Weekly Update – 5th January 2024

This is the fifth in our new regular weekly feature, an email to subscribers that summarises both our latest thoughts and all the regular bonus features you will find as a premium subscriber to the *Money Makers Circle.* Thank you again for the positive feedback.

This week's email is again abbreviated because of the lingering holiday period. New features that will be added week by week over the coming weeks include lists of my favourite funds, sector and individual trust performance notes and videos, interesting reads plus my guide to the most valuable books about investment. These will all gradually build up to add further to our archive of essential material for anyone interested in investment trusts.

We are also planning to upgrade our member subscription system to eliminate some of the glitches that one or two of you may have experienced when signing up. It may be worth adding that the content of the weekly email can still be found on the website for those of you who prefer to read it there.

On the podcast this week

On this week's podcast, I take time away from the news-lite investment trust scene to talk about the markets with **Tom Stevenson**, investment director at Fidelity International, a former colleague of mine at *The Independent* who has also made a successful transition from financial journalism into a senior professional investment role, in his case at the family-owned Fidelity fund management business. We discuss the outlook for all the main asset classes and look back at some of the highs and lows of our more than 30 years as market participants and observers, together with some tangential comments on current investment trust ratings. Because of the holiday season hangover, this is another shorter-than-usual episode but we will be back to normal as the markets get into their New Year stride

Trust news

Each week my colleague Stuart Watson summarises the most important news out of the sector in this email. You can find out more about any individual trust you are particularly interested in, together with our normal table of share price, NAV and discount moves, by following the links in our comprehensive list of all the most relevant Stock Exchange announcements in our usual round-up.

Here is our usual chart showing how the sector average discount has changed recently. Discounts have continued to narrow over the last couple of months but are still much wider than there were during 2022:

Winterflood – sector average discount to 04 Jan 2024

There were no trust results this week following the festive break so there is no need for our usual table summarising the NAV returns of those reporting and how that compares to the trust's benchmark.

There were a handful of other announcements worth noting…

BioPharma Credit (BPCR) gained after it said LumiraDx was to be wound up following a sale of the majority of its business to Roche Diagnostics for $295m. Biopharma and its sister fund loaned LumiraDx $300m in early 2021 and the principal amount outstanding is now $362m plus interest and other fees payable. Biopharma valued its 50% share of the loan at $126m in its November 2023 update so the Roche deal should result in a small increase in the trust's NAV per share.

The latest redemption facility at **India Capital Growth (IGC)** will result in 15.2m shares, representing 15.7% of those in issue, being redeemed with the redemption price at a 3% discount to NAV being announced on 8 January. The redemption facility was introduced in 2020 and operates every two years. The first redemption event on 31 December 2021 saw 13.9% of the trust's shares redeemed.

Francesco Goedhuis is stepping down as CEO of J Rothschild Capital Management, the investment adviser of **RIT Capital Partners (RCP)**, due to an illness in his family. He will be replaced by Maggie Fanari who is currently Senior Managing Director and Global Group Head High Conviction Equities at Ontario Teachers' Pension Plan and who has also been a non-executive director of RIT for the last four years.

Keith Mansfield has stepped down as a director of **Digital 9 Infrastructure (DGI9)**. The trust has also rearranged some of its board committees and appointed Richard Boléat as the chair of a new Valuation Committee.

Life Science REIT (LABS) and **Tritax Eurobox (EBOX)** both announced new leases at properties at the Oxford Technology Park and in Stockholm respectively.

Finally, **European Assets (EAT)** confirmed that it will continue its long-standing policy of paying out 6% of its year-end NAV in dividends with 5.9p to be paid during 2024 in four equal instalments, a small increase from the 5.8p paid for 2023.

Latest trust profile

The profile this week features **Schroder Asian Total Return (ATR**), and that will be followed by a profile of **Witan (WTAN)**, the vintage global trust that switched to a multi-manager strategy some years ago.

