QuotedData

Quarterly report | Investment companies

April 2020

First Quarter of 2020

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Unprecedented times

We have knitted together the impact on the investment companies from what is now widely considered to be the most severe pandemic in a century. The collapse in asset prices over the latter part of March, brought the curtain down on an up-market that lasted more than ten years. In amongst this, there were pockets, such as the technology sector, that held up well. For many industries, the worst is still to come, as we brace ourselves for the sharpest contraction to global growth since the US great depression.

For a comprehensive collation of commentary from fund managers and chairman in response to covid-19, you can access our most recent economic and political roundup here.

New research

Over the quarter, we published notes on International Biotechnology Trust, Herald, Montanaro UK Smaller Companies, Aberdeen Emerging Markets, CG Asset Management, Polar Capital Global Financials, Aberdeen New Dawn, Shires Income, GCP Infrastructure and annual overviews of the investment companies and real estate sectors. You can read all these notes by clicking on the links above or by visiting www.quoteddata.com.

In this issue

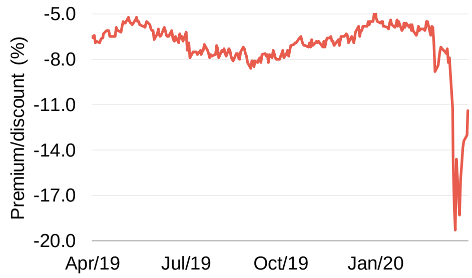
Performance Data – the Brevan Howard hedge funds, BH Macro and BH Global, fared well while technology held up well too. The worst affected sectors were aircraft leasing, energy, structured finance, small and mid-cap growth and equity income funds.

Major news stories – We have updates and responses from a raft of funds across the investment trust industry. Click here to access the news section.

Money in and out – We welcomed Nippon Active Value, which raised £103m in February. Predictably, it was otherwise very quiet.

All investment companies median discount

Time period 01/04/2019 to 31/03/2020

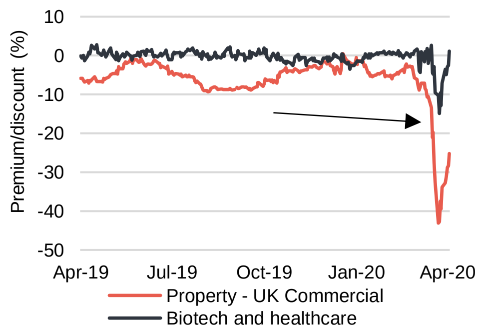


Source: Morningstar, Marten & Co

Discounts widened over the third quarter as the market removed capital from riskier asset classes. They have widened over a 12 month horizon too.

Cyclicality reigns supreme

Time period 01/04/2019 to 31/03/2020



Source: Morningstar, Marten & Co.

Some sectors, such as biotech and healthcare, are clearly better positioned. Others in this bracket include infrastructure and renewables, where revenues are locked in. As well as commercial property, other sectors with heavy cyclical exposure, such as commodities and leasing, have been heavily re-priced.

Winners and losers

Positive price returns over the first quarter were delivered by just 22 investment companies, from a total of more than 350. The median total NAV and market returns were (13.1%) and (23.3%). The was no precedent for the pace and uniformity by which markets collapsed over March, before a late rally propped up the US passing a $2tn stimulus package. The rally has continued through to the middle of April.

It was a particularly galling quarter for aircraft leasing companies, while the structured finance sector was hit hard by credit downgrades. Small and mid-cap strategies suffered with corporate earnings expected to take an enormous hit, a theme which also heavily impacted equity income funds, as companies struggle to meet dividend targets.

Positive performance was led by alternative sectors with lower exposure to the cyclical impact of covid-19. Secured regulated income flows found in the renewable and infrastructure sectors appear to be a boon, while the comparatively less affected technology sector has been faring well.

