Investment Trust Newsletter

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The pre-summer holiday rush to pitch their case to potential investors has seen a lot of fund managers on the road, and we've been to a London conference as well, meaning we have a large number of first-hand manager meetings and presentations to report on this month. 'The Future of Investment Trusts' conference also hosted Dr Simon Hayley of the Cass Business School, who presented the results of a new research paper on the performance of closed-end and open-ended funds, conducted with his colleague Professor Andrew Clare. After examining data for the period from 2000 to 2016, and adjusting it for various biases, the authors claim this is the first 'apples to apples' true comparison of the funds' value ('alpha') generating records. They found that the performance difference between the funds managed within an Investment Trust and that of a comparable Unit Trust averaged around 0.8% per annum over any one year. Professor Clare commented "we were quite surprised to find such a difference. Our results suggest that the structure of an investment trust, where the manager does not have to contend with constant inflows and outflows, may have led to better or more efficient investment decisions."

Major Price Changes Over One Month

Leaf Clean Energy	+20.00%
CATCo Reinsurance Opportunities	+17.55%
Dunedin Smaller Companies	+12.55%
Ashmore Global Opportunities	+11.68%
Woodford Patient Capital Trust	+11.10%
Marwyn Value Investors	+10.53%
Better Capital PCC 2012	+10.20%
River & Mercantile UK Micro Cap	+9.78%
Phaunos Timber Fund	+9.68%
Syncona	+9.40%
Origo Partners	-81.40%
VinaLand	-21.25%
Vietnam Enterprise Investments	-12.55%
Polo Resources	-12.50%
Vietnam Holding	-9.56%

Major Price Changes Over One Year

Dunedin Enterprise	+65.80%
Independent Investment Trust	+65.30%
Syncona	+58.18%
Allianz Technology Trust	+46.15%
Edinburgh Worldwide	+43.94%
Manchester & London	+43.88%
Ashmore Global Opportunities	+38.45%
Dunedin Smaller Companies	+38.13%
Baker Steel Resources Trust	+35.82%
Baillie Gifford Shin Nippon	+35.00%
Adamas Finance Asia	-57.18%
CatCo Reinsurance Opportunities	-52.46%
EPE Special Opportunities	-50.87%
Leaf Clean Energy	-32.80%
Qannas Investments	-31.27%

£25m market capitalisation filter applied. Source: Morningstar.

The board of the £150m **Dunedin Smaller Companies Investment Trust** (DNDL, 299p) has undertaken a strategic review of the company and its position in the UK smaller companies sector, as the trust's size and the secondary market liquidity in its shares have made it challenging to attract new investors, resulting in a wide discount. In addition, the recent merger of the company's manager Aberdeen Asset Management PLC with Standard Life plc has resulted in the trust being managed alongside a company with a very similar UK smaller companies mandate. Common sense has prevailed, and the trust is proposing a merger with the larger **Standard Life UK Smaller Companies Trust** (SLS, 509p). That accounts for the rise in DNDL's shares over the month as the discount has closed in.

June was obviously a tough month for Vietnam, with three country funds amongst the worst five fallers over the month. This is a risk when investing in single country funds, particularly in developing economies. Having been a top performer, the Hanoi market plunged to become the worst performer in the second quarter, down by 23.8% over the last three months. Market commentary suggests that investors may previously have been too enthusiastic, leaving the market vulnerable to souring sentiment as global worries have mounted. Some investors are nervous as well because the Vietnamese economy has suffered crises on a consistent 10-year cycle that falls again next year.

MANAGER MEETINGS AND PRESENTATIONS

TR EUROPEAN GROWTH TRUST (TRG, 1001p)

Hovering around its lowest level since May 2017, and on a discount to net asset value of 10.7%, much wider than its one-year average of 3.9%, we think TR European Growth is suffering after a soft patch of performance that has been compounded by discount expansion. Yet this trust had a tremendous 2017 and its long-term performance record is extremely strong, so we wonder whether this could be a buying opportunity. We met the trust's co-manager Rory Stokes.

Rory said that in spite of some negative headlines about Europe and its politics, it's not a bad place to be for investment purposes. The European corporate sphere is "pretty innovative" with some great companies and it is often characterized as a geared play on global growth. And within these markets, Rory prefers smaller companies, saying that large companies are the winners of yesterday.

