Investment Trust Newsletter

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Even the most dyed-in-the-wool traditional investor must have noticed the transformation of the investment trust industry over the past few years. You couldn't really miss the steady march of big new trusts investing in infrastructure, debt, property, and other (generally high yielding) assets. For many investors there is no necessity to shift away from equity-based trusts as long as they meet your needs, but it still makes sense to be informed. That's why we have written a new guide to these alternative assets investment trusts - provided as a bonus this month - introducing them at greater length than is possible in the monthly newsletter.

Saying with the subject of space, we have decided to tweak our monthly performance statistics so that instead of a main market/AIM distinction, we are simply using a market capitalisation filter of £20m. This prevents the list from being dominated by tiny volatile trusts that are actually of relative minor interest to most investors, but should give us a good representation of movements across the whole sector in a more compact form.

Major Price Changes Over One Month

Aseana Properties	+16.94%
Acorn Income Fund	+15.20%
Oryx International Growth	+14.29%
Henderson Smaller Companies	+13.18%
BlackRock Smaller Companies	+12.75%
Strategic Equity Capital	+12.64%
3i Group	+12.57%
Invesco Perpetual UK Smaller Cos	+12.54%
JZ Capital Partners	+11.95%
JPMorgan Mid Cap	+11.69%
Harbourvest Global Private Equity	-8.36%
Baker Steel Resources Trust	-8.18%
Nimrod Sea Assets	-8.16%
Dolphin Capital Investors	-7.22%
Redefine International	-7.05%

Major Price Changes Over One Year

International Biotechnology Trust	+99.19%
The Biotech Growth Trust	+80.04%
Fidelity China Special Situations	+72.03%
Aseana Properties Limited	+56.06%
Aberdeen Japan	+55.44%
Worldwide Healthcare Trust	+52.04%
Northern Investors Company	+48.97%
Strategic Equity Capital	+45.27%
Schroder Japan Growth Fund	+43.76%
Lindsell Train Investment Trust	+42.29%
Arc Capital Holdings	-65.72%
Candover Investments	-45.43%
Dolphin Capital Investors	-40.00%
Baker Steel Resources Trust	-38.97%
Better Capital PCC Limited 2012	-33.08%

It was a slight surprise to see UK smaller companies trusts at the top of the leaderboard this month, as their gains had been well disguised by a lacklustre performance from the mega-caps that make up the FTSE 100 Index. On reflection though, it was of course the smaller companies with more domestic operations that benefited from the election result, and there has been some discount narrowing as investors have rotated into these trusts as well. From 14.6% a month ago the average discount for UK smaller companies trusts has closed right in to 9.8%, with only six trusts out of 14 now offering a double-digit discount. This says much about the general demand for investment trusts and also the diminishing scope for finding attractively large discounts. We'll just highlight that **Dunedin Smaller Companies** (DNDL, 218p) is the top NAV performer in the sector over the last month, and second over six months, yet its shares are still on an 18.1% discount that looks rather anomalous.

Perhaps it's the spring weather – or more likely the timing of 'close' periods in relation to results announcements - but we've certainly noticed there are a lot of managers on the road, talking to professional investors about their trusts. We've met several over this past month, with several more to come in June. This first-hand, primary research is invariably useful. We always learn something new about how managers strive to create returns, what risks they are taking, and how they view the current outlook.

EUROPE

When we recommended the shares of Jupiter European Opportunities Trust (JEO, 557p) as one of our ISA picks in March we said that Europe was the 'idea du jour' at the time, and receiving plenty of attention because of the combination of reasonable valuations with monetary easing. Since that time the shares of the Jupiter trust have risen from 508.75p to 557p and European markets have generally been strong, able to shrug off the constant noise surrounding Greece's debt problems.

The Eurostoxx 50 Index is up by 14.6% over the first five months of this year, leaving the 6.6% rise in the FTSE 100 Index looking rather anaemic in comparison. A timely seminar hosted by the brokers Stifel, plus a separate meeting with BlackRock, gave us the ideal opportunity to reassess the current prospects for European markets.

