Investment Trust Newsletter

PUBLISHED MONTHLY SINCE 1996 • SEPTEMBER 2024 ISSUE •

Britain had its coolest summer for nine years, and after a brief dramatic interlude in the first week of August the stock market was a washout too. The FTSE Closed End Investments Index fell by 4.6% over the month. September has started with a flurry of corporate activity in the sector though, with more takeovers, mergers, and asset sales that we cover in the round-up section. We also take a fresh look at the private equity sector, where we feel there are a number of good investment opportunities after a challenging period.

Major Price Changes Over One Month

Trust	Change
Doric Nimrod Air Three	+16.98%
Doric Nimrod Air Two	+13.65%
JPMorgan Global Core Real Assets	+10.59%
PRS REIT	+10.09%
Majedie Investments	+8.93%
Seraphim Space Investment Trust	+7.92%
Foresight Solar Fund	+7.72%
Golden Prospect Precious Metals	+7.25%
Baillie Gifford Japan	+7.02%
Fidelity Japan Trust	+6.85%
JPMorgan EMEA Securities	-18.31%
Schiehallion Fund	-16.44%
HydrogenOne Capital Growth	-12.04%
Baker Steel Resources Trust	-10.00%
RTW Biotech Opportunities	-9.78%

Major Price Changes Over One Year

Trust	Change
Doric Nimrod Air Two	+75.14%
Crystal Amber Fund	+71.43%
Doric Nimrod Air Three	+62.27%
3i Group	+59.23%
Manchester & London	+53.59%
GCP Asset Backed Income	+48.32%
Tufton Oceanic Assets	+44.15%
abrdn New India	+43.06%
Baker Steel Resources Trust	+42.65%
Marble Point Loan Financing	+42.52%
Digital 9 Infrastructure	-66.02%
Regional REIT	-65.46%
Gresham House Energy Storage Fund	-55.39%
Life Science REIT	-46.62%
Harmony Energy Income Trust	-39.27%

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

JPMorgan Global Core Real Assets (JARA, 74.1p) has failed its continuation vote, meaning that the board will now consult shareholders and try to formulate a different path forward that may involve a winding-up or some partial asset sales. JARA holds its assets in infrastructure, transport and property through other JPMorgan funds, which may mean it can more readily exit than if it held these assets directly, but shareholders will learn more in due course – the board has six months to make its proposals. Some of the underlying funds may have lock-up periods or redemption queues. JARA shares are up by 10%, but we think the price could have reacted more strongly to this news: the shares remain on a discount to NAV of 18.6%. Even if the trust is unable to achieve a full value for its holdings, or if it decides to follow another route, we see scope for more discount narrowing here, so we think existing holders should be patient. HOLD.

THE PRS REIT (PRSR, 92.1p) has been in the news because of action by a group of shareholders to change the board composition. On 29th August this group led by Harwood Capital, together representing 17.3% of the share capital,

Warning: the value of all shares and the income from them can fall as well as rise. You should not buy securities with money you cannot afford to lose, or rely on dividend income for non-discretionary living expenses. Investment trusts may use or propose to use the borrowing of money to increase holdings of investments or invest in other securities with a similar strategy and as a result movements in the price of the securities may be more volatile than the movements in the price of underlying investments. Your investment may be subject to sudden and large falls in value and you may get back nothing at all. Investment trust share prices can also fall in response to changes in discount or premium ratings that are separate from changes in the asset value. You run an extra risk of losing money when you buy shares in certain smaller investment trusts which have the characteristics of 'penny shares.' There is a big difference between the buying price and the selling price of these shares. If you have to sell them immediately, you may get back much less than you paid for them. The price may change quickly, it may go down as well as up, and you may not get back the full amount invested. For many investment trusts, especially those denominated in another currency, changes in rates of exchange may have an adverse effect on the value or price of your investments in sterling terms. As with other investments, transactions in investment trust securities may also have tax consequences and on these you should consult your tax adviser. We have taken all reasonable care to ensure that all statements of fact and opinion contained in this publication are fair and accurate in all material respects. Figures for net asset values and historical track records supplied by Morningstar, JPMorgan Cazenove, or by the trusts themselves. Investors should seek appropriate professional advice if any points are unclear. This newsletter is intended to give general advice only, and the investments mentioned are not necessarily suitable for any individual. It is possible that the officers of the McHattie Group may have a beneficial holding in any of the securities mentioned in this newsletter. Andrew McHattie, the editor of this newsletter, is responsible for the preparation of the research recommendations contained within. Data and privacy policy: as you have subscribed to this newsletter, we will retain your data for the purpose of sending you the product for which you have paid, and we will retain those details indefinitely in order to offer you renewals, offers from our business, and any other products we think may be of interest to you. We take all reasonable precautions to ensure the security of personal data stored on our system, which is only accessible to staff of The McHattie Group. You should contact us if you wish your details to be removed from our database. Published by The McHattie Group, 40 Cornwallis Crescent, Bristol, BS8 4PH. Tel: 0117 407 0225. E-Mail: enquiries@mchattie.co.uk. Website: http://www.tipsheets.co.uk. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form by any means, electronic, mechanical, photographic, or otherwise without the prior permission of the copyright holder. ©2024. The McHattie Group is a media firm and offers restricted advice on certain types of investment only. Authorised and regulated by the Financial Conduct Authority.