As a leading macroeconomic indicator, Rory watches the growth of money supply, where the increase has been slowing, but it remains positive. He describes himself as "moderately cautious" as a result, and expects bouts of volatility in the markets. Gearing has been trimmed to 10% to enable some flexibility in case of real market weakness, although Rory said he is "not over excited" about the trade war noise.

Last year there was a big re-rating of European small cap stocks, and looking at their relative valuations now, Rory thinks a big part of that valuation anomaly has gone, meaning that managers really have to hunt to find growth. Rory and co-manager Ollie Beckett, plus their new analyst, see about 400 companies each year and are looking for people who can create value. That doesn't necessarily mean buying quality, and after checking with a cashflow analysis tool they will buy recovery situations. Right now, the trust is overweight the 'worst in class' bucket, where there is some value. Generally, the managers are 'value-aware' and do not want to overpay. Rory says their aim is to grow the capital, and they don't care how in style terms, so the portfolio contains some structural winners and some self-help situations. About a quarter of the trust is in turnarounds – Rory says "Europe has no shortage of bad businesses, some of which are good businesses waiting to happen." Few people look at old family businesses, for example, where there can be "tons of opportunities." Rory says "where there is change we are keen to have a conversation." The sportswear company Puma was a good and highly profitable example for the trust.

While 2017 was largely plain sailing, at the start of 2018 Rory says the portfolio was too pro-cyclically exposed, and stocks like Pantaflix and OVS, an Italian retailer, have hurt recent returns. Rory was keen to stress through that nothing has changed with the management approach – he says that 2018 has just been more of a momentum market. In view of TR European's long-term record we think this might not be a bad time to buy into the trust, although we don't think it's a no-brainer either, given the risk of further volatility over the summer.

ACORN INCOME FUND LIMITED (AIF, 468.5p)

We have briefly mentioned Acorn Income many times in the newsletter without giving it too much coverage since 2013 and 2014, when it had a market capitalisation of just over £20m. With gross assets (not the same measure) now of £108m, the trust can attract the attention of more investors. We met Nigel Sidebottom of Premier, the managers, together with Simon Moon and Fraser MacKersie of Unicorn, who manage the trust's UK smaller companies portfolio.

Let's explain that relationship to start with. This is a split capital trust, with ordinary shares and zero dividend preference shares that run until 2022 and provide gearing of

29%, and the portfolio is a 'barbell' portfolio with a portfolio of fixed interest securities managed by Premier, and a portfolio of smaller companies managed by Unicorn Asset Management. The split is around 20/80 in favour of the smaller companies portfolio (currently 17/83), and the outcome is a trust that yields 4% in combination with the prospect of capital growth. Nigel explains that the income portfolio works to dampen volatility, from its mix of convertible loan stock, index-linked government bonds, zeros, and corporate bonds.

For most investors the income portfolio exists as a balance to the zeros, and to assist with the income element. It is the smaller companies portfolio that is usually of more interest, and here the Unicorn team aim to build a conviction portfolio of 40-50 companies (currently 49), starting with a universe of 2200 UK quoted companies before filtering out unprofitable companies, mining, oil & gas and pharmaceuticals and then applying quantitative screens to reach a shortlist of around 300. Companies must be profitable, cash generative and dividend paying, demonstrating good organic growth and balance sheet strength. The managers are looking for growing end-markets, competitive advantages, and for inefficiencies in pricing in the smaller companies sector that provide them with good entry points. The managers believe that some small cap stockbrokers are likely to disappear in the future, giving them more opportunities as the research coverage declines. The managers believe there is decent value in small caps at present relative to mid and large caps, and they have been quite active, buying Regional REIT, Hollywood Bowl, Sabre Insurance, Severfield, Integrafin, Marshalls and Saga in the last twelve months, and selling Jarvis, Pendragon, Safestyle, Quarto, and Headlam. The trust did also have a holding in Conviviality, which was written down to zero. The managers discussed Card Factory, a real favourite, and Somero Enterprises, the portfolio's second-largest holding after Macfarlane Group.

