist?

## Facing the discount challenge

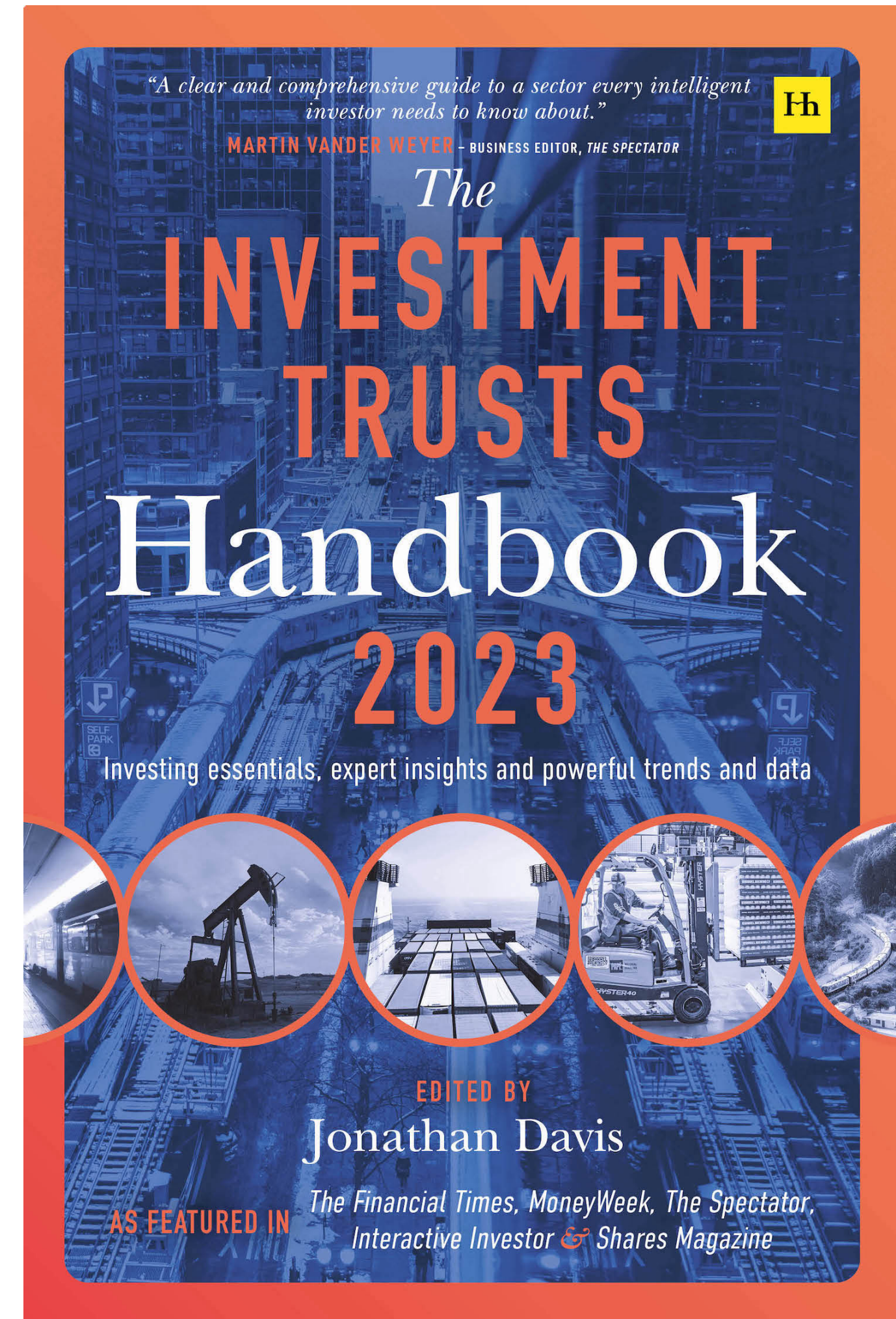


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*April 15<sup>th</sup> 2023*



# The Money Makers podcast: all about investment trusts

## Contagion spreads following Silicon Valley Bank collapse



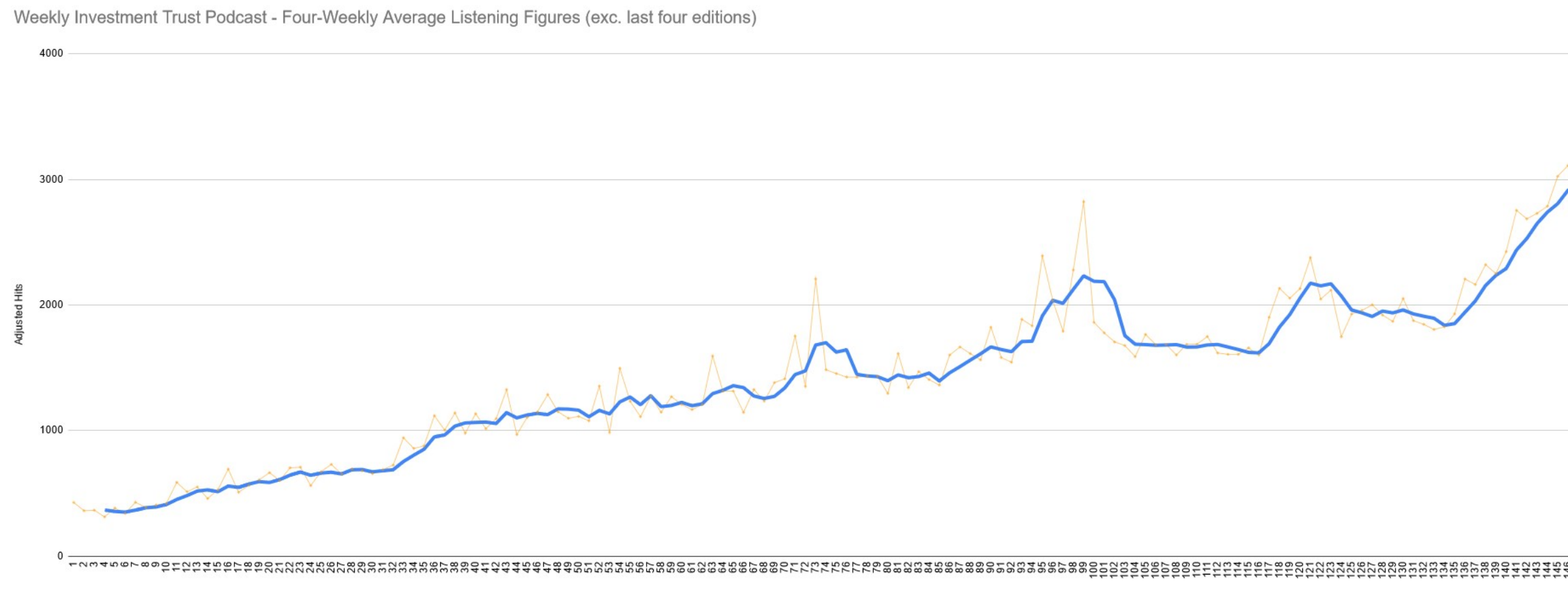
Money Makers Investment Trusts  
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