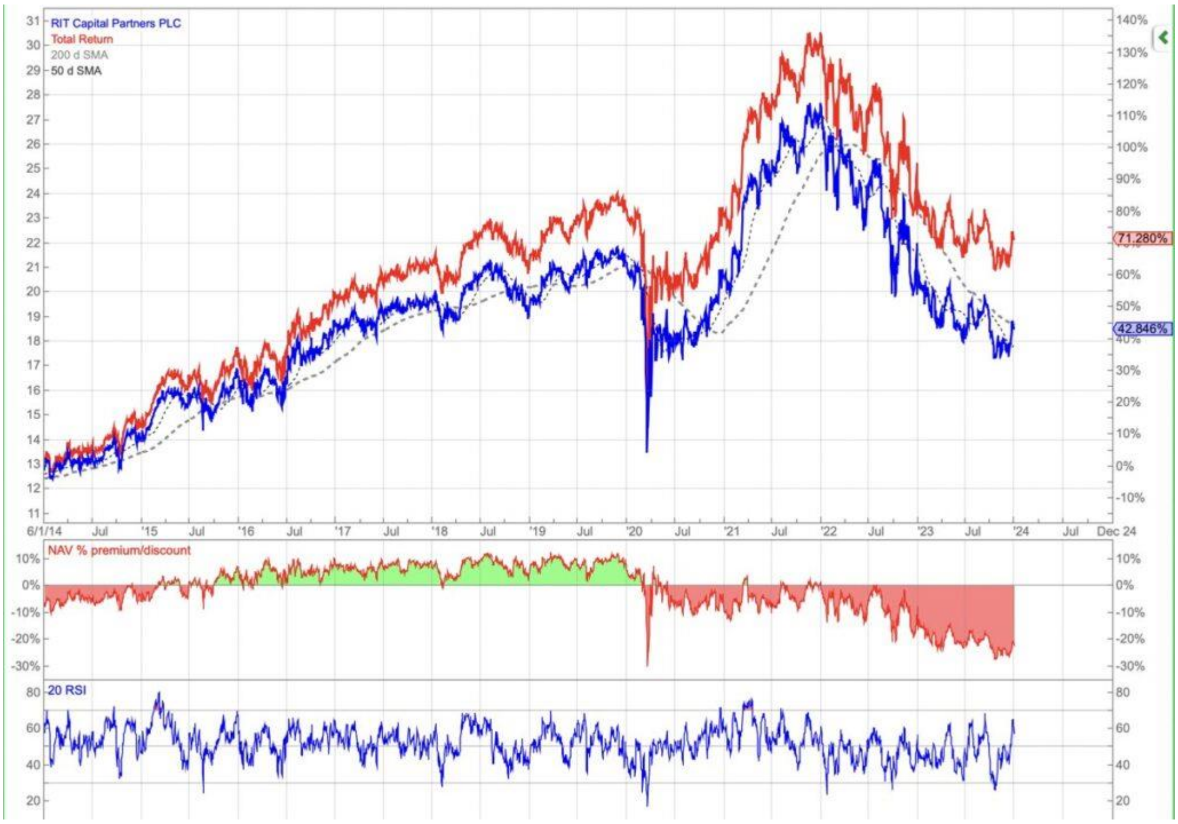
A reminder that we have now completed more than 120 profiles, all of which you can access as a subscriber to the *Money Makers Circle*. All our profiles are written from an independent editorial standpoint – we don't offer subsidised or broker-led research – and are intended to provide a starting point for further investigation.

Pick of the trust news

There is not a lot to comment on this week, as the news flow has been limited, but the latest updates from **RIT Capital Partners (RCP)**, **RTW Biotech Opportunities (RTW)** and **Biopharma Credit (BPCR** and **BPCP)** are worth noting.

RIT Capital Partners has had a torrid period by its own high standards over the last couple of years, to which management distractions (the CIO resigning in order to move to Israel for family reasons and now the CEO moving to a part-time advisory role, also apparently for family reasons) may have contributed.

It is difficult to know from the outside whether there is more to this than the official narrative. However with a new CEO and CIO in place, and the shares still trading at an unusually wide discount, there is clearly plenty of upside to play for if the trust can return to anywhere near its old form.