It was useful to gain a better understanding of how this trust works and what makes the portfolio tick. On a discount of just 1.5% though, we think the shares are fully valued when you can buy BlackRock Throgmorton (THRG, 564p) on a discount of 8.7% or an even closer competitor, Aberdeen Smaller Companies Income (ASCI, 295p) on a discount of 14%. The Aberdeen trust has a better track record too, and seems to offer excellent comparative value (see September 2017 newsletter).

WITAN PACIFIC INVESTMENT TRUST (WPC, 325.5p)

We wrote about the multi-manager Witan Pacific in March 2017, when the shares were 299.5p and the discount was 15.5%. It is the only trust with its mandate to invest across Asia and Japan, although that aside, we struggle to get too excited about it. We met James Hart for an update.

The trust had a middling year to 31st January 2018, with its NAV total return just below the benchmark, although share buybacks did help the discount to squeeze in a little, generating better share price returns. The discount now is 13.2%, still significantly wider than the 8.3% average for the Asia ex-Japan sector. Of course the real decision here is whether or not it makes sense to have Asia and Japan bundled together. The trust argues that the combination has lower risk characteristics than Asia on its own, with a five-year volatility figure of 11.4% for its blended benchmark against 13.8% for the MSCI AC Asia Pacific ex-Japan Index. There is a broader opportunity set too, with a refreshed manager line-up to seek strong returns. We do like this aspect of the trust's structure, in principle – that it can make managerial changes when it takes the view that a particular approach has stopped working, or that changing market conditions merit a different strategy. Gavekal Capital has been replaced, and Dalton Investments and Robeco have stepped in with new allocations, actually at lower fee rates. The trust has had periods of outperformance, but in our view this has not been consistent, and since 2012 it has given back all of its previous performance gains to fall back very much in line with the benchmark since the multi-manager strategy was adopted in May 2005.

All four of the existing managers, the two incumbents being Aberdeen Standard Investments and Matthews Asia, pick stocks across the region, and the country weightings are the result of their individual selections. At the end of April the trust had 30% in China/Hong Kong, 29% in Japan, 11% in South Korea (including Samsung Electronics, the trust's largest holding), and 6% each in India and Singapore. The look-through total of holdings is about 220, so James says the trust "definitely doesn't look like the index." The trust paid a dividend of 5.5p last year, providing a modest yield of 1.5%, and it is now covered by income (made easier by management fees now being 75% charged to capital).

As before, we think Witan Pacific offers something different to the sector, and we'll see whether this new manager line-up can match what we think is a sound structure.

JPMORGAN EMERGING MARKETS INCOME TRUST PLC (JEMI, 119.25p)

Rising US interest rates and a strong US dollar are historically bad news for emerging markets, so we were interested to hear the views of Emily Whiting, an investment specialist from JPMorgan, who did not shy away from the tough spell emerging markets have experienced to date this year, after a good January. Since that time the returns have been negative, with those US concerns compounded by some country-specific woes for Russia and Argentina. Emily said that JPM have a "constructive" view on emerging markets now, against what she believes is a supportive backdrop.

Crucially, JPM think the US dollar will weaken because the US cannot afford to have a strong currency. While protectionism and China represent tail risks, growth, reflation, and currencies all look positive for the outlook. Emily says that the risk of trade wars will likely have a selective impact and should not be destabilizing for China, and not material in view of the size of its GDP. The headlines seem greater than the investment implications. Earnings are being upgraded across all regions, and valuations look very reasonable, with price to book value for the MSCI Emerging Markets Index below its 20-year average. Emily says that global investors are underweight in emerging markets, which "remain a confidence-driven asset class." Volatility is normal for emerging markets, so the declines this year are nothing new. One big change that could be significant is the gradual inclusion of China 'A" shares into the MSCI Emerging Markets Index, which started this May. Eventually this could more than double the number of stocks in the index, raising the China weighting from around 30% to 40%, and providing massive new opportunities for global managers. Emily gave a few examples of massive Chinese companies that are virtually unknown here in the west, such as Midea Group, which dwarfs Whirlpool in home appliances; Kweichou Moutai, which is larger than Diageo; and Inner Mongolia Yili, which is already half the size of Danone in dairy products. There's a strong case for having exposure to these types of companies in portfolios, we think, and you are unlikely to hold them directly.