Starting with Jupiter European, still ranked as the best performer over most periods, we heard from Luca Emo, who has been on the fund management team since 2006. Luca acknowledged that from a macro perspective "there is a great deal of excitement at the moment in Europe", but was quick to add "that's not the way we think about things." Jupiter's approach is rigorously bottom-up. It is all about the individual companies, and the search for consistent performers that can do well in different macroeconomic environments. Led by Alex Darwall, the team spends its time looking for differentiated businesses, "seeking to identify the exceptional." This leads the trust to a concentrated portfolio of 35-40 'special' companies that they hope can be winners through the cycle. Their approach is long-term in nature, and Luca says that three quarters of the funds invested since the trust launched in November 2000 have never been sold. That's a remarkable statement, and reminds us of Nick Train's approach at **Finsbury Growth & Income Trust** (FGT, 602p), who says his ideal holding period is "for ever."

Clearly this method requires a high level of conviction before investing, and Jupiter build this, Luca explains "by spending all of our time meeting these companies." He says that Alex meets around 140 companies a year, and the team try to talk to suppliers and other industry participants to back up their ideas. Once a company has been identified with the right characteristics, including intellectual property, high market shares, good margins, competitive advantages, good corporate culture, and exposure to positive secular trends, an investment is made with the long-term in mind. The managers are happy to be patient, avoiding speculation and macro forecasting. Contrasting their techniques with those who try market timing, Luca happily admits "we are slightly more prosaic and boring investors." He gave several examples of where their patience has paid off – with Dassault Systèmes through the internet bubble, with Wirecard through the euro debt crisis, with DNB through the credit crisis, and with Novo Nordisk through the cycle.

Although the emphasis is on company analysis, the managers can nevertheless categorise their holding into different investment themes. They reckon that 40% of the portfolio is in global growth opportunities (Novozymes, Syngenta, Zodiac), 28% in the application of digital technologies (Reed Elsevier, Amadeus, Wirecard, Ingenico), 24% the beneficiaries of regulation (Grenkeleasing, Deutsche Boerse, Provident Financial, Leonteq), and 18% global healthcare leaders (Novo Nordisk, Fresenius, Coloplast). This analysis helps investors to understand the potential drivers of future growth. This is a growth-oriented trust, so there is little in industries such as utilities and real estate, and more in areas like healthcare and technology.

"Europe is a very good hunting ground for good businesses", Luca concluded, and with the emphasis on quality we continue to think that Jupiter will likely be as good as anyone else at uncovering the best opportunities. The manager's unparalleled record says as much, as does the 1.1% premium to NAV. We rate Jupiter European Opportunities as a CORE LONG-TERM HOLDING in Europe. Stifel is also 'positive' on the shares.

Over the last six months, Jupiter European's NAV gain of 17.1% has just been edged by **TR European Growth** (TRG, 645.5p), up by 21%. Ollie Beckett, the manager of TRG, is a candid speaker who reckons things have been moving in the right direction for European smaller companies. TR European is targeted at smaller and medium-sized companies, and Ollie says "in a time of generally subdued growth, this is where we have the growth."

His argument is that smaller companies do better in relative terms when Europe is expanding. "I think economic cycles are important", he explains, "I think the Eurozone is improving and this is where valuations are relatively more attractive." One big factor that has helped many European companies is the lower value of the euro, which Ollie describes as an 'easy win' for the European economy. Quantitative easing is of course another factor, and Ollie pointed out that at around 7% of European GDP, the ECB's QE programme is larger than that employed to good effect in the US. Purchasing managers' indices are pointing to expansion and, importantly, consumer confidence is also picking up. Ollie believes that now exporters have done well, the next leg up will be from domestic, consumer discretionary stocks. This is not to say that Europe is 'fixed' – it clearly has all sorts of continuing issues - but for him the positives outweigh the negatives.

After four years of earnings downgrades, Ollie was pleased to point out "that has just changed", and we are seeing upgrades for the first time in this quarter. His data shows that small caps are relatively cheap, and as a manager he is prepared to look in all sorts of niches and unloved areas for the best value. TRG has around 20% of its portfolio invested in family-owned companies, for example, where many investors fear to tread because of governance issues. These are hard to dismiss, but Ollie believes the long-term perspective in family firms generates higher returns. Elsewhere, TRG has invested in the online performance marketing firm Criteo, which is a French company but is listed on Nasdaq in the US. The trust will also invest in IPOs from time to time, and a good example of one that has done well is Dalata, an Irish hotel operator. Finally, Ollie enthused about COMET Group, a Swiss technology firm that has an emerging product called 'ebeam' that could be a real source of growth – it generates electron beams used for the sterilization of food and pharmaceutical packaging.

