

January 2019

Winners and losers in December

Best performing funds in price terms in December

	(%)
F&C UK Real Estate	6.1
Aberdeen New India	4.9
FastForward Innovations	4.8
JPMorgan Global Emerging Markets	4.6
ScotGems	4.5
Alpha Real Trust	4.4
Aberdeen Latin American Income	4.3
NextEnergy Solar	4.1
Scottish Oriental Smaller Companies	3.7
Schroder Real Estate	3.4

Source: Morningstar, Marten & Co

Best performing funds in NAV terms in December

	(%)
Civitas Social Housing	3.7
India Capital Growth	3.0
Aberdeen Latin American Income	2.7
Manchester & London	2.7
Aseana Properties	2.6
Ashoka India Equity	2.3
Terra Capital	1.5
BlackRock World Mining	1.4
CVC Credit Partners European Opportunities	1.3
Green REIT	1.2

Source: Morningstar, Marten & Co

In what was generally a poor month for markets, few funds rose in value, while relatively thin trading over the holiday period exacerbated price moves. **F&C UK Real Estate's** shares have been weak; there was a rumour that they were being shorted because of the trust's exposure to UK retail property. It may be that the short was closed in December. India had a better month as the oil price continued to slide, boosting trusts such as **Aberdeen New India**, **India Capital Growth** and **Ashoka India Equity**. The Mexican market rose in December to the benefit of funds such as **Aberdeen Latin American Income**. With some Asian market also moving upwards, emerging market trusts such as **JPMorgan Global Emerging Markets**, **ScotGems** and **Scottish Oriental Smaller Companies** also rose. **Next Energy Solar Fund's** shares spiked towards the end of the year but have retreated since.

Worst performing funds in price terms in December

	(%)
CatCo Reinsurance Opportunities	(34.7)
Baillie Gifford Japan	(15.4)
Baillie Gifford Shin Nippon	(15.1)
Princess Private Equity	(15.0)
JPMorgan US Smaller Companies	(15.0)
River & Mercantile UK Micro Cap	(14.7)
BB Healthcare	(14.6)
JPMorgan Japan Smaller Companies	(12.9)
Biotech Growth	(12.3)
Acorn Income Fund	(12.2)

Source: Morningstar, Marten & Co

Worst performing funds in NAV in December

	(%)
Baillie Gifford Shin Nippon	(16.4)
BB Healthcare	(14.8)
Geiger Counter	(13.9)
Atlantis Japan Growth	(13.6)
Baillie Gifford Japan	(13.6)
Jupiter US Smaller Companies	(13.4)
JPMorgan Japan Smaller Companies	(13.2)
Biotech Growth	(12.9)
JPMorgan US Smaller Companies	(12.1)
Worldwide Healthcare	(11.8)

Source: Morningstar, Marten & Co

The clear loser was **CatCo Reinsurance Opportunities**; the fallout continues from both the provisions it is making for losses from the Californian wildfires and the investigation into the conduct of its manager. The US, Canada and Japan all saw sharp declines, as concerns built about global economic growth. The Japanese trusts seem to have come off worst, underperforming their benchmarks. Sentiment turned away from growth stocks (favoured by the likes of **Baillie Gifford Japan** and **Baillie Gifford Shin Nippon**). Some small cap trusts were particularly affected (hitting **Jupiter US Smaller Companies** and **JPMorgan US Smaller Companies** in the US and **River & Mercantile Micro Cap** and **Acorn Income** in the UK). **Princess Private Equity** dived only to recover in January. It was a similar story for the healthcare sector although January's recovery has been aided by a significant takeover.

Significant moves in discounts and premiums

More expensive relative to NAV (notable changes)

	% discount (-ve) or premium (+ve)	
	31 Dec (%)	30 Nov (%)
Jupiter Green	(2.7)	(9.1)
ScotGems	(0.6)	(6.5)
Merchants	3.9	(1.9)
JPMorgan Global Emg. Markets Income	0.1	(5.7)
CC Japan Income & Growth	7.2	1.5

Source: Morningstar, Marten & Co

Markets were thin over the holiday period and there were some odd moves as a result. **Jupiter Green** has a discount control mechanism designed to ensure that its shares trade close to NAV. November's wide discount looks like an anomaly. **ScotGems'** shares had drifted out to a 12% discount but sustained buying led to a sharp recovery around the beginning of December. The other three funds in the table all offer above-average levels of income and it may be that they were driven up by purchases by private investors.

Cheaper relative to NAV (notable changes)

	% discount (-ve) or premium (+ve)	
	31 Dec (%)	30 Nov (%)
CatCo Reinsurance Opportunities	(43.4)	(13.3)
Princess Private Equity	(24.0)	(9.7)
El Oro	(24.3)	(13.6)
Carador Income Fund	(15.2)	(5.5)
Blackstone/GSO Loan Financing	(11.4)	(3.3)

Source: Morningstar, Marten & Co

CatCo Reinsurance Opportunities has been hit by potential NAV write offs and an investigation into the conduct of its manager. **Princess Private Equity's** wider discount proved temporary. **El Oro's** discount narrowed when it announced a potential rollover into JPMorgan Elect, but the timetable for this is somewhat stretched. Investors in **Carador Income Fund** have an opportunity for a rollover into **Blackstone/GSO Loan Financing**, but the discount on that fund widened in December, possibly on fears of post-merger indigestion.