Turning to JEMI, the trust has no exposure to Argentina, but large holdings in Taiwan – the "poster child" for emerging markets dividends, Russia - where Sberbank is a particular favourite, offering a very high yield, Mexico and Thailand. All stocks owned in the trust must pay a dividend, which means there is no Alibaba, Tencent or Baidu in this trust. Technology is the largest sector underweight because very few tech stocks pay dividends.

JEMI shares are trading on a 7% discount now, which is unusually wide for this trust, where the rating is supported to some degree by its dividend yield, now 4%. The average discount for the trust over the last year is 3.4%, and it has been on a premium as well. Emily says that a 2% discount is more normal, but she also said the trust's buyback policy has not been used recently, which raises questions as to why not.

Perhaps the current discount is something of an opportunity here, although we don't think the differential is that wide. We're not completely convinced of the merits of combining emerging markets with income either, as the dividend requirement means the country distribution is very skewed. We prefer opportunities such as Templeton Emerging Markets (TEM, 697.5p, 13.6% discount) and Utilico Emerging Markets (UEM, 198.5p, 13.8%) where we feel the discounts have even greater scope to narrow.

ATLANTIS JAPAN GROWTH FUND LTD (AJG, 221p)

In the Japanese smaller companies sector we have found for some time it is difficult to look past the excellent **Baillie Gifford Shin Nippon** (BGS, 188p), but this quality is well-known and its shares stand at a 3% premium to its net asset value. On a 9.4% discount the rating is very different for Atlantis Japan Growth Fund, which is managed by Quaero Capital, with Atlantis Investment Research as the investment adviser. The lead manager is Taeko Setaishi, who took over as lead fund adviser in May 2016, having previously been the deputy for many years. She is based in Tokyo, but we met Richard Gittus from Quaero for some details. Taeko has a good track record as an open-ended fund manager, and in January we noted that Atlantis Japan "has actually pushed Baillie Gifford Shin Nippon quite hard for that top spot over the last year."

Taeko's approach is entirely bottom-up, without any sector overlay, and typically results in a portfolio of 50-70 companies. Some of the most attractive opportunities at present have exposure to robotics, labour saving and outsourcing, healthcare, technology, and consultant services. A few of those themes are really based on Japan's ageing population and the need to improve productivity with fewer workers. Japan has essentially full employment and very little immigration to augment the workforce, hence the strong impetus to innovate in these areas.

The trust has been innovative in the past too, being the only issuer of a type of annual subscription share that was very useful in raising capital and helping the trust over the key £100m mark, but these two issues did have a dilutive impact on returns that depressed the track record. These issues stopped in October last year, but the broker Cantor Fitzgerald reckons there is a significant impact on the historic returns that will take some time to wash through.

One other point that is worth mentioning is the trust's hard discount mechanism, which triggers a continuation vote if the shares have traded at an average discount of more than 10% for any 90-day period. This provides some discount protection from the current level, and there is a scheduled continuation vote in any event at the AGM in October 2019.

In some sectors we recommend two or more trusts to provide full coverage, and we can envisage a circumstance where we might recommend AJG in addition to BGS, although we

would like to follows Taeko's performance record for a little longer first, without the dilution of the subscription shares muddying the waters. The trust is on our radar.

SCHRODER JAPAN GROWTH FUND PLC (SJG, 207p)

After listening to the research from Cass Business School and a subsequent panel discussion suggesting that investment trusts should perhaps use more gearing, we were interested to hear Andrew Rose, the manager of the £333m Schroder Japan Growth Fund, tell us that since December 2007 he did not believe the trust had reaped any net benefit from its gearing when compared to the Schroder Tokyo OEIC which has a similar portfolio. Of course, during the global financial crisis the gearing was a disadvantage. The trust currently has 12.8% gearing, mainly through a three-year fixed rate facility in yen.

Looking ahead, Andrew thinks the future environment is likely to be better. He says the economic backdrop is "pretty good by Japanese standards" and that valuations are also quite attractive. In these conditions the trust is overweight in financials and autos, and underweight electronics (although Andrew did highlight that Japan has some leading robotics and artificial intelligence companies). The trust's bottom-up approach emphasizes valuation discipline, with a contrarian bias, and tends to be overweight in mid and small caps, a bias that has added value.