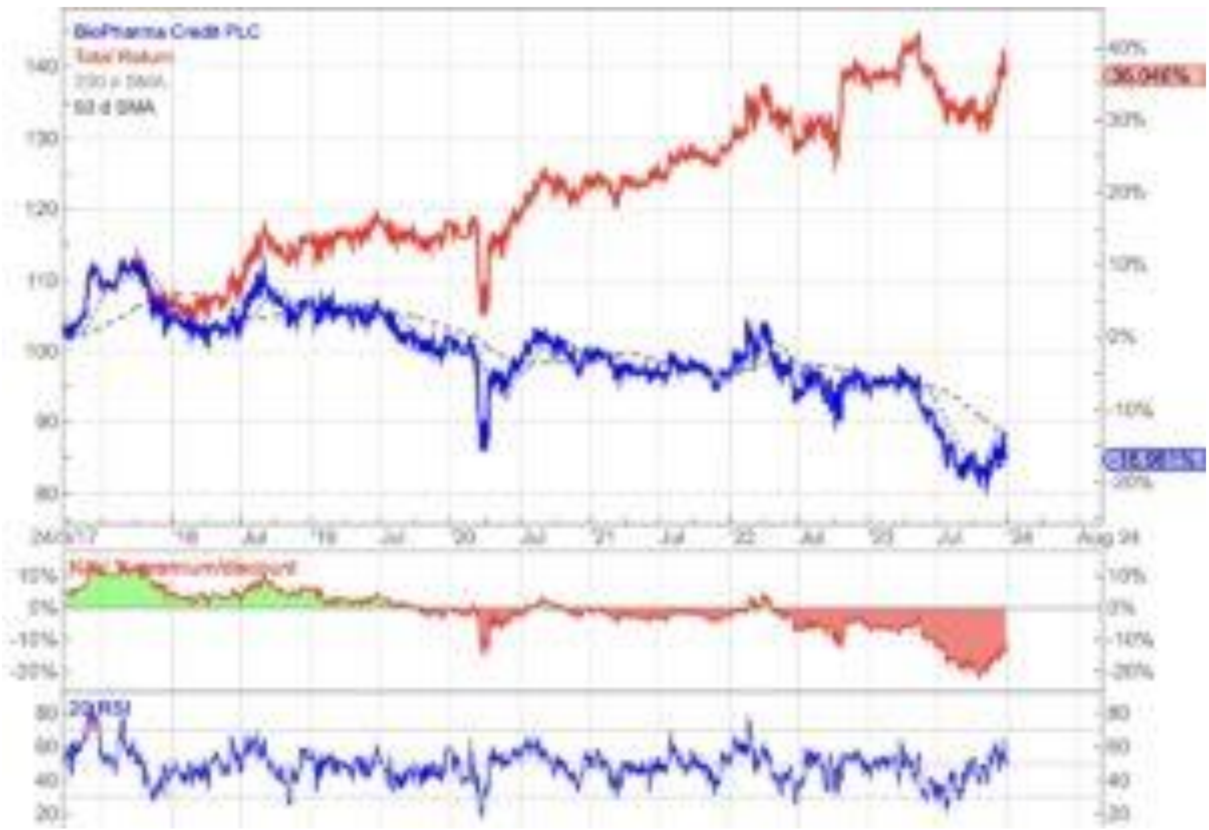


RCP Chart – 05 Jan 2024

It is good to see that **BioPharma Credit**, which I mentioned last week, has now finally brought the LumiraDx saga to an end, with the company being sold to Roche Diagnostics. What that means effectively is that the trust has got back the full amount of the loan, albeit not without some opportunity and reputational cost. I should have added to the chart I showed last week that BioPharma Credit has continued to grind out a positive total return over the last five years, thanks to its healthy 8% yield, despite the issues with this and a second troubled loan.

The dollar-sterling exchange rate is also a factor, but if you are looking for dollar exposure and have an interest in what is still a strong lending proposition, the shares continue to look attractive to me. However, do bear in mind the importance of liquidity.

When I checked the quote this week on the Hargreaves Lansdown platform, it was 69-74p for the sterling share class, which together with commission and stamp duty adds up to a costly entry fee into the shares, meaning this makes more sense as a long-term investment rather than just a trading opportunity.