Money raised and returned in December

Money raised in December

	(£m)
SDCL Energy Efficient Income	100.0
Primary Healthcare Properties	26.3
Smithson Investment Trust	16.5*
GCP Asset Backed Income	13.0
Finsbury Growth & Income	9.7

Source: Morningstar, Marten & Co

The only new issue in December was of **SDCL Energy Efficient Income**, a fund designed to benefit from financing schemes aimed at improving energy efficiency such as LED lighting. **Primary Healthcare Properties** issued shares to satisfy conversions of its 2019 4.25% guaranteed convertible bonds. **GCP Asset Backed Income** issued £13m shares in a placing. Otherwise, funds issued shares to match day-to-day demand. **Smithson** and **Finsbury Growth & Income** lead this

Money returned in December

	(£m)
NB Global Floating Rate Income	34.5*
Alliance Trust	10.2*
Templeton Emerging Markets	8.4*
Alcentra European Floating Rate Income	4.9*
JZ Capital Partners	4.6*

Source: Morningstar, Marten & Co, * approximate value of shares at 31/12/18

group but **Manchester & London**, **Personal Assets**, **City of London**, **EJF Investments**, **Capital Gearing** and **Scottish Mortgage** all issued at least £5m worth.

In December we said goodbye to **Global Fixed Income Realisation**, **Northern Investors** and **Juridica**. The funds listed in the table all regularly repurchase shares.

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Portfolio developments

- **Riverstone Energy** sold Sierra Oil & Gas
- **Hipgnosis Songs** acquired a couple of music catalogues
- **Greencoat UK Wind** bought a number of wind farms
- **Tufton Oceanic** invested in three more vessels
- **BBGI** invested in three PPP projects
- **Merian Chrysalis** made its first investments
- **John Laing Environmental** acquired an anaerobic digestion plant
- **SDCL Energy Efficiency** bought its seed portfolio
- **Tetragon Financial** announced the merger of its GreenOak Real Estate investment
- **Renewables Infrastructure** bought a Swedish wind farm
- **Caledonia** bought a stake in Stonehage Fleming
- **Hg Capital** invested in Combell

Corporate news

- **Tritax Big Box REIT** issued £400m of loan notes
- **HarbourVest Global Private Equity** got a US dollar quote
- **Regional REIT** paid down debt
- **City Natural Resources** changed its name
- **Local Shopping REIT**'s liquidation was blocked
- **SQN Secured Income Fund** announced a relaunch
- **BlackRock Commodities Income** decided not to hold a tender
- A shareholder put forward proposals for **Axa Property**
- **Edinburgh Worldwide** proposed a share split
- **Athelney Trust** is looking to expand
- **CatCo Reinsurance Opportunities** is planning a redemption opportunity
- **Lazard World Trust Fund** set out wind down proposals

Property news

- **Civitas** say impact of regulatory decision on Westmoreland minimal
- **Highcroft** sold a warehouse in Southampton
- **Land Securities** bought site in Southwark
- **Standard Life Investments Property Income** let a logistics unit
- **Triple Point Social Housing** added to its portfolio
- **Secure Property Development and Investment** sold its non-Greek assets
- **Alpha Real Trust** sold its Frankfurt data site
- **Tritax Big Box** will fund a new logistics facility in Durham
- **UK Commercial Property** bought a portfolio of warehouses
- **Hansteen** sold a portfolio to Stenprop

Managers and fees

- **Ecofin Global Utilities and Infrastructure**'s manager acquired by Tortoise, it also cut its fee
- **CatCo Reinsurance Opportunities**'s manager is under investigation
- **Henderson EuroTrust** tweaked its fee arrangements
- **Edinburgh Worldwide** cut its fee
- **Pacific Horizon** cut its management fee
- **Schroder UK Mid Cap** cut its management fee
- **Aberdeen Standard European Logistics** cut its fee
- **Murray International** cut its management fee
- **Will Landers** will step down as manager of **BlackRock Latin America**
- **Third Point Offshore** is restructuring to cut fees

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Standardised past performance to 30 June**:

	2014	2015	2016	2017	2018
Scottish Mortgage	28.9%	25.8%	4.9%	48.8%	33.4%
AIC Global Sector Average	15.8%	15.4%	3.5%	32.4%	17.8%

Past performance is not a guide to future returns. Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested. The Trust's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater.