Given that TR European Growth shares are up by 46% since the lows of October, they seem a riskier bet now, though not entirely off-beam. We wouldn't particularly want to buy on a single-digit discount – in this smaller companies realm we think it is sensible to give yourself a margin for error – and as the discount has narrowed from a 12-month average of 12.3% to just 7.6% now we think some caution is probably warranted. We are happy to rate the shares a HOLD though.

Sam Morse of **Fidelity European Values** (FEV, 187p) gave us more reasons to be a little guarded about future prospects. His presentation started with the famous line from Sir John Templeton that "bull markets are born on pessimism, grow on scepticism, mature on optimism, and die on euphoria." He is concerned that we may be nearer the latter end of that now. Sam says "Europe is now in fashion" and sees "some signs of euphoria", not least in investment trust discounts (or the lack thereof). On that point, the average discount now for large cap European trusts is just 2.1%, and for smaller cap trusts 5.9%. Six months ago the comparable figures were 5.9% and 9.9%, so there has been discount narrowing in this sector, as in many others. Data from Merrill Lynch's regional fund manager survey shows that managers have shifted to a marked overweight position in Europe at the expense of the US.

The attractions have been three-fold, Sam suggests. First of all, there has been euro weakness, second, the fall in oil prices, and third, the monetary stimulus of QE. The last of these is going to last until September 2016, potentially adding quite a lot more fuel to the fire, but Sam says "the other two could depart as quickly as they arrived." Meanwhile, there are longer-term headwinds in the form of high levels of government debt, unhelpful demographics with ageing populations, and low productivity, which Sam highlights as "one of the big issues."

On balance his view is that these are better times, but that Europe is still stuck in a low growth era. He worries as well that the good news may already have been discounted by a market that has pushed valuations well above the 12-month forward median P/E average of 14 times earnings. When this has happened before, markets have come down again with a bump, and Sam says "valuations are a concern for me." He sees European bourses as expensive, particularly as he says "there's a lot to worry about" in the form of US interest rate rises, trouble in emerging markets, and geopolitics. Bull markets don't die of old age though, and until something actually goes wrong and an event triggers a change of heart, values might keep on rising, as they did for some time after Alan Greenspan famously warned of "irrational exuberance" in America.

Given this less-than-bullish view, you might think that Fidelity European Values has a high cash position and has reorganised its portfolio into defensive sectors. Well, no. The trust is staying fully invested because Sam thinks "it's a bit of a mug's game to predict and time markets." His approach is to stick to time-proven techniques of conservative management, trying to identify attractive dividend growers that can outperform in the long run. Sam is looking for positive fundamentals, good cash generation, strong balance sheets, and attractive valuations, and believes that consistent dividend growers not only outperform consistently, but are "particularly successful in times of lower economic growth." He keeps looking for value – keeps on turning stones – and says he is finding some opportunities, even in countries like Italy, where he highlighted the bank Intesa Sanpaolo. The trust's largest holdings include well-known giants such as Roche, Novo Nordisk, UBS and Sanofi.

Sam is confident that FEV will continue to outperform its benchmark, although he says the trust's core, mainstream approach means it is unlikely ever to top the performance charts. We think, as investors, it's not that easy to interpret Sam's forthright analysis. On the one hand he has raised a red flag for European equities, but he is simultaneously issuing a rallying call for the sort of conservative, sensible, long-term balanced portfolio offered by his trust. We don't really find it comfortable to sit on the fence, but it seems the right place to be on this occasion: HOLD.