requested a general meeting to remove two of the five directors and to replace them with Robert Naylor and Harwood chief Christopher Mills. Those names might be familiar as the pair who helped to resolve the difficult end-game for Hipgnosis Songs Fund, and the fairly obvious implication is that some changes would be afoot for PRSR, which has been languishing on a very wide discount since late 2022. If appointed the new directors would undertake a review of options to return value to shareholders, to include an evaluation of the management contract, the possibility of a sale of all or part of the portfolio, use of capital for share buybacks, and the introduction of an annual continuation vote. Launched in 2017, the trust owns a portfolio of more than 5000 new-build family homes for the private rental market, managed by Sigma Capital in Manchester, and the initial response from the board has been to defend its position. It says it has created significant asset value returns for the shareholders and that the trust is not alone in trading at a wide discount in the UK REIT and investment trust sectors. A new adviser has been appointed, and a sub-committee has been formed to seek engagement with the requisitioning shareholders. We can expect more news to come, and regardless of which side prevails this could be good news for the share price, which has already jumped to reduce the current discount to 25.0%.

Back in January we said that **Hansa Investment Company** (HAN, 228p; HANA 226p) was one to watch because of a strategic review at its largest holding, Ocean Wilsons, which we first mentioned in July 2023. At the end of August this year the holding in Ocean Wilsons was 29% of assets. It has taken some time for further news to arrive, but on 23rd August Ocean Wilsons confirmed that it is in discussions over the potential sale of its Wilson Sons shipping services subsidiary, boosting its shares by 15% on the day and helping Hansa Trust to move up by 5% at the same time. There have been some hopes that a shift in the portfolio may help the market to re-frame how it thinks about Hansa, which has traded on a very wide discount for a long time. For as long as we have been covering the trust the large stake in Ocean Wilsons has always been a preoccupation and undoubtedly a big factor that has drawn the eye away from the trust's multi-asset strategy. Whilst there is no guarantee of any change here, we think this development is undoubtedly a positive for the trust, which is still trading on a very wide discount to NAV of around 41%.

PRIVATE EQUITY

For some time we have felt that private equity – investing in unquoted companies - has offered some of the very best discount opportunities to investors, coupling some very strong historic track records with a lack of current demand to throw up some seemingly anomalous valuations. We included the highly diversified fund of funds **Harbourvest Global Private Equity** (HVPE, 2412.5p) in our ISA selections in March, following on from our technology-oriented pick **HgCapital Trust** (HGT, 509p) in 2023, and we also covered **CT Private Equity** (CTPE, 445.5p) in detail in May. Right across the sector we see good value in discount terms, with the average hovering around 30% (excluding the curious outlier **3i Group** on a 40.7% premium) and quite a number in the 30%-40% range. We find it hard to see any real justification for such heavy discounts in the absence of any systemic problems or even individual trusts in trouble. The private equity sector has navigated the higher interest rate environment quite calmly, unlike some renewables trusts or property trusts that have been overburdened by debt. The sector has continued to deliver reasonable returns, and it has continued to deliver consistent uplifts to holding values on realisations and exits, demonstrating there is no particular reason to doubt current valuations. We are returning to the sector now to investigate another trust that is often included on stockbrokers' buy lists, and to consider a few other competitors that you may also have thought of buying.

NB PRIVATE EQUITY PARTNERS (NBPE, 1590p)

If we say that NBPE offers investors a slice of the action we are not just referring to the easy access to private assets that this sector makes available to investors. We are also referring specifically to Action, the European discount retailer that has been such an impressive driver of returns for 3i Group (III, 3090p). It is perhaps not widely appreciated that NBPE is also a part-owner. Unlike III though, on a huge premium rating, NBPE shares trade at a discount of more than 20%, so we thought the trust was worth a closer look.