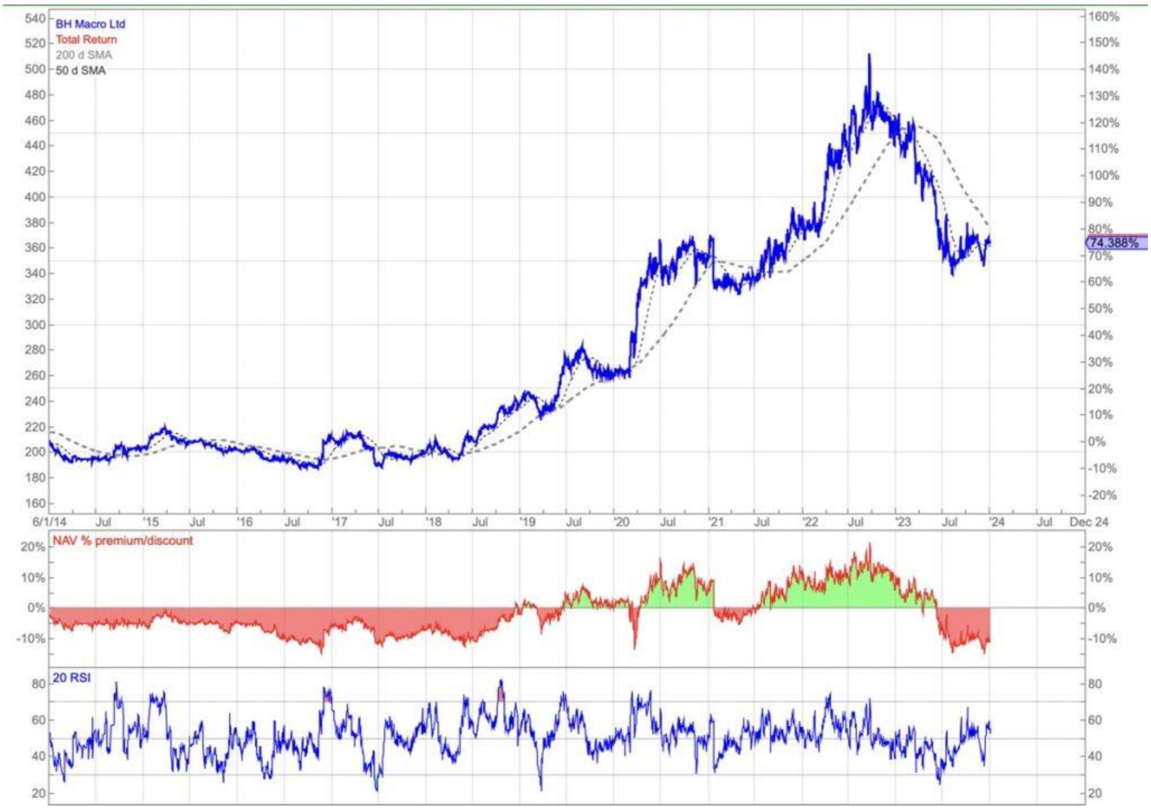
BPCR Share Price and Total Return

RTW Biotech Opportunities is one of the better vehicles to come to the London market in recent years, and although I haven't followed the saga closely, the deal to acquire Arix seems a positive move for shareholders, although the value of the terms on offer for Arix and the stake held by minority shareholder Acacia have changed significantly with the rerating of the sector.

There could be an overhang of stock held by Arix shareholders if the deal does get voted through by all the relevant shareholders. The shares also look overbought right now after a strong pickup, so if you are keen to get involved with this one, there is a case for waiting to see how the market settles down.

Of more interest to me personally is the latest NAV from **BH Macro (BHMP** and **BHMG)** which finally seems to be getting its mojo back after getting the markets all wrong earlier in the year; its monthly loss of more than 4% in April 2023 was apparently its worst ever monthly result – and doubly unfortunate in that it followed so hard on the heels of the fundraising in February.

After giving up all the welcome gains it made during 2022, it has finished the year on a stronger note and while I have trimmed my holding, I continue to hope for better results from here.



BH Macro Chart – 05 Jan 2024

Spotlight: smaller company trusts

I was planning on taking a closer look at the UK small-cap sector of the universe this week, and a timely note from Winterfloods adds a couple of useful metrics to the data I had already summarised here. Here is the data for the UK small-cap trusts I look at.