European Assets Trust (EAT, 1120p), managed by Sam Cosh at F&C, is a strange one. It's a £290m trust that invests in a concentrated portfolio of quoted smaller and medium-sized companies in Europe – nothing too unusual there – but structurally, it is odd. The trust is incorporated in the Netherlands, reports its results in euros, and is listed on the Euronext Amsterdam exchange as well as the London Stock Exchange. Its high distribution policy is to pay out 6% of NAV to shareholders as dividends each year, meaning in effect that (i) the dividend payment can fall during bad years; and (ii) some of the dividend comes out of capital. That won't suit everybody, although it does seem that this policy is effective in keeping the discount under control. It has been no wider than 5.5% over the last year, and has averaged a 0.1% premium. The shares are currently trading on a 1.8% premium to net asset value, supported by the yield and by a strong track record under Sam Cosh (manager since October 2011).

Sam says that since a change of strategy in 2010 the trust has "delivered a performance we're really proud of", with a focus on capital preservation as well as growth. He says the trust "did OK" in a bad 2011 and has continued to beat its benchmark in every year since. Sam and his team of ten investment professionals focus on cash flow analysis, management meetings and help from industry experts to form their views. "We are looking for good businesses with high returns on capital on an enduring basis", Sam explains. Ideally, the managers want to find those high quality businesses with strong management at an attractive price. The trust has 43 holdings, selected very much on a bottom-up basis. Sam is rather scathing about the benefits of making macroeconomic calls – he says "economic growth doesn't tell you a great deal, and forecasters can't tell you anything about it anyway." In the very long there is a negligible correlation between stockmarket returns and GDP growth.

Glossy brochures promoting IPOs don't impress Sam either. He says "those big envelopes go straight in the recycling", and he finds the level of new issues at present slightly worrying. "Evidence tells you the track record of IPOs is very poor" he says, and of course those that are selling equity stakes want to do so in the best market conditions. New issues, along with broker recommendations, are just distractions to Sam, who says "investing for me is about avoiding the noise and focusing on the fundamentals." It is also about avoiding big mistakes than impair the trust's capital, and Sam suggests the risk level is higher now. Even though his approach is all about individual company analysis, in common with these other managers, Sam still says "Europe doesn't look very cheap any more", although better earnings might come through. He thinks he was seeing more good opportunities three years ago than he is now.

European Assets Trust is quirky, which we rather like. It offers something different from the other trusts with its distribution policy, and Sam's track record is strong. At the right price we could see this as a good core holding to keep alongside the more mainstream Jupiter trust. On a premium rating though, we think the shares look FULLY VALUED in what seems, by all accounts, to be a fully valued market. We think there may be a better opportunity to buy in the future.

A couple of weeks ago we met Joe Williams, part of the BlackRock European team, for an update on **BlackRock Greater Europe Investment Trust** (BRGE, 258p). The trust runs a portfolio of 30-70 European shares, with the potential to invest up to 25% in eastern Europe, and it has what we might describe as a middling track record that has been much better over recent months. The first quarter was very good with a 3% outperformance, mainly because of stock selection. Holdings in Italian asset managers such as Azimut helped. The trust has been consistently overweight in financials and has increased its active sector weighting. Conversely the managers have trimmed their healthcare holdings, having already seen these benefit from a fall in the value of the euro. BRGE's portfolio is widely spread geographically, and the most important stock holdings are Novo Nordisk, KBC Groep, Intesa Sanpaolo, AXA, and Heineken.

Joe admits "valuations are not so compelling today", but he still believes Europe has a considerable advantage over many other economic regions, most notably the US, where stocks have of course been far stronger for longer. Europe is still in the early part of the recovery cycle, with a loose monetary policy, whereas the US is most certainly heading towards the tightening phase now, if not there already. To date, the rise in European stockmarkets in 2015 has largely been a re-rating rather than being based on real earnings growth. That hasn't yet come through, although with a more benign economic backdrop now, it should arrive this year. Like Ollie Beckett, Joe noted that earnings revisions from analysts have turned positive now for the first time in five years. QE has been central to this, and is scheduled to continue to September 2016, so there could well be a considerably greater stimulus effect to come. "This does feel like a credible recovery", Joe reckons, helped as well by a fall in the euro and in oil prices. Although there are oil companies in Europe, Joe estimates that 80% of European corporations are helped by cheaper oil, while 20% are hurt by it.