Positive movers:

Figure 1: Best performing funds in price terms over Q1 *

	(%)
Adamas Finance Asia	24.8
BH Macro GBP	23.1
Schiehallion	17.5
Marble Point Loan Financing	15.7
BH Global GBP	13.0
RDL Realisation	11.7
Civitas Social Housing	11.0
Life Settlement Assets A	7.7
Allianz Technology	3.1
Greencoat Renewables	3.1

Source: Morningstar, * excluding funds with market cap. below £15m

Figure 2: Best performing funds in NAV terms over Q1*

	(%)
BH Macro GBP	23.0
BH Global GBP	15.5
Pershing Square	10.3
Riverstone Credit Opportunities Income	9.6
Fair Oaks Income 2017	9.6
DP Aircraft I	9.2
BioPharma Credit	8.5
Tufton Oceanic Assets	8.1
Globalworth Real Estate	7.9
US Solar	7.4

Source: Morningstar, * excluding funds with market cap. below £15m

Adamas Finance Asia rebounded as one of its key positions, Future Metal Holdings, announced at the end of 2019 that it had commenced dolomite production in China. Global volatility typically provides fertile conditions for macro-strategy hedge funds, benefitting the Brevan Howard-feeder funds, BH Macro GBP BH Global GBP. Sentiment towards Civitas Social Housing turned positive as investors recognised that some commentators had overstated the impact of regulatory concerns on performance. Allianz Technology held up well while Manchester & London, which also has a chunky allocation to technology, was one of the select few funds to deliver a positive market return. Sentiment towards Baillie Gifford's later-stage private company fund, Schiehallion, remained steadfast through March. Pershing Square, an investor in a concentrated portfolio of US companies, realised astounding profits from hedges made in early March. Hedges purchased at an all-in cost of $27m were realised for $2.6bn. The durability of revenue streams for renewables companies, notwithstanding the collapse in the oil price and knock-on effect on power prices, explains the presence of Greencoat Renewables in the list

The best performing funds in NAV terms include many stocks flattered by holding largely US dollar assets in an environment of sterling weakness and whose assets are not often revalued. Riverstone Credit Opportunities, which lends to energy companies; Fair Oaks 2017, which has been forced to suspend its dividend; and DP Aircraft, which is talking to its lenders after Norwegian defaulted on its lease payments, are all likely to see drops in NAV in time.

Negative movers

Figure 3:Worst performing funds in price terms over Q1*

	(%)
Infrastructure India	(78.5)
Riverstone Energy	(64.7)
DP Aircraft I	(64.6)
JZ Capital Partners	(57.5)
Riverstone Credit Opportunities Income	(55.5)
Carador Income Fund USD	(54.6)
SQN Asset Finance Income	(54.5)
Chelverton UK Dividend	(54.3)
Aberforth Split Level Income	(53.7)
Crystal Amber	(53.4)

Source: Morningstar, * excluding funds with market cap. below £15m

Figure 4: Worst performing funds in NAV terms over Q1 *

	(%)
Chelverton UK Dividend	(55.3)
Aberforth Split Level Income	(55.2)
Temple Bar	(46.6)
BlackRock Latin American	(45.4)
JPMorgan Brazil	(44.4)
Blue Planet	(43.8)
Aberforth Smaller Companies	(43.2)
Acorn Income	(40.6)
JPMorgan Mid Cap	(39.4)
Jupiter UK Growth	(39.3)

Source: Morningstar, * excluding funds with market cap. below £15m

Infrastructure India's port asset was hit by covid-19 related a collapse in trade. Energy prices tumbled after Saudi Arabia unilaterally slashed supply of its oil in early March, making it a painful quarter for Riverstone Energy. DP Aircraft was the worst affected leasing company in price terms. Airlines around the world are struggling to meet their lease obligations, with many likely to require unprecedented government support to remain viable. JZ Capital made significant write downs of its property portfolio in Miami. Elsewhere, the gearing within the split capital trusts, Chelverton UK Dividend, Aberforth Split Level Income and Acorn Income magnified NAV declines. The value-style of investing was hit particularly hard by the prospect of a recession, affecting Temple Bar. Brazil had a very poor month, with real economy impact of the virus compounded by the collapse in the oil price, which weakened its currency. BlackRock Latin American and JPMorgan Brazil were most directly affected. Carador Income's presence reflected sentiment towards several vehicles in collateralised loan obligations. The UK was one of the worst hit markets in the developed world, hitting JPMorgan Mid Cap and Jupiter UK Growth.