The 'NB' prefix, first of all, relates to the managers Neuberger Berman, a sizeable international firm that can boast a long and largely independent heritage, except for the period from 2003-2009 when it was owned by Lehman Brothers. These days the managers look after US$474bn of assets from their offices in 39 cities around the world. Of that total, around US$115bn is in private markets, so NB can lay claim to having a strong market position within the industry. That is important because private equity is about dealmaking, where relationships, sourcing, and access advantages are all essential. NBPE itself has net assets of almost a billion pounds.

The managers say that private equity valuations have come down from their peaks in 2020-2022, although high-quality assets continue to trade at full valuations. Activity has reduced too and exits have slowed materially, with a knock-on effect to distributions and to fund-raising. These are the trends that

have hurt sentiment, but the same long-term growth opportunities remain available, from a continually growing base of private companies that is arguably in better health as a universe than the listed company sector. NBPE was once a fund of funds but is now focused on making direct co-investments into private companies with its partners. The remit is global but there is an inevitable focus on the US, the largest and deepest private equity market. This co-investment model means that NBPE can invest alongside top-tier private equity managers in their core areas of expertise, diversified across sectors and able to respond to changing structural growth trends. The trust says it has delivered a ten-year cumulative NAV total return of 170%, including a small uplift in the first half of 2024.

NBPE's largest holding is Action, though a much smaller proportion than it is for 3i Group at around 6.8% of assets. Action has of course been a huge success story for all shareholders, most notably 3i Group. Apart from 3i, other notable co-investors include Reverence Capital, Platinum Equity, and Francisco Partners, but those names generally don't mean very much to anyone outside of the private equity industry, which highlights one of the difficulties of assessing trusts and strategies in this realm. It is a fairly closed, esoteric industry that is hard to fathom from the outside, particularly when all trusts seem to be able to point to highly profitable strategies and strong track records. That is why we do like to look at our own performance tables here, and why as well we think management meetings are very useful to get to know a trust over time. In this case too there is some transparency, as NBPE lists the names of its largest holdings, so it is possible to go away and dig into each one. The second-largest holding, for example, is a company called Osaic that is a financial network business in the wealth management industry in the US. Another holding is Constellation Automotive Group, which may not be a familiar name, but owns the BCA car auction group and the website webuyanycar.com. The portfolio is well diversified with 85 direct equity investments, and the managers say the underlying companies are performing well. The slowdown in the usual exit cycle also means the portfolio may be more pregnant with opportunities for profitable uplifts than usual, because these have not been booked at the same rate in recent times. For NBPE, 54% of its companies have been held for at least four years, whereas the usual holding period is probably 3-5 years.

Capital allocation is a hot topic in the private equity sector at present, with some trusts laying down formal rules for how they will use future capital receipts for buybacks or for dividends rather than for reinvestment. We are not sure we like 'hard' rules that can quickly become burdensome or impractical when conditions change, nor are we generally in favour of pure capital growth trusts paying artificially-constructed dividends out of capital. NBPE's board is flexible in terms of buybacks, but it does follow a dividend policy to pay out an annualised yield of 3% or greater of its net asset value. The current yield is 4.7%, partly because the shares are on a discount of 24.7%, which we think is a reasonably attractive valuation, though less extreme than many. As NBPE is also somewhere in the middle of the pack in performance terms over recent years we think it does not stand out in value terms. The trust's general approach and depth of resource make for a strong medium-term investment case though, so we can see why NBPE is on some buy lists.

Another trust that caught our eye in the sector after the early-August sell-off was **Apax Global Alpha** (APAX, 145.3p), which dropped from 155p to a low of 137p. The shares have clawed back part of that loss, but the discount has remained out at 33.3%, which looks very wide to us despite the rather prosaic performance of the last few years. Like NBPE, APAX has the policy to pay out capital as a dividend and it is committed to paying out at least 11p per share as a minimum, with the possibility of special dividends on top. This is effectively slicing off a piece of your capital and giving it back, so it is not sustainable income, but nevertheless we can see this is a path for income-focused investors to benefit from the long-term growth of private equity. This artificial dividend offers a yield of 7.8%, which looks quite enticing when coupled with that wide discount. Whilst this would not be our first choice trust in the sector, we still feel that APAX shares are UNDERVALUED at their current price and could offer an opportunity for shorter-term investors.