To some degree, attracted by relatively cheap valuations, the central bank action, and decent yields, investors have come back to European equities. Against bonds, equities still look attractive with a 3.3% yield against less than 1% from investment grade bonds, and investors have not been too spooked by political risk, which is newsworthy but less important to businesses on a day-to-day basis. For what it is worth, neither Joe nor any of the other managers think Greece will leave the euro – their ruling party and the country are both pro-Europe.

After the meeting we came away with the impression that Joe's glass is half full, but also that there is unlikely to be any stampede into European stocks with pricing at this level. We need to see improved earnings really coming through, and we would also prefer to see the trust's shares on a wider discount than the current 3.4%. They are FULLY VALUED in our view, and would not be our first choice.

There was a fair consensus among these European fund managers that this year's rally has pushed prices up in advance of better earnings, which are expected but have yet to arrive. This means, in our opinion, the risk has increased substantially in the region. There are still potential rewards for as long as QE continues – so that gives us another year – but investment trust pricing seems a little rich in the near-term. Apart from Jupiter European Opportunities we are not generally convinced these trusts should be trading so close to net asset value. For that reason we would be WARY of making new purchases now, except for long-term portfolio purposes.

POLAR CAPITAL GLOBAL FINANCIALS TRUST PLC (PCFT, 107p)

Nick Brind, the co-manager of **Polar Capital Global Financials Trust,** came to our office a couple of weeks ago, at an interesting moment. Just half an hour before he arrived came the news that a group of major international banks – Barclays, RBS, Citigroup and JPMorgan - had been fined a record US$5.7bn by the US Department of Justice for manipulating the foreign exchange markets. This was the latest in a string of negative, and frankly, rather alarming, headlines about fines levied on banks for their dubious practices. Here's the paradox though: Barclays shares *rose* by 3.4% that day.

We had a lot to discuss with Nick, whom we have met a couple of times now since he launched this trust in mid-2013. The trust has a fixed life to May 2020, and was launched deliberately to buy into an unloved sector at a time when valuations looked low. Two years on, and in some respects little has changed. Many investors still react with a sharp intake of breath when banks and other financial stocks are mentioned. Actually, though, both this sector and this trust have made progress. The sector has continued to work through its credit crisis-related problems, has continued to restructure and refocus, and we are nearer an interest rate rise as well, which would be welcome for the banks (as it is tough to make much margin when interest rates are near-zero).

The trust, meanwhile, has grown its net asset value from just under 100p at launch to an estimated 116.4p, is paying a dividend of 3.1p per share as it wanted to, and its portfolio of 69 stocks is largely as expected, except for having less in emerging markets than originally anticipated. It has been able to expand since launch, during the period when the shares were able to command a premium rating (they have fallen to a discount now), adding another 24m shares to the 153m it issued initially. It is worth dwelling for a moment on that discount, which at 8.9% now is slightly wider than its one-year average of 6.8%. There are reasons to think it might close. There is the fixed life of the trust, for a start; the trust has been buying back shares to control the discount; and the managers are paid their fee on the lower of the market price or the NAV, so they have every incentive to keep the discount narrow if they can.

Coming back to the subject of Barclays and the fine, Nick did not seem especially surprised by the outcome. Indeed he wrote in the trust's latest monthly factsheet that the escalation of fines from international regulators trying to out-do each other "is largely priced in, but is more damaging from a sentiment point of view." The Barclays paradox bears this out – that investors were more relieved just to have this out of the way, and the bank had made more than adequate provisions. The sector though remains "very sentiment driven", Nick says, and banks have yet to re-rate against the market because of these fears of regulatory costs, plus ongoing worries in Europe and a lack of momentum in the US.

Investors are returning to the sector though, reassured by strengthened balance sheets, improving loan quality, and growing dividends. This last point is perhaps of particular importance in a low interest rate environment where many institutional investors are still hunting for yield. In the UK, there was a wave of publicity when Lloyds Banking returned to the dividend list in February, and Nick says this is a "big story" across the sector in Europe. Payout ratios are rising, and Nick believes we will see strong dividend growth coming through that might encourage buyers to bid up bank shares that offer good yields.