Right now, Andrew is watching the key Topix Index to see if it can finally break the "iron coffin lid" of 1800, a resistance level it has failed to break for 25 years, and whether it can do so without the yen going down. The day before the conference, June 13th, the Topix touched 1800.37, since when it has retreated yet again, down to 1693.

We'll keep an eye on the iron coffin lid, but Schroder Japan Growth would not be our first choice in this sector, as it stands up less well against its peers than against the benchmark, which it has soundly beaten.

BLACKROCK WORLD MINING TRUST PLC (BRWM, 375.5p)

At a time of synchronized global growth there is a cyclical argument to be made for commodities, particularly as mining companies have so far avoided the usual trap of over-expansion. Olivia Markham, a portfolio manager at BlackRock, says it is "really important to understand where you are in the cycle." She says that the recovery in commodities started in 2016 and has been very focused on shareholder value creation, leaving the sector in a strong balance sheet position, with good cash levels. Cycles tend to last five or six years, historically, and this is year two, so she believes this is still an early phase. The sector is trading at as big a discount to broader markets as it ever has, Olivia said.

China is of course central to any discussion about commodities, accounting for around half of global demand and being an important player on the supply side too. Markets seem to be tightening since China pulled some high-polluting supply off the market, so that augurs well for prices. A big question is whether management teams will continue to be disciplined with their capital, or whether the desire for an expansionary splurge will overtake them as usual. For now, Olivia says miners don't have big projects ready to spend on, and new chairmen and chief executives are using different language, speaking of "value over volume." Dividend policies are improving, and the sector is acutely aware of the value destruction that took place over the last cycle. At a stock level, Olivia says they are finding massive free cash flow yields now that are not consistent with this level of share prices. The trust is 14% geared, partly to offset its holdings in mining debt that are used to boost income and to support the trust's 4.2% yield.

Olivia is confident the sector will be re-rated, and if she is right, the trust's shares could be a bargain below 400p. The yield looks decent, and on a discount of 15.7% there is no doubt the trust remains out of favour. As a portfolio diversifier, we think these shares might be worth adding to portfolios that are missing commodity exposure. We rate them a buy.

SCOTTISH MORTGAGE TRUST PLC (SMT, 529.25p)

We caught up briefly with Tom Slater, the co-manager of Scottish Mortgage, the hugely successful global growth investor that has become a constituent of the FTSE 100 Index and the largest of all conventional trusts (if we exclude the private equity investor **3i Group,** III, 891p). The trust has prospered by taking large positions in the technology giants of the US and China, including Amazon, Alibaba, Tencent, Tesla, and Netflix. Tom believes we are in an era now where big companies can actually accelerate their growth, citing the network effects that can be so powerful for companies like Netflix, that achieve a critical mass and then seize the resulting market opportunities. The 'curse of size' that puts a brake on growth no longer necessarily applies. James Anderson, Tom's co-manager, has also been pushing back on the widely-held assumption that growth stocks would fall heavily in a bear market. Tom says it all depends on why the market has fallen, and it is not necessarily the case that the biggest winners turn into the biggest losers, not when there are big structural changes going on. Some transformations certainly mean that previously 'safe' companies are not safe any more.

Amazon is a of course a huge disruptor to a whole range of industries and companies, and has been a particularly fine investment over the 14 years the trust has owned it, growing to 10.5% of assets. Tom says the managers have revisited its valuation constantly during this time. He stresses that they are not looking to trade short-term price moves, but have a long-term perspective that starts by taking a view on where each company might be in five years' time. He also says that as managers they believe it is important for them to back their judgement, and that because few investors will own just Scottish Mortgage, it is acceptable to have more than 10% of assets in a single holding.

When asked about the political risk of tax and regulation in relation to the technology giants, Tom replied "I think the competitive position of some of these companies is just phenomenal." He said the US companies spend the most on lobbyists, although it is fair to categorise this as a risk. In China, the position is different, where these strong, dominant companies are favoured by the Chinese government, as they help it to pursue its agenda. He spoke about one Chinese firm in which the trust has recently taken an investment. Full Truck Alliance, now called Manbang, is a kind of Uber for lorries and loads, working in a deeply inefficient broker market run by telephone. The company uses the GPS capabilities of mobile phones to connect companies that have shipping requirements with truck drivers, matching the two.