Significant rating changes

More expensive relative to NAV (notable changes)

	% discount (-ve) or premium (+ve)	
	31 Mar 20 (%)	31 Dec 19 (%)
Blue Planet	(4.8)	(21.7)
Marble Point Loan Financing	9.8	(1.7)
Acorn Income	(2.5)	(13.0)
Golden Prospect Precious Metal	(13.2)	(22.5)
BlackRock Latin American	(3.7)	(12.2)
Schiehallion	25.0	18.1
Rights & Issues	3.7	(2.2)
Civitas Social Housing	(9.2)	(15.1)
TwentyFour Select Monthly Income	7.6	2.0
Adamas Finance Asia	(71.4)	(76.8)

Source: Morningstar, Marten & Co

Cheaper relative to NAV (notable changes)

	% discount (-ve) or premium (+ve)	
	31 Mar 20 (%)	31 Dec 19 (%)
SQN Asset Finance Income	(48.4)	15.0
Riverstone Credit Opp. Income	(60.7)	(5.4)
DP Aircraft I	(73.8)	(20.2)
Doric Nimrod Air Three	(48.6)	1.2
Fair Oaks Income 2017	(51.8)	(9.0)
Doric Nimrod Air Two	(63.1)	(20.9)
Ediston Property	(55.3)	(13.9)
Electra Private Equity	(63.9)	(24.3)
SME Credit Realisation	(48.6)	(9.9)
GCP Student Living	(23.2)	13.3

Source: Morningstar, Marten & Co

Getting more expensive

Gold was not spared when selling was at its most fervent over March. Gold has since regained ground, benefitting Golden Prospect Precious Metal. The trust has found favour over the past year as a gold has staged a recovery following some barren years. A near 45% decline in Blue Planet's NAV was not quite matched by its shares and it was a similar story for Acorn Income, which finds itself exposed to the likelihood that UK corporate earnings will be severely impacted. Self-managed Rights & Issues held up better than the vast majority of the AIC's UK smaller companies sector. It ended the quarter trading at a premium, perhaps reflecting relatively more exposure to defensive sectors such as healthcare and utilities.

Getting cheaper

The Doric Nimrod funds were hit heavily, for similar reasons to the aforementioned DP Aircraft. Direct lending company, Riverstone Credit Opportunities Income, provides financing to the energy sector, where oil prices have tumbled and defaults could soar. While bank lending has been a lot more cautious since 2008, much of the slack has been taken up by the structured finance and direct lending markets, where competition for credits has led to more widespread covenant-lite structures. Fair Oaks Income suspended its dividend in late March, sending its shares sharply down. This came as the rules that govern the CLOs it invests prevented it from distributing income. Meanwhile. over January, SQN Asset Finance Income was hit by a write-down to one of its main loan assets, leading to an exodus in the shares. Commercial property has been heavily impacted around the world, with scores of companies withholding rent payments. Ediston Property share discount widening reflects the impact on UK commercial property. Electra Private Equity has two main investments, including the casual dining chain, TGI Fridays, which it had to shut in March. GCP Student Living suffered a material decline in its revenues, with many of student tenants returning to their homelands – the majority of its units are rented to international students.

Money in and out of the sector

There was only one new issue, with Nippon Active Value getting off the ground with a £103m launch (it was targeting £200m). Other potential launches, including Global Sustainable Farmland Income, were put on hold over March.