Of course the trust is not all about banks, and not, specifically, all about European banks, which Nick says is sometimes the perception. The trust's assets are split around 31% in Europe, 27% in the US and Canada, 13% in Asia, 10% in the UK, and the rest elsewhere, including 10% in fixed income. By industry it is 54% banks, 17% diversified financials, 12% insurance, and 6% property. It has an interesting unquoted holding in Atom Bank, a new UK 'challenger' bank that has some impressive credentials and plans to operate as a pure online bank when it starts trading later this year.

In terms of performance and prospects, Nick argues that financials still offer good value in spite of something of a re-rating in the US. That has certainly not happened in Europe where Nick says "the value opportunity is strong." On a price to book value basis the MSCI World Financials Index, trading on a P/B of around 1.3 times, is well behind its long-term average of 1.8 times.

Recent activity in the trust has included some switching from US and Canadian holdings into more European and Japanese stocks (the trust has 2.3% of its assets in Sumitomo Mitsui Financial), and some fixed income holdings have been sold in favour of two peer-to-peer lending investment trusts. There have been no radical changes though, and for Nick the same opportunity still exists as when the trust was launched. He hopes the sector will be able to get back to being all about "slightly dull, cyclical businesses." **You could well be forgiven for thinking this trust is already a bit dull, but the swing from premium to discount has served to disguise what has been a pretty reasonable underlying performance. If you are light on banking exposure, we think this trust can make a DECENT HOLDING.**

CANADIAN GENERAL INVESTMENTS LIMITED (CGI, 1110p)

With some (not all) of the new alternative assets trusts, we understand they may well be more attractive to institutional investors who are risk-averse and needing to match certain liabilities. Occasionally we find something interesting where the reverse might be true. In the case of Canadian General Investments, where a number of oddities may just be too troublesome for professional investors to explain to their compliance departments, this C$740m (£388m) trust on a 25% discount to net asset value could just be a gem for patient private investors.

We'll start though with a caveat. If you are looking for something entirely standard and mainstream, then this won't be for you. If you look for information on CGI on many of the popular information or stockbroking websites you will likely find it incomplete, misleading, or missing altogether. It may not be clear what the yield is, the principal listing for this trust is in Toronto (plus London), this investment will expose you to exchange rate risk, there is no buyback policy, and the existence of a family-owned majority stake means that corporate governance might be an issue for some.

And anyway, isn't a Canadian investment trust really just a proxy for a natural resources trust? Well, no, that's an important myth to dispel. Oil and materials are represented, certainly, but this trust tries hard to be a broader proxy for Canada, so those sectors together represent only around 30% of assets. This week we met the portfolio manager Greg Eckel and the President and CEO (and largest shareholder) Jonathan Morgan, who gave us plenty of detail and insight into how the trust really operates.

Starting with the macro picture, Canada has been lacking drama - which is a good thing. Jonathan explained the country did not really suffer in the credit crisis, apart from the contagion effect from problems elsewhere. It had no bank failures, no housing crash, and only a shallow recession. It has since recovered well, more strongly than other major economies, it has a balanced budget, low net debt (and a top-rank debt rating), low business taxes, decent employment growth, and good trade treaties for exporters.

The trust, founded in 1930, and managed by Morgan Meighen since 1956, aims for long-term growth in capital and income. It is focused on Canadian securities, selected using a bottom-up approach, although it can invest 20% elsewhere and currently has 12% of assets invested in the US. That makes it unique in the investment trust universe, which is lacking North American exposure anyway, and the idiosyncrasies unfold from here. For a start, Jonathan Morgan and his sister own 52.5% of the trust. Jonathan's office is next door to Greg's in their magnificent Toronto building, so you can be sure it is being managed with plenty of 'skin in the game' and with capital preservation in mind, as long as that is consistent with future growth. Another curiosity is that CGI has investment corporation status, and Jonathan reckons it is "probably the only one in Canada." This enables it to eliminate a layer of taxation, including capital gains tax, but the *quid pro quo* for the Canadian tax authorities is that Jonathan and his sister are not allowed to buy any more shares, and nor is the trust itself. This means that buybacks to manage the discount are off the agenda. Jonathan explained "it's not that the directors don't want to do this: they can't."