Name	Market Cap. (intraday) (m)	Close	% Total Return 11/10/23	**% Total Return 2/1/23**	Volatility (20)	Prem/Disc to NAV %	Average prem/disc % (750)	Z-statistic 1y
Rockwood Strategic PLC	£57.8	206p	▲17.4	▲19.4	0.668	-0.13	-6.84	0.54
Strategic Equity Capital PLC	£155.7	320.5p	▲3.7	▲17.1	1.11	-7.25	-10.53	0.18
Rights and Issues Inv Trust PLC	£120.8	£21.40	▲14.7	▲15.9	1.56	-8.45	-12.36	1.92
Oryx International Growth Fund Ltd	£170.1	£12.175	▲14.1	▲10.5	1.68	-24.28	-16.36	0.15
JPMorgan Smaller Companies Inv…	£226.3	291p	▲18.6	▲7.65	1.03	-9.56	-10.27	1.36
Aberforth Smaller Companies Tru…	£1,141.3	£13.56	▲13.2	▲5.92	0.771	-10.76	-11.91	1.29
Blackrock Throgmorton Trust PLC	£569.6	606p	▲7.21	▲2.33	1.12	-4.43	-2.73	0.47
BlackRock Smaller Companies Tr…	£645.5	£13.62	▲10.5	▲1.81	0.940	-10.01	-10.18	1.79
Henderson Opportunities Trust PLC	£79.3	£10.12	▲8.41	▼-0.288	1.14	-13.22	-13.09	0.64
Henderson Smaller Companies In…	£606.2	815p	▲18.3	▼-0.298	1.06	-8.97	-10.35	2.15
Abrdn UK Smaller Companies Gr…	£360.0	446p	▲14.7	▼-1.57	1.06	-10.43	-10.46	2.54
River And Mercantile UK Micro Ca…	£50.2	148p	▲2.78	▼-9.76	1.09	-18.62	-13.53	-0.66
Odyssean Investment Trust PLC	£185.1	156.25p	▲6.7	▼-10.9	1.08	1.65	0.61	0.12
Montanaro UK Smaller Companie…	£170.3	103.5p	▲10.6	▼-13.2	1.26	-10.22	-6.06	-0.36
Miton UK Microcap Trust PLC	£37.2	48.2p	▼-8.25	▼-23.8	0.399	-11.98	-6.64	-1.67

The table is sorted by total return since January 2023, and I have also included the equivalent figure since mid-October, when interest rate expectations started to change, a volatility statistic, the discount today and compared to its three-year average, plus a one-year z-score for the discount.

The first thing to note is that the table presents a very mixed picture, with a wide divergence in performance over the past 12 months and the recent rerating period. The second thing to note is that what you might call the super-specialist small cap trusts – **Rockwood Strategic (RKW)**, **Strategic Equity Capital (SEC)** and **Odyssean (OIT),** each of which has a highly concentrated portfolio, and therefore is more exposed to stock-specific risks – still have the best five-year performance, with annualised total returns of more than 10% per annum, despite a poor year in 2023 in the case of Odyssean and some management turmoil in the case of Rockwood.

The best of the rest is **J.P.Morgan Smaller Companies (JMI)**, which also has delivered 10% compounded over five years, and is now in the process of bulking up through the proposed merger with the midcap trust from the same management stable, which should stimulate some additional demand.

The tailenders over five years are the two microcap trusts, which have had a disappointing run and have notably not recovered much since the middle of October.

The strongest returns since mid-October have been, apart from the J.P.Morgan trust and Rockwood, from **Henderson Smaller Companies (HSL),** the quality growth-oriented **abrdn UK Smaller Companies Growth (AUSC)** trust and **Rights & Issues (RIII)**, which saw Dan Nickols at Jupiter take over a little over a year ago following the retirement of the long-serving founder Simon Knott.

The strategic case for looking at UK small caps today is well known. Not only is the UK market cheap in both absolute terms and relative to the US and the rest of the world, but small caps generally are also at an unusually wide discount to large caps and their own ten-year history.

The biggest negative is that institutional investors, including wealth managers and pension funds, have never owned so little as they do today in UK equities and small caps in particular.

At the same time, interest in small-cap investment trusts has been on a declining trend for a while, not least because many of the trusts in this sub-sector are below £200m in market capitalisation.

If you are only willing to look at the larger and more liquid trusts, say those with a market cap of more than £500m, it will limit your choice to just four, **Aberforth Smaller Companies (ASL)**, the two Blackrock trusts **(THRG** and **BRSC)** and **Henderson Smaller Companies (HSL)**.

Another useful lens through which to look at the options is to see how far their portfolios overlap. This Winterflood chart usefully shows how this looks today.