We imagine Scottish Mortgage is parked in many portfolios, providing access to the US and China technology giants, and other growth stocks as well. It has been a great performer for an extended period by making bold conviction calls, and nothing is changing now, although we do still fear it could exhibit greater downside risk if markets turn bearish.

This month we have again produced a Statistical Supplement as a bonus for subscribers. The format is the same as previously, but we noticed a few changes when compiling the data, notably the growth of certain sectors focused on income. There has been considerable growth of debt funds and specialist property funds – the large debt sector has only one trust (Real Estate Credit Investment, RECI, 167p) with a ten-year performance record. We combine certain sectors that are commonly split, such as Europe and European Smaller Companies, as we want to see whether investors are rewarded for taking on the extra risk of less liquid stocks (we think they are). Similarly in the infrastructure sector we can see that investors have been well rewarded for accepting the operational risk of the assets owned by 3i Infrastructure (3IN, 225.3p). There is a lot of useful information in the statistics, we think, and the tables function as an index of recent mentions for trusts as well.

THE BANKERS INVESTMENT TRUST PLC (BNKR, 866p)

We like this global Henderson-managed trust as a core holding, admiring its strong dividend and the steady stewardship of Alex Crooke. It was an ISA choice in the March 2016 newsletter, and in April we printed a quote from Alex, who said "investment managers are essentially just custodians for a period of time and we hope to hand over the reins with all in fine order." That struck a chord with us.

While this trust is less flashy than SMT, we see no reason why it should not be make a complementary global holding. Alex is much more focused on value than the all-growth approach of SMT, but he emphasizes he is not against growth, rather he is against overpaying. He will sometimes buy stocks with zero yields, but it is not the remit here to chase risky performers. Alex wants to dampen down volatility by taking a "disciplined value approach over the course of the cycle" to seek good risk-adjusted returns. His core value starting point for any company is free cash flow, which chimes nicely with the delivery of income for the trust, which is a 'dividend hero' after raising its dividend for 51 consecutive years. He is not fixated on income, particularly as the trust has two and a half years of revenue reserves to support the dividend if necessary, but this is definitely an important consideration. Alex said that income is not incompatible with growth, explaining that the trust's China portfolio actually yields 4%.

It was reassuring to hear Alex say that while current market valuations may be a little stretched now, he does not consider them silly or "really expensive." We think the same is true for Bankers on a 3.1% discount to net asset value.

TR PROPERTY INVESTMENT TRUST PLC (TRY, 419p)

This top-performer has long been a first choice in the property sector, and we have covered it regularly, most recently in April 2017, when we rated the shares a buy at 317.4p. They have moved on well since then, helped by the trust beating its benchmark for the seventh consecutive year. Marcus Phayre-Mudge, the trust's manager, points to the current level of gearing of 13% as evidence of his "quite optimistic" outlook, particularly in relation to European property equities, where the trust now has 59% of its assets (with 34% in UK equities and 7% in UK direct property).

The team of nine here is one of the best resourced teams in European real estate, Marcus says, and they see a lot of companies, giving them a real feel for what is happening in property markets well beyond their doorstep. The impression we got is that London investors, aware of a slowdown in the capital, might not realise that rents are rising everywhere else, providing a second leg-up to European property that benefited initially from a falling cost of debt, and is now moving into a growth phase. Prices are good because of a lack of supply of new space – the lack of speculative lending by banks after the financial crisis meant there was a "nonexistent development cycle" from 2008 to 20-14, Marcus explains. He says the portfolio is "very long on Germany, especially German residential" and he is less keen generally on the UK and on retail, although he adds "sheds are the new shops." He likes alternative asset areas such as logistics, the new **Supermarket Income REIT** (SUPR, 102.5p), and Unite Group for student accommodation, as he seeks out pockets of rental growth. He has no plans to start investing in direct property holdings in Europe. He said he has no edge on local investors, and using a football analogy said the score is always "locals 3, foreigners 1."