At present the trust's net asset value is C$28.30 per share, equal to £14.82, meaning that the shares at £11.10 are trading at a discount of 25.1%. That is quite remarkable at this moment in the market cycle, when most investment trust discounts have been squeezed tightly. In view of the family shareholding and lack of buybacks we might expect a slightly wider than average discount, but this looks like an opportunity to us. The discount has not always been so wide, and it compares, for example with a 9% discount on the shares of **Middlefield Canadian Income** (MCT, 94p). The one-year range for CGI's discount is between 17.7% and 33.3%.

One more reason for the discount might be widespread confusion about the dividend payments, which are in the process of a change of policy. The trust had historically paid four quarterly dividends of six cents out of income and then a big variable bonus dividend at the end of the year out of capital gains, but Jonathan says it was not getting credit for its yield from the market. Now the trust is shifting towards a more standard progressive dividend policy, with larger quarterly payments, and it will eventually eliminate the end-of-year special dividend. In 2014 the trust paid four quarterly dividends of C$0.12 plus a capital gains dividend of C$0.28, making a total of C$0.76, implying a historic yield of 3.6%. This year it has already made two payments of C$0.14.

The trust is leveraged around 25% with preferred shares that provide structural gearing. The managers prefer this to flexible bank borrowing – Greg says they just want to steer clear of market timing, but that they fully expect this sort of gearing to add value over a ten-year period.

Over ten years the trust has beaten the FTSE 100 Index in total return terms, in spite of a recently weakening Canadian dollar, which does not help. The Canadian dollar has a strong correlation with the oil price, so if you think oil prices might recover, holding Canadian assets might not be a bad idea. The Toronto stock exchange is the eighth largest in the world by market capitalisation, so you are not being asked to buy into a tiny frontier market here. It is a world leader in the mining and oil & gas sectors, and Greg says there is a "sophisticated analyst community and investor base." Over the ten years to the end of 2014, the S&P/TSX Canadian index is behind the US and Germany, but ahead of the Nikkei 225 Index, the FTSE 100 Index, the ASX 200, and the CAC 40 Index.

With 63 holdings and a mindset to stay fully invested, Greg says the portfolio is a good representation of Canada, with holdings in all sectors. The portfolio turnover is low. The trust has a fifth of the portfolio in banks (actually a considerably underweight position), followed by consumer discretionary and industrials before energy and materials weigh in at a combined 30%. The trust is underweight in oil and will probably stay that way for a while, and it is also well underweight in gold, which Greg says "has not been a good place to buy and hold." The trust has a holding though in the big gold royalty firm Franco-Nevada, which Greg says is a "remarkable" company. You might also recognise the names of some of the top ten holdings, such as Canadian Pacific Railway, Bank of Montreal, Air Canada, and Royal Bank of Canada.

We can see why some investors prefer to give CGI a wide berth. There are a few layers of uncertainty here, and some reasons not to invest. Underlying it though, we find sensible managers with a good long-term track record who are invested alongside the other shareholders, and we think you are gaining access to solid blue-chips, a good income, and possibly an undervalued currency, all on a 25% discount. We think for more adventurous investors this trust could be WORTH BUYING at this level.

STOCKBROKERS' RESEARCH

On 2nd June JPMorgan Cazenove commented on **Henderson Value Trust** (HVTR, 236.5p), which is changing its name to **Henderson Alternative Strategies Trust plc** to better reflect the composition of the company's portfolio of alternative and specialist investments. The trust is still in the process of changing from the old Scottish Value portfolio, some of which was illiquid. The managers have restructured around 75% of the portfolio now and reiterated their target of achieving 85%-90% turnaround by September. After that it will take around six more months to tackle the remaining investments, but the mangers are hopeful of selling them at NAV or even at a slight uplift to NAV. Looking ahead, the trust is targeting an annual sustained total return of 8%, and the brokers say "HVTR is on the right track in our view." They rate the shares 'overweight', viewing them as something of an each-way bet on a discount of 18.7% - either the performance picks up, or there is the protection of a continuation vote in 2018, as well as the prospect of a tender.