CT Private Equity Trust (CTPE, 445.5p) is another dividend-paying trust in the sector. We wrote it up in May, when the shares were 463p, and neither the share price nor the net asset value is much different now. Manager Hamish Mair says there is often not much change in the NAV in the first half of the year, as the valuation process is more skewed towards the second half. He seems optimistic about this next period, indicating that realisations are picking up, as is M&A activity and that economic conditions are reasonably benign. He is "pretty confident we'll see good growth in the second half." Hamish added that while he still feels the discount to net asset value is "uncomfortably wide" at 32.6%, he adds "over the long-term it provides a brilliant opportunity for people to buy in." That chimes with our own view on this trust and on this sector more broadly.

On the fringes of the private equity sector is **Literacy Capital** (BOOK, 515p), trading in calmer waters now after it entered the market just over three years ago with quite a splash and roared straight to the top of the performance tables. The NAV total return for the first half of 2024 was a positive but modest 4.4%, taking the net asset value up to 522.6p. The portfolio of 19 companies has suffered some weak spots, notably the component distributor and electronics manufacturer Techpoint, and the specialist

personnel provider Grayce, but BOOK moved quickly to strengthen the management in both cases. Paul Pindar, the trust's chairman, told us "we are pretty swift and pretty intolerant when things aren't going to plan." Overall the trust's underlying companies are continuing to perform well, including the specialist healthcare provider RCI that accounts for almost 32% of the NAV. That's a large position, but Richard Pindar is a patient manager and stresses the unique structure of the trust that removes the pressing need to sell quickly and keep the portfolio turning over. It is common for private equity managers to be paid in carried interest when companies are sold – hence their incentive to keep the deals humming – but for Literacy Capital there is no carried interest, and the managers are instead aligned with shareholders through their large stakes in the trust. The Pindar family owns more than 40% of the share capital.

There's no doubt that Literacy Capital has a very distinct ethos that makes it stand apart from peers. Often the managers will begin with quite small deals in the region of £3m-£7m of capital and they may buy founder-led businesses where owners are retiring and wanting to hand the business over to a trusted party; or perhaps where younger founders (in the case of recent investments into Campfire, Cubo, and Live Business) want help to move on to the next stage of development. The trust likes operating in this space, where it sees less competition and less interference from advisers than for bigger deals. This is where Literacy Capital has an edge too in terms of its family structure and its charitable angle (the trust donates 0.9% of its asset value to literacy charities each year), which contributes a considerable 'feelgood' factor that helps the trust win deals. The trust has no plans to expand, partly because the managers are not motivated by fees, and partly because they work well in their existing capitalisation range. Indeed, earlier this year the trust created a 'B' share scheme enabling future returns of capital as the portfolio matures and more realisations occur. BOOK seems very focused on making money for shareholders rather than for the managers, and Paul and Richard sound optimistic about the near future. They say that economic conditions are improving, and they suggested there could be some newsflow from new investments and from realisations.

On new investments first of all, the trust is seeing a strong flow of opportunities right now, with motivated sellers wanting to pass on their businesses ahead of a potential hike in capital gains tax by the new Labour government in the budget set for October 30th. That seems like good news, but if a serious rise in CGT then changes behaviour and reduces the likelihood of business sales, this could become a negative for the trust's future deal prospects. It is something to watch. On realisations, Literacy Capital has consistently said it uses a very conservative valuation policy, with a current average multiple of 9.2x EBITDA, and its four exits to date have all been at large uplifts to the carrying values, of between 48% and 325%. This validates the trust's valuations and also points to the potential for occasional jumps in NAV when exits occur.

Having passed its three-year anniversary since launch in June, Literacy Capital has an enviable medium-term track record to attract investors, comfortably in the top ten of the entire investment trust sector, broadly defined. This is why the shares continue to trade close to NAV, in contrast to most of the sector, but Richard believes there is "an excessive preoccupation with discounts" that can draw investors away from the highest quality trusts. We have noted before that it is worth paying up for **HgCapital Trust** (HGT, 509p), now on a 2.5% discount, and of course there is the extraordinary example of **3i Group** (III, 3090p) where investors put off by the big premium rating have missed out on excellent share price gains. We think the rating here should not be a reason for long-term investors to defer purchases – we don't see a big discount opening up here, given BOOK's history, structure, and its special features that set it apart from the rest of the pack.