Figure 5: Money entering the sector over Q1

	£m
Sequoia Economic Infrastructure	300
Nippon Active Value	103
Impax Environmental Markets*	65
JLEN Environmental Assets Group*	55
Smithson*	46
City of London*	42
Bankers*	36
Blackstone/GSO Loan Financing*	34
Aquila European Renewables Income*	32
JPMorgan Global Core Real Asset*s	28

Source: Morningstar, * approximate value of additional capital at 31/03/2020, ** proceeds raised from the initial public offering

Figure 6: Money leaving the sector over Q1

	£m
Pershing Square*	(85)
CVC Credit Partners Euro Opps. GBP*	(58)
Baillie Gifford European Growth*	(32)
Scottish Mortgage*	(31)
NB Global Floating Rate Income GBP*	(26)
Biotech Growth*	(24)
Fidelity China Special*	(22)
Honeycomb*	(17)
Alcentra European Floating Rate Income*	(13)
Africa Opportunity*	(13)

Source: Morningstar, * approximate value of shares bought back at 31/03/2020

Money coming in:

In the absence of new issues and large placings, it was a low key quarter with renewable funds continuing to bring in the most capital, led by Sequoia Economic Infrastructure. The company's £300m raise was £50m above its target, benefitting from the appeal of an established yield-focused strategy. The other active renewable energy infrastructure funds were JLEN Environmental Assets and Aquila European Renewables Income. Elsewhere, Bankers and Smithson took advantage of (what were at the time) premium to NAV valuations to grow the funds.

Money going out

Pershing Square features regularly in this section, thanks to a significant commitment to narrow its discount through buy backs, while CVC Credit Partners European Opportunities (sterling line) and Baillie Gifford European Growth tendered shares over February, which in the latter's case represented 10% of its share capital at the time. Elsewhere, Scottish Mortgage bought back shares as part of its policy of keeping the NAV and share price as close together as it can.

Major news stories from Q1 2020

Portfolio developments

- JLEN bought an anaerobic digestion plant in Scotland
- Hipgnosis adds Richie Sambora to its roster. Richie was most notably known as the lead guitarist and co-writer of the American rock band Bon Jovi
- Pershing Square booked astonishing profits on hedges it made between late February and early March
- CATCo Reinsurance Opportunities said it was helped by relatively lower levels of catastrophic activity over 2019
- Greencoat Renewables is making its first investment into continental Europe with a 51.9MW France investment
- DP Aircraft I said that Norwegian had missed a lease payment
- US Solar announced its fourth acquisition, as well as maiden annual results
- We had annual results and a covid-19 view from Baillie Gifford Shin Nippon.
- We also had results (interim) and an update from VietNam Holding
- Schiehallion reported inaugural annual results
- Manchester and London beat its benchmark
- Greencoat UK Wind said says power generation was behind budget in 2019 while earnings were also impacted by falling power prices
- JZ Capital Partners updated on its real estate write-downs
- Amedeo Air Four Plus completed the sale of two A380s to Etihad for a net £130.9m
- Bluefield Solar said the impact of lower power prices was cushioned by fixed prices locked in 2018
- Merian Chrysalis reported inaugural annual results
- Hipgnosis acquired music catalogues from Brian Higgins, Ammar Malik and Blink-182. Hipgnosis also announced it had invested £214m of the proceeds of its C share fundraising from October 2019

Corporate news

- QuotedData update on the structured finance debt sector
- TwentyFour Income updated on the European CLO and asset backed market
- We had an update from Polar Capital Global Financials
- Gore Street Energy Storage said the covid-19 impact was limited so far and reaffirmed its dividend target
- DP Aircraft I suspended its dividend. We also heard from Amedeo Air Four Plus
- Foresight Solar updated on covid-19 and reaffirmed its 2020 dividend target. We also heard similarly from Bluefield Solar
- We heard from Impact Healthcare, BB Healthcare and JLEN Environmental (click on each company to access the articles)
- 3i Infrastructure said its portfolio impact had been limited
- BlackRock World Mining offered a relatively sanguine take
- Ashoka India Equity offered its take on the virus's impact on India
- QuotedData reflected on Augmentum Fintech's capital markets day
- Sequoia Economic Infrastructure Income said it was targeting £250m in an equity raise. It ultimately raised £300m
- Hadrian's Wall Secured Investments's board recommended a managed wind-down
- Pollen Street Secured Lending was the subject of a £675m takeover bid and fell out with its manager
- Nippon Active Value IPOed with a £103m raise
- A private placement by Scottish Mortgage raised £188m
- Henderson Alternative Strategies said it would seek approval for a realisation process