Liberum Securities rates the litigation specialist **Burford Capital** (BUR, 146.5p) as a buy after the successful resolution of one of its US litigation finance portfolio investments for US$61m, generating a profit of US$36m. The investment delivered a 144% return on invested capital and a 60% IRR. The broker says "the disposal is an example of what the litigation finance sector offers both in terms of high returns on successful cases, and low correlation to the general equity market. We like BUR for its diversification of revenue streams, secure balance sheet and well-resourced operating team."

A note on 21st May from Cantor Fitzgerald highlighted the attractions of the global real estate securities trust **TR Property** (TRY, 308.5p). The broker said "we believe that TRY's closed-end structure is an ideal way for investors to gain exposure to the sector, combining the benefits of diversification, liquidity, flexibility and cost. This has translated into long term outperformance, with TRY's NAV total returns consistently ranking in the top decile over 3, 5 and 10 years. In our view, despite strong gains generated in recent years, TR Property remains an attractive proposition for investors looking to achieve growth and income from quality real estate assets that should provide an element of security against an uncertain global political and economic outlook."

NEW ISSUE

UK Mortgages Limited

It says a great deal about the rehabilitation of our financial system since the credit crisis that product providers are ready to once again offer us repackaged mortgages, even if this new trust is to be structured with "low leverage" and will be sticking to the UK mortgage market where default rates have always stayed low. This latest offering from the fixed income specialists TwentyFour Asset Management is seeking £200m for investment into a diversified portfolio of "good quality UK residential mortgages." It is targeting stable income returns and a net return of 7%-10% per year, the majority of which will be paid out as quarterly dividends.

The managers reasonably point out that this trust ought to provide uncorrelated returns, which may be attractive for those seeking diversification away from equities, bonds and property. TwentyFour say "NAV performance will be driven by mortgage loan payment expectations and performance rather than geopolitical events and fixed income market volatility." There is a placing and open offer of shares at 100p each that is due to close on 1st July, with dealings starting a week later. High yield trusts tend to start at a premium rating, but as the first year dividend is forecast to be just 3p as the portfolio is established we can see reasons to wait – we discussed the pros and cons of IPOs at length last month.

NEWS ROUND-UP

Capital Gearing Trust (CGT, £34) stands out in the UK All Companies sector as the only share sustaining a premium rating besides the recently issued **Woodford Patient Capital Trust,** and we don't think the track record over the last five years supports such a lofty valuation. The trust is ranked 12th out of 13 trusts in this sector by NAV performance over five years, and now it says it is planning to adopt a new zero discount/premium management policy. That may make sense for the trust, but it is likely to close that premium in the near term, so we rate the shares a SELL at this level.

Market conditions change, and that can mean that trusts with very specific investment remits can suddenly find the going gets tougher. **Chenavari Capital Solutions** (CCSL, 101.75p), a debt fund that was launched in October 2013 with a 12% annual return target that it has so far failed to match, has admitted this is too optimistic. A terse announcement on 27th May said "as a result of a widespread reduction in the returns available from the credit asset class since it was launched, the company now expects to target a NAV total net return to investors of 8%-10% per annum and to minimise cash drag to less than 10% of NAV." It expects to pay dividends of at least 2p per share for the next two quarters.

A year after it changed its investment objective, **Martin Currie Pacific Trust** (MCP, 317.75p) is proposing a change of name, to **Martin Currie Asia Unconstrained Trust plc.**

The third annual LPEQ (that's the listed private equity association) Awards for Excellence in Investor Reporting were presented at its flagship Investor Conference last week in London. Our editor, Andrew McHattie, was amongst the judges and said "the best in class Annual Reports and websites showed a real effort to engage with existing and potential investors. Greater transparency and the opportunities afforded by online communications give all types of investors more information. This helps to build the confidence needed to make long-term commitments." The winner of the award for 'direct' funds was **HgCapital Trust** (HGT, 1080p), with **Electra Private Equity** (ELTA, £32.34) as runner-up. The award in the 'fund of funds' category went to **Pantheon International Participations** (PIN, 1297p), with HarbourVest Global Private Equity (HVPE, US$13.41) as runner-up.

The FTSE 350 Equity Investment Instruments Index is up 191.96 points (+2.53%) to 7784.69 since the last newsletter.