STOCKBROKERS' RESEARCH

Peel Hunt issued a note on 21st August with an 'outperform' rating on **abrdn Asian Income Fund*** (AAIF, 209p). This trust was launched in 2005 and aims for a combination of rising income and capital growth from a portfolio of Asia-Pacific companies. Abrdn's management team, led by Yoojeong Oh, seeks quality at a reasonable price, looking for holdings that combine balance sheet strength with reliable earnings, ideally in structural growth areas of the market. The trust is a 'next generation dividend hero' with 15 years of unbroken dividend growth and a yield of 5.6%. The shares trade on a discount of 12.3%, which is wider than the peer group average despite the consistent track record of dividend growth and the current yield premium. Peel Hunt say they are "impressed with the extent of abrdn's stock selection capabilities and the locally-based resource at AAIF's disposal." The note continues "the disciplined focus on quality, dividends, valuation and growth, and the constant reappraisal of companies in the portfolio and overall portfolio positioning, should bode well for the future, in our view. The AAIF leadership team has been successful in extracting alpha-generative investment ideas from this valuable analyst resource."

The trust typically has 40-70 holdings, currently 58 including Taiwan Semiconductor, Samsung, BHP, and Taiwan Mobile. It has a large percentage of its assets exposed to four countries; Taiwan (25%), Singapore (18%), Australia (16%), and China (10%). Historically, Taiwan, Singapore, and Australia have been

key markets for income investing in Asia, unlike China and India. The portfolio includes market leaders in various sectors, from financial services to consumer goods, which the manager expects to thrive as Asia continues to expand. In addition to the enthusiasm around technology and tech hardware, the manager is seeing opportunities across real estate, banks, wealth management and insurance sectors. Gearing is currently 7%, within its normal range. Peel Hunt see the economic backdrop as supportive and anticipate that "the market expectation for US interest rates to moderate will also provide a tailwind for Asian equities."

A note issued on 4th September by Stifel suggested a switch from **Polar Capital Global Healthcare** (PCGH, 397.5p) into **Worldwide Healthcare Trust** (WWH, 361.75p) on valuation grounds. The broker says the two trusts have been performing similarly well, each achieving NAV total returns of 18% in the year to date, beating the 14% return of the MSCI World Health Care Index. WWH may have a slight edge as its focus on emerging biotechs has started to outperform. Stifel note "since WWH's derating in early 2022 to bring it in line with PCGH, the discounts of each trust have tended to be correlated, and converge if a spread between them emerges. Other the past month, the discounts have diverged from 6% for both on 29th July to 4% for PCGH and 10% for WWH."

In the same sector, Winterflood said on 19th August that recent performance from **The Biotech Growth Trust** (BIOG, 1026p) has been better, offering new hope that the trust could be a beneficiary of a soft economic landing in the US, where it has 86% of its investments. As the name suggests, BIOG is a biotechnology specialist, managed by Orbimed Partners in New York, but its bias towards smaller cap emerging biotech has proved a brake on returns over recent years. Winterflood highlight though that in the year to date this has reversed and the trust's NAV total return of 12.9% to 16th August was ahead of both the Nasdaq Biotechnology Index (+8.1%) and the peer group (+12.0%). Notwithstanding the forthcoming US presidential election and a small remaining weighting in China of around 7%, Winterflood believe the outlook looks fair for the trust. The note says "we continue to rate the managers highly, and bought into their consistent reasoning over the last few years, noting that the length and depth of the biotech sell-off was unprecedented, particularly within SMID caps, that M&A and monetary policy were natural catalysts, that scientific progress continued unabated, and that the regulatory outlook was relatively benign. This thesis has started to play out, and we think it has further room to run. Recent weeks have shown that markets may react aggressively to macro data; we believe the fund will benefit disproportionately if a 'soft landing' can be executed successfully." Since Orbimed's appointment in May 2005 the trust has returned +14% pa on a NAV total return basis, in line with the NASDAQ Biotechnology Index benchmark and exceeding the wider US market over that period (S&P 500 Index +13% pa). Returns were particularly strong in 2019 (NAV TR +47%) and 2020 (+52%), as market sentiment towards growth stocks was highly favourable, and biotechnology in particular was seen to contribute to the resolution of the Covid-19 pandemic.

Panmure Liberum published a detailed note on **Schroder UK Mid Cap Fund*** (SCP, 617p) on 20th August suggesting the trust has re-rating potential in more supportive market conditions for UK trusts. The trust trades on an 11.5% discount. Its holdings in