Property news

- Covid-19 – not all doom and gloom for retail property
- Cuba-focused Ceiba Investments suspended its 2019 dividend
- Empiric Student Property suspended its dividend
- We had an update from Macau Property Opportunities
- GCP Student said it would pay dividends despite reduced revenues
- Intu said it would seek covenant waivers
- There was an update from the Malaysia and Vietnam-focused property development company, Aseana Properties

Managers and fees

- European Assets lowered its management fee by 5bps
- JPMorgan European Smaller Companies also reduced its management fee
- Strategic Equity Capital announced a manager change
- Jupiter UK Growth announced Merian's Richard Buxton as lead manager
- JLEN Environmental Assets announced a restructuring in its management arrangement and a placing proposal
- Fidelity Special Values got a new co-manager

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

Upcoming events

Here is a selection of what's coming up. Please refer to the Events section of our website for updates between now and when they are scheduled:

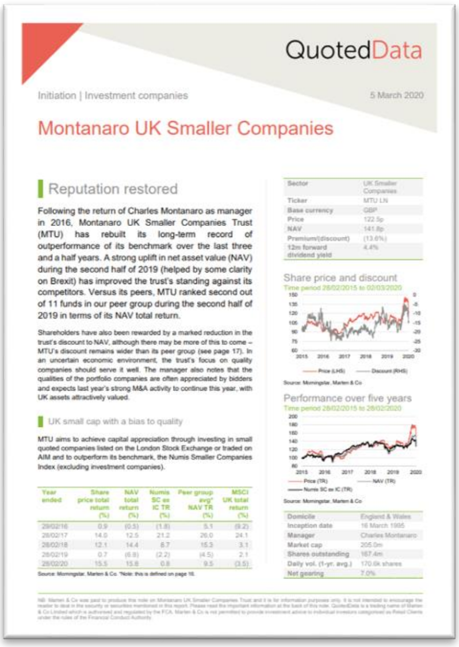
- EP Global Opportunities AGM 2020, 22 April 2020
- Aberdeen Emerging AGM 2020. 21 April 2020
- Premier Global Infrastructure AGM 2020, 22 April 2020
- Mobius AGM 2020, 23 April 2020
- Witan AGM 2020, 29 April 2020
- Greencoat UK Wind AGM 2020, 30 April 2020
- Symphony International AGM 2020, 30 April 2020
- BlackRock World Mining AGM 2020, 30 April 2020
- Mello 2020, 20 May 2020 (update to follow)
- Riverstone Credit Opportunities Income AGM 2020, 21 May 2020
- Secure Income REIT AGM 2020, 21 May 2020
- JPMorgan US Smaller Companies AGM 2020, 26 May 2020
- Dunedin Income Growth AGM 2020, 16 July 2020
- Polar Capital Technology AGM 2020, 2 September 2020
- UK Investor Show, 26 September 2020
- The London Investor Show, 30 October 2020
- Sustainable & Social Investing Conference, 3 December 2020

Master Investor – the UKs largest private investor show – 5 December 2020

Publications

The biotechnology sector is proving to be relatively resilient in this covid-19 related market sell-off. Our update note on International Biotechnology Trust (IBT) explores why it is faring better than competing funds in this environment. The underlying picture for biotechnology is one of strong growth.

Following an excellent year of performance during 2019, Herald Investment Trust (HRI) has seen its discount widen and the value of its portfolio companies fall. Given its focus on technology and the likelihood that covid-19 will materially change working patters, our annual overview discusses why the current environment may offer a good entry point for the patient investor.