Portfolio Overlap

	ASL	AUSC	BRSC	THRG	HSL	IPU	JMI	MTU	OIT	RIII	SEC
ASL		5%	28%	20%	32%	14%	21%	4%	3%	5%	5%
AUSC	4%		53%	59%	39%	44%	49%	35%	0%	12%	0%
BRSC	21%	38%		76%	42%	27%	45%	19%	1%	10%	2%
THRG	12%	33%	74%		41%	23%	38%	22%	1%	10%	0%
HSL	22%	25%	43%	54%		31%	30%	9%	2%	8%	3%
IPU	13%	46%	38%	40%	49%		30%	16%	1%	8%	2%
JMI	17%	43%	55%	57%	33%	24%		21%	0%	12%	1%
MTU	10%	48%	49%	65%	25%	25%	33%		5%	5%	0%
OIT	54%	0%	41%	41%	41%	16%	0%	39%		0%	0%
RIII	29%	30%	41%	25%	25%	30%	37%	5%	0%		0%
SEC	13%	0%	12%	0%	25%	7%	13%	0%	0%	0%	

Note: Figures show the proportion of the portfolio of the "row" investment trust that is held in common with the "column" investment trust. For example, 54% of OIT's portfolio is also held in ASL, but only 3% of ASL's portfolio is also held in OIT.

The rows show for each of the 11 trusts that are analysed the proportion of the names in the portfolio which are also held by each of the others. So for example there is no overlap at all between OIT's portfolio and that of the abrdn growth trust and, just as strikingly perhaps, virtually none at all either between the abrdn trust and Aberforth Smaller Companies. This is not a surprise since Aberforth is the last survivor of a deep value stock selection process while the abrdn trust is known for its growth bias.

This variance not only goes to explain why the performance histories are so different in many cases but also suggests a choice of investment strategies to take advantage of the opportunities that are clearly to be found in the sub-sector. One approach might be to start by holding one of the larger, well diversified more style-neutral trusts, such as Henderson Smaller Companies (a long-term favourite of mine) or Blackrock Smaller Companies; or if you don't have a particular view on value versus growth, combining a holding in AUSC and ASL, which should guarantee you good results regardless of any style impact on performance.

Then there is a good case for adding one of the trusts with a more concentrated portfolio, such as Odyssean or Rockwood, to give you extra upside potential. Alternatively, you might go to the other extreme and say that if UK small cap remains a small minority position in your overall portfolio exposure, as it no doubt should be, you might as well just go for the spicier, concentrated portfolios and be done with the more mainstream vehicles. Liquidity, volatility and periodic underperformance may then become the factors to worry about. These are all personal choices that will depend on many inputs.

Finally of course you may decide that, however cheap they look, UK small-cap trusts are not really worth worrying about at all. They have not performed over ten and twenty years anything like as well as trusts with global exposure and while they have usefully beaten UK large-cap funds and passive vehicles, any contribution they make to your overall returns will be marginal at best. This is effectively what most pension funds have decided and wealth managers for regulatory reasons may be heading in the same direction.

I don't buy that argument myself and would argue that a healthy small-cap fund sector is important to the performance of the UK economy, but my own biases remain towards the smaller concentrated portfolios. In terms of style, so much depends on whether you think that the era of low interest rates is finally over, in which growth as a style has prospered in relative terms. If you are going for UK small-cap exposure, I do think it is now dangerous not to think value will have its day in the sun, so a holding in the Aberforth trust looks essential, but there is not much to choose between the better larger vehicles.

My wife and I currently own Odyssean, Aberforth and the Henderson trust (recently bought back into) and I have also been casting my eye over Rockwood, SEC and the J.P.Morgan and Blackrock trusts with a view to adding some more. It is fair to say that nearly all the small-cap trusts look overbought on a very short-term view, and have started the year by selling off. The one that looks most attractive on a z-score basis is the Montanaro trust.

Spotlight: New Year tips

This is unkind of me, I know, but I cannot resist sharing this abbreviated comment from one of the many weekend press reviews that hit the inbox on Monday mornings. This one is from this week.