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*Ongoing charges as at 31.03.18. **Source: Morningstar, share price, total return as at 30.06.18. Your call may be recorded for training or monitoring purposes. Scottish Mortgage Investment Trust PLC is available through the Baillie Gifford Investment Trust Share Plan and the Investment Trust ISA, which are managed by Baillie Gifford Savings Management Limited (BGSM). BGSM is an affiliate of Baillie Gifford & Co Limited, which is the manager and secretary of Scottish Mortgage Investment Trust PLC.

Income

Investment companies announcing their full year dividends in December

Fund	Year ended	Dividend (pence)*	Change over year (%)	Revenue / earnings (pence)*	Cover
Schroder European Real Estate	30/09/18	7.4 cents	+42.0	8.1 cents	1.09x
Majedie	30/09/18	11.0	+12.8	12.5	1.14x
BMO Capital & Income	30/09/18	10.95	+2.8	11.7	1.07x
Ediston Property	30/09/18	5.75	+4.5	6.6	1.15x
JPMorgan Chinese	30/09/18	3.5	+118.7	4.32	1.23x
Scottish Investment Trust	31/10/18	21.2 +4.0 ^a	+6.0	26.0	1.23x
Schroder Asia Pacific	30/09/18	9.5	+69.6 ^b	10.08	1.06x
BlackRock Frontiers	30/09/18	7.4c +1.0c ^c	+7.2	10.13	1.37x
MedicX	30/09/18	6.04	+0.7	3.9	0.65x
Standard Life Private Equity	30/09/18	12.4	+3.3	7.99	0.66x
Invesco Perpetual Enhance Income	30/09/18	5.0	unchanged	4.6	0.92x
GCP Infrastructure	30/09/18	7.6	unchanged	8.64 ^d	1.14x
Lowland	30/09/18	54.0	+10.2	58.6	1.09x
Schroder UK Mid Cap	30/09/18	16.0	+22.1	16.78	1.05x
BlackRock North American	31/10/18	8.0	+61.6	5.16	0.64x
Finsbury Growth & Income	30/09/18	15.3	+7.7	16.5	1.08x
Polar Capital Global Healthcare	30/09/18	2.0	n/a	2.29	1.14x

Fund	Year ended	Dividend (pence)*	Change over year (%)	Revenue / earnings (pence)*	Cover
Ground Rents Income	30/09/18	3.96	unchanged		
BlackRock Income & Growth	31/10/18	6.9	+4.5	7.09	1.03x

* unless otherwise specified

- a) 21.2p plus a 4.0p special dividend. Increase and cover figures are for basic dividend. This is 35th year of consecutive dividend increases.
- b) Net revenue after taxation has increased by 77.0% largely due to a change in basis of accounting whereby 75% of indirect costs are allocated to capital.
- c) 7.4 cents plus a 1 cent special dividend, increase and cover relate just to the basic dividend.
- d) The company does not separate capital and revenue items in its accounts

Publications

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BlackRock Throgmorton Trust

Throg's shorts shine

With a decision on Brexit looming and US rates climbing, many investors appear to have adopted a more defensive stance. Dan Whitestone, manager of BlackRock Throgmorton Trust (THRG), has reduced the portfolio's net exposure to markets to well below 100%, taking profits on some positions. Otherwise, Dan's focus remains on the long-term drivers of growth. His ability to short (taking a negative exposure to) companies with unsound business models gives him another way of making money even when markets are falling. Over the year to 30 November 2018, short positions added 1.4% to returns.

Both long and short positions in UK small-and-mid-cap companies

THRG aims to provide shareholders with capital growth and an attractive total return by investing primarily in UK smaller companies and mid-capitalisation companies listed on the main market of the London Stock Exchange. It uses the Numis Smaller Companies Index (plus AIM stocks but excluding investment companies) as a benchmark for performance purposes, but the index does not influence portfolio construction. Uniquely among listed UK smaller companies trusts, THRG's portfolio may include a meaningful allocation to short as well as long positions in stocks.

Year ended	Share price total return (%)	NAV total return (%)	Fiver group average NAV TR (%)	Numis Smaller Co.s plus AIM, ex KC (%)	MSCI UK total return (%)
31/12/14	(10.9)	(2.3)	(0.8)	(1.9)	0.5
31/12/15	24.7	22.0	17.9	10.6	(2.2)
31/12/16	(2.7)	10.0	0.2	11.1	19.2
31/12/17	36.4	34.0	27.1	19.5	11.7
31/12/18	(6.6)	(11.5)	(12.8)	(16.7)	(8.8)

Source: Morningstar, Market & Co. Notes: (1) The peer group is defined on page 4. (2) Between 1 December 2013 and 20 March 2018 the benchmark was Numis Smaller Companies excluding both AIM and investment companies.

Share price and discount
Time period 31/12/2018 to 14/01/2019

Source: Morningstar, Market & Co.

Performance over five years
Time period 31/12/2013 to 31/12/2018

Source: Morningstar, Market & Co.

Our update note on BlackRock Throgmorton Trust highlights the added value that its manager has been able to extract by exploiting its ability to sell companies short. This a key point of difference between this trust and competing funds.

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