Following the return of Charles Montanaro as manager in 2016, Montanaro UK Smaller Companies Trust (MTU) has rebuilt its long-term record of outperformance of its benchmark over the last three and a half years. Click here to read our initiation note.

In our annual overview note on Aberdeen Emerging Markets (AEMC), we explore the driving forces behind strong performance in 2019 and how the fund has managed to deliver a much lower volatility of returns compared to its peers and its benchmark.

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Annual overview | Asset management companies 12 March 2020

CG Asset Management

More than a port in a storm

Impressive long-term track record

The two funds that we cover in more detail in our annual overview on CG Asset Management, Capital Gearing (CGT) Trust and CG Absolute Return Fund, have relatively low exposure to equities and have high levels of cash and other assets that are easy to turn into cash. These funds are not just hiding places in times of market turmoil. however. The

In unsettled markets, the predictable and reliable cash flows generated by utilities and infrastructure make them an attractive safe haven for investors. In our annual overview note on Premier Global Infrastructure Trust (PGIT), we discuss why, relatively speaking, PGIT could be in a good place.

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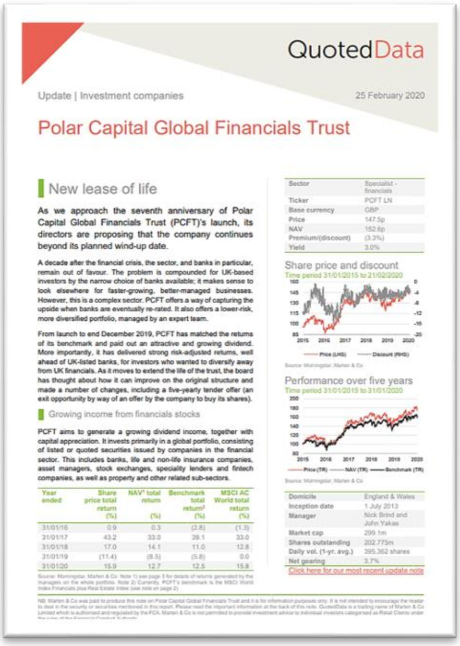
Annual overview | Investment companies 11 March 2020

Premier Global Infrastructure Trust

Don't stop me now



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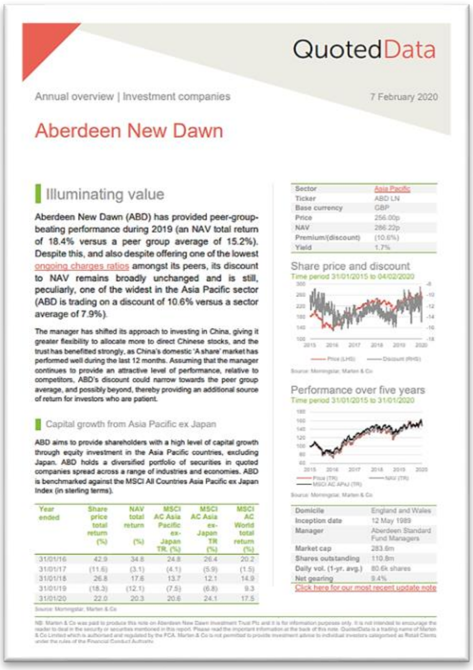
Update | Investment companies 25 February 2020

Polar Capital Global Financials Trust

New lease of life

From launch to end December 2019, Polar Capital Global Financials (PCFT) has delivered strong risk-adjusted returns, well ahead of UK-listed banks. As it moves to extend the life of the trust, the board has thought about how it can improve on the original structure and made a number of changes, including a five-yearly tender offer. We explore these themes in our

Aberdeen New Dawn (ABD) provided peer-group beating performance during 2019 (an NAV total return of 18.4% versus a peer group average of 15.2%). Despite this, and also despite offering one of the lowest ongoing charges ratios amongst its peers, its discount remains peculiarly, one of the widest in the Asia Pacific sector