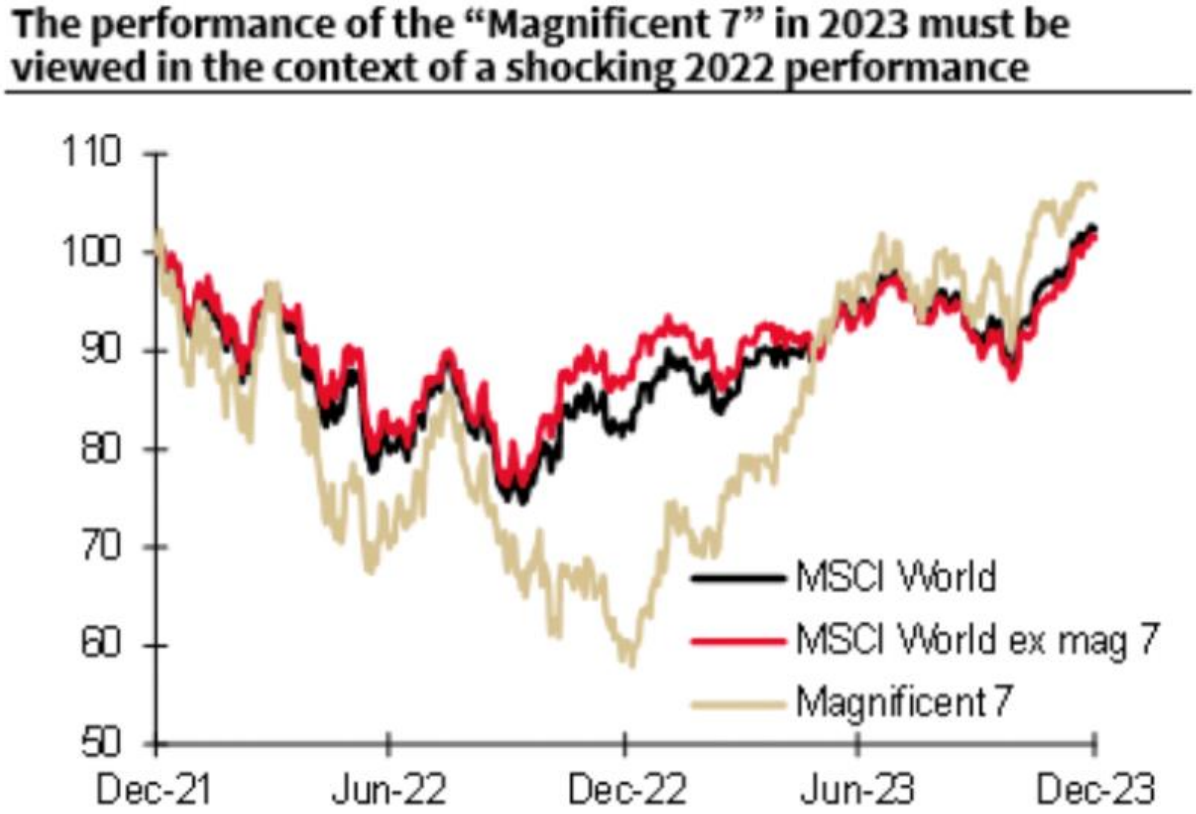
An article reviewing 2023. It says of the 380 stock market-listed funds covered by the AIC, only 210 (55%) have generated positive returns during 2023. It mentions the 2023 trust tips and says while they did not deliver the returns the author thought they were capable of, they will come good. These are **abrdn New India, VinaCapital Vietnam Opportunity, Seraphim Space, Augmentum Fintech, Invesco Asia, Aberforth Smaller Companies, Schroder UK Mid Cap, Brunner** and **Templeton Emerging Markets.** The article also mentions **India Capital Growth** which was one of the best performers (here).

The *Mail on Sunday* article is a classic of the New Year tip genre, particularly these words "while they did not deliver the returns the author thought they were capable of, they will come good". If only shares did what the writer of media comments thought they should have done, how easy life would be. As someone who started his career by being asked to write them, my advice has always been: ignore all New Year tips from whatever source……!

Spotlight: market views

A couple of illuminating charts here from **Andrew Lapthorne**, the head of quantitative analysis at Soc Gen, whose work I have been following happily for more than 20 years. They highlight what a strange old year 2023 was. Yes, it was the year of the Magnificent Seven big tech stocks, which alone accounted for two thirds of the S&P 500's performance last year, but what is not so well documented is that this extraordinary performance only made up for the huge declines that the same stocks had experienced in 2022.