Holders of the shares should be reassured by this update, which had no mention of a cyclical downturn, but spoke instead of new opportunities in alternative assets and across Europe. The valuation of the shares has closed right in though from a discount of 12.3% in April 2017 to a premium of 1% now, which does mean we would hesitate to commit new money.

FIDELITY ASIAN VALUES PLC (FAS, 409.5p)

Nitin Bajaj, the manager of the Fidelity Asian Values Trust, had a cracking start as manager when he first took on the trust five years ago, but more recently his lustre has faded. Over the last year the trust is ranked 12th out of 15 trusts in its geographical peer group, ranked by net asset value performance. Nitin is a high-conviction manager who is not afraid to be different to the market and his peers, and over recent months his relatively cautious approach has meant he has missed out on some growth opportunities.

Fidelity Asian Values is very focused on small cap value, which Nitin admits has not really been in favour. Even so, he remains completely convinced this is the right place to be, for the simple reason that it has historically been the most profitable approach. Over the long-term he anticipates equity returns of 7%-8% from Asia, but with the opportunity for much higher returns from selected small caps. The 18,000 or so companies in this universe makes for a large opportunity set, and Nitin believes he can gain an edge with his dedicated and well-resourced team. He is supported by five dedicated small cap analysts covering Korea/Taiwan, China/Hong Kong, ASEAN, India, and Australia. "The opportunity is massive", Nitin says, explaining that smaller caps are under-researched. On occasions he meets companies that have never met a potential investor before, and he feels he should be able to outperform by more than 2% per year. That's the argument for smaller companies, and for the value tilt, Nitin showed us a 20-year performance chart for Asian shares grouped into four categories, large cap growth, large cap value, small cap growth, and small cap value. The latter clearly delivered the best historic performance. This is perhaps not what many Asian investors would expect, as many would think of it as a region for growth, but Nitin says that growth industries attract capital and talent that in turn creates more competition, leading eventually to falling margins and profits. Instead, he tries to focus on industries that are not in fashion.

Fidelity Asian Values certainly isn't an index-tracker or even an index-hugger. Rather, the trust's portfolio is unconstrained, and Nitin looks for good businesses that he can understand, run by people he believes he can trust, and where he can buy at the right price too. He then backs this conviction with a substantial position, the largest at the end of May being 3.3% of assets in Power Grid Corporation of India. As a utility with a regulated business model this is far from a darling of the market, but it meets Nitin's criteria. It says a great deal that the trust is underweight in a number of well-known stocks such as Tencent, Baidu, Alibaba and Samsung. The other really important allocation is currently to cash, at 13.3% of the assets, reflecting Nitin's caution about current valuations.

The market clearly feels the trust is worth supporting, as the shares are trading very close to NAV. If that rating were to widen out, we would take a closer look.

JPMORGAN ASIAN INVESTMENT TRUST PLC (JAI, 346.5p)

JPMorgan Asian has been a good performer of late in the Asia Pacific ex-Japan sector, ranked third out of 15 trusts over the last year by NAV performance, and fourth out of 15 over the last three years. And it trades on a discount of 12%, wider than its one-year average of 9.4% and the sector average of 8.3%, so it could offer some value.

The trust's manager, Ayaz Ebrahim, explained his approach is all about core strategies, and he is agnostic about growth or value as a style. Instead, his portfolio selections are driven by bottom-up research on 750 companies from his large team of analysts, taking into account earnings, dividends, currency, valuation changes and other factors that enable the managers to have conviction in the portfolio of around 60 stocks. Ayaz says it was more focused on growth, but not so much now. He did mention one "quality compounder" though, HDFC Bank, which his using lots of technology in India to spread access to banking. JPMorgan Asian's portfolio is currently tilted towards large caps, although that is not always the case. By not being wedded to a particular style, Ayaz can adapt the portfolio to changing conditions through the cycle, and the closed-end structure does allow investment in some less liquid small caps and markets such as Vietnam.

The flexibility of the management approach for this trust contrasts with the much more resolute presumptions of the Fidelity trust. It will be interesting to see which wins out in the long-term. For now, we think the JPMorgan trust offers much better value.