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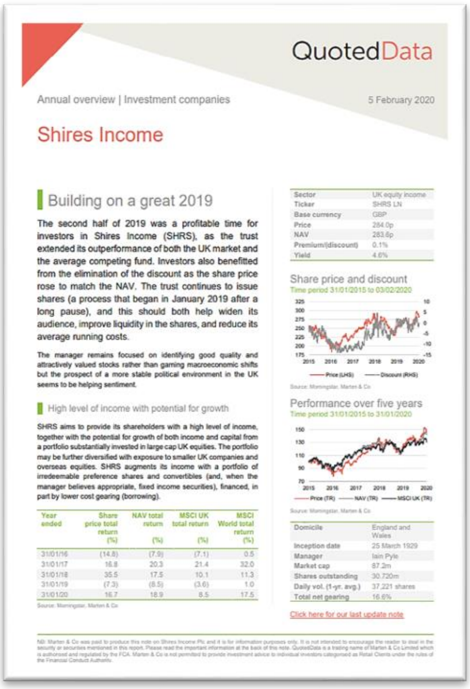
Annual overview | Investment companies 7 February 2020

Aberdeen New Dawn

Illuminating value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Annual overview | Investment companies

5 February 2020

Shires Income

Building on a great 2019

High level of income with potential for growth

Shires Income (SHRS) will look to build on a strong second half to 2019 over the coming year. The trust's strategy allows it to augment its income focus with a portfolio of preference shares and convertible securities, which allows it to invest in growth-focused companies. The trust continues to issue shares, and this should both help widen its audience, improve liquidity in the shares, and reduce its average running costs.


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Initiation | Investment companies

30 January 2020

GCP Infrastructure

Stable income, uncertain times

We have initiated coverage on GCP Infrastructure (GCP), which for almost 10 years, has met its objective of delivering high and stable income for its shareholders with low volatility In an age where real yields on government securities are negligible, there are clear attractions to a fund that derives a high proportion of its revenue from government bodies yet offers a 5.9% yield.


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Annual report | Investment companies

January 2020

January 2020

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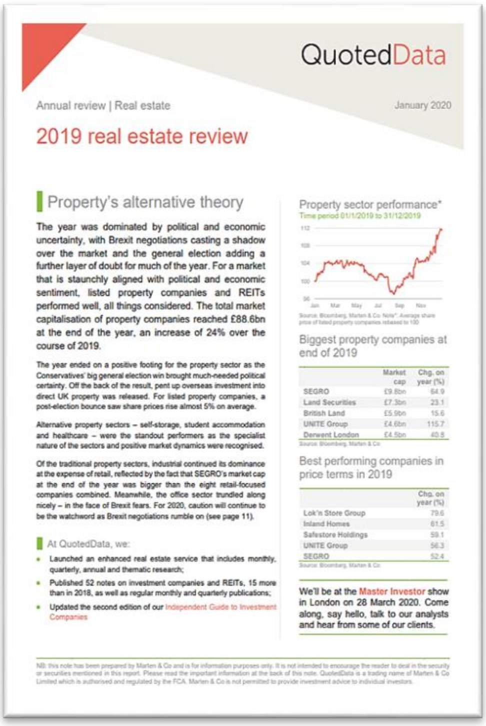
2019 – sticky bull market defies expectations

In our annual review of the investment companies sector, we looked at the main trends across performance by sector, movements in discounts/premiums, capital raising and major news stories. There was plenty to worry about going into 2019, though this did not stop risk assets having a year that would have defied all but the most optimistic forecasters.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Annual review | Real estate

January 2020

2019 real estate review

Property's alternative theory

We also published a dedicated review of the property sector. Listed property companies and REITs performed well, all things considered. The total market capitalisation of property companies reached £88.6bn at the end of the year, an increase of 24% over the course of 2019. Alternative property sectors – self-storage, student accommodation and healthcare – were the standout performers as the specialist nature of the sectors and positive market dynamics were recognised.

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