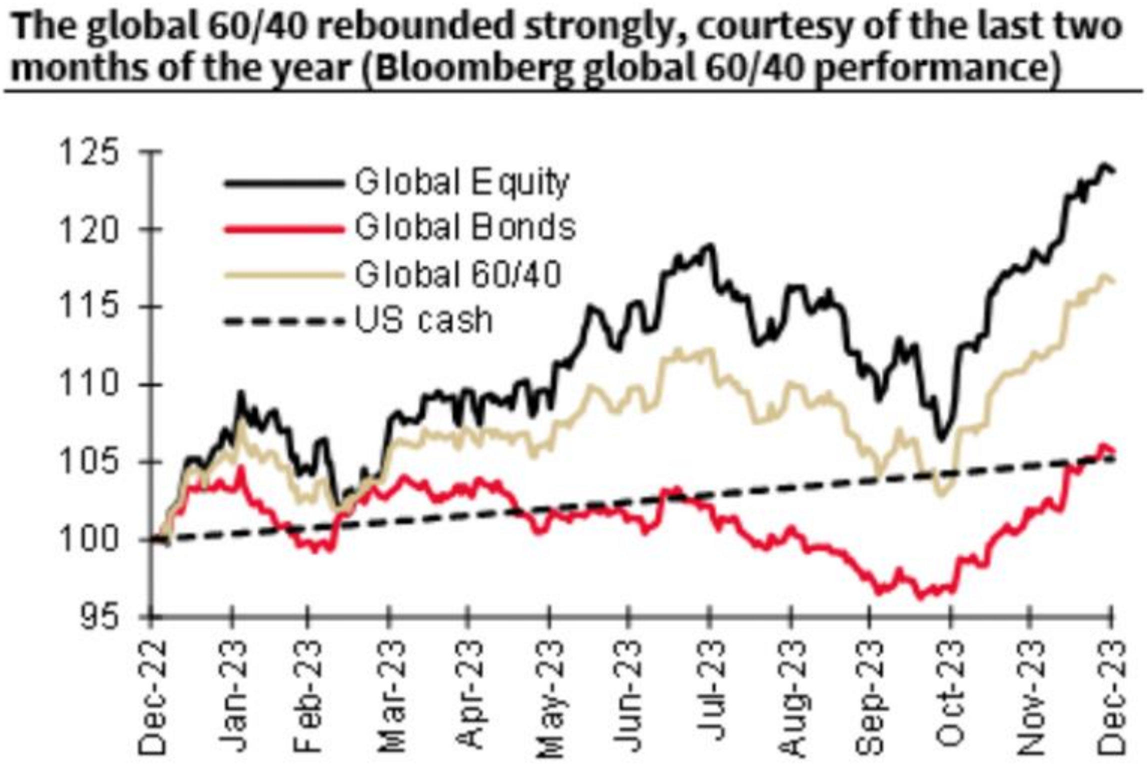
Has the prospect of generative AI really made that much difference in 24 months to the value of the US stock market and the prospects for the world economy? It is implausible to think so. This has been a story-driven market cycle, not just an interest rate one.



Magnificent Seven 2022 and 2023

The second chart illustrates another theme, the extent to which market volatility affects perceptions. 2023 turned out in the end to be an okay year, including for holders of a traditional 60-40 equity-bond portfolio, driven by the rapid reversal of interest rate expectations over the course of the twelve months.

Despite the most dramatically sharp and sudden interest rate cycle in market history, do-nothing investors who simply sat on their hands holding a traditional portfolio have come out of it all in reasonable shape in the end – while passive equity funds, which don't care where the returns come from, or what the narrative is, again proved their value as serious competitors to all active investors.



60-40 portfolio performance 2023

Investment Trusts Handbook

This year's annual *Investment Trusts Handbook* was published in hard copy form last month. From Monday, should you so wish, you will be able to see me talking about the latest edition, the seventh in the annual series, in a 20-minute video discussion with Mark Colegate, editorial director of Asset TV. A small prize to anyone who spots the factual mis-speak that occurs about three minutes in. The latest edition is the largest yet with more than 340 pages of articles, analysis and data by more than 25 contributors. You can order a hard copy from the website or download a free copy in pdf format (an extraordinary bargain, but not so easy on the eyesight!). This year I was happy to be able to conclude in my introduction, written just as discounts reached their lowest point in October, that after two years of urging caution there is now light at the end of the tunnel as far as trust discounts are concerned and great investment opportunities have started to appear. Fingers crossed that it remains that way.

Note: about the charts

The charts I show typically have one or more of these elements.

- The share price performance (blue line)
- The total shareholder return (red line)
- A comparison with inflation, as represented by the Consumer Price Index (black line)
- 50-day and 250-day moving averages (to illustrate momentum)
- A chart showing the movement in a trust's discount over time
- The RSI (relative strength indicator), a two-week overbought or oversold indicator

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A reminder that without knowledge of your individual circumstances and tolerance for risk, it is not possible to make specific investment recommendations. However, all our opinions are honestly held and we have no conflicts of interest arising from commercial considerations.