NEW ISSUES

The tight primary capital conditions we have witnessed over recent months seem to have continued, and the proposed **Utilico Global Income** trust was unable to raise sufficient funds. One that did squeak over the line is **Ashoka India Equity Investment Trust,** which has successfully raised gross proceeds of £45.6m from its launch at 100p per share. This is less than the £100m it was seeking, but sufficient to get started. It will be a high conviction (20 to 40 investments), long-only investment trust, investing mainly in securities listed in India and listed securities of companies with a significant presence in India. One quirk is that the manager is charging no base fee, but will be remunerated entirely by a performance fee. Trading is due to start as this newsletter is on its way, under the ticker code AIE. If you have a good memory you may remember the **Hipgnosis Songs Fund,** essentially an income fund based on music royalties, that tried to launch last summer, initially targeting £200m, with a minimum of £100m, but failing to reach its targets. Usually, when that happens, that's the end of the project, but on this occasion the trust has tried again, with a different broker, and raised the full £200m. The fund has a target dividend yield of 5%-plus and is due to begin trading on July 11th under the ticker code SONG.

NEWS ROUND-UP

As we feared, the rational decision to tender shares in **BlackRock Emerging Europe** (BEEP, 325p) is resulting in the trust's demise. After 60.75% of the share capital was tendered, which would have left only £48m of assets remaining, the board decided to withdraw the tender offer and is instead going to issue revised proposals that will include a full cash exit at NAV less applicable costs. Shareholders can expect a circular in due course.

We've had an update from James Armstrong, the managing partner of Bluefield Partners, who manage the **Bluefield Solar Income Fund** (BSIF, 121.25p). We wrote about the trust a year ago, highlighting its attractive yield of 6.3% and strong position against its peers. Much the same applies again now, although that yield has edged down to 6.1% as the shares have strengthened. It is business as usual for the trust, which is quite focused on managing its risks as well as its 46 solar assets around the UK. James says they have not been buying many assets lately, as the secondary market is very competitive now that no new solar projects are being built (following the removal of subsidies). Management has resisted the temptation to raise more capital and go 'asset gathering' at the wrong moment, when prices are high. Bluefield entered the market at the right time in 2013 and bought well for three years, securing a strong income stream from what James says are "non-complex" and very predictable assets. Bluefield's technical team, based behind a bank of monitoring screens, ensures the solar farms work as efficiently as they can, day in, day out, during daylight hours. James says generation has been good during May, June and July, although the tremendous sunshine we have been enjoying does not make a huge difference to output. Overall, James is "pleased with how things are going", and like **Greencoat UK Wind** (UKW, 125.1p), another success story in this sector, Bluefield has prospered by sticking to what it said it would do, and not being distracted by more exotic growth opportunities in other countries. This is a UK business that provides "a simple way of earning sterling income", James says. In the future there is potential for another wave of solar development as the costs of technology come down, and there are signs of this happening already in southern Europe. It may take a while to arrive in the UK, but Bluefield may be ready to participate again in construction projects in the next couple of years. Further initiatives could also be assisted by favourable political will or by developments in allied technologies such as battery storage. For now though, we think holders should remain content to pick up an excellent yield from what we regard as a high-quality operator.

Genesis Emerging Markets (GSS, 697p) has announced a tender offer for up to 10% of its ordinary shares at a 3.5% discount to the NAV, and in view of the current discount of 11.9% this represents an irresistible offer that we think shareholders should accept to the maximum extent. We are glad to report that **Invesco Perpetual Enhanced** (IPE, 76.2p) has resolved its argument with Invesco, and has reappointed them as managers, on a lower fee. Continuing a dispute, incurring costs along the way, would not have been a good path for shareholders, who can now decide for themselves whether or not to stick with the managers. The chairman is standing down immediately. **Macau Property Opportunities** (MPO, 199p) is to return some capital to shareholders this month, through a compulsory redemption of ordinary shares. The return, equivalent to 50p per share, is set to be implemented on Monday, 9th July, with the proceeds credited to shareholders around 24th July.

The next issue of Investment Trust Newsletter is published on Saturday 11th August.

The FTSE 350 Equity Investment Instruments Index is down 52.50 points (-0.53%) to 9867.60 since the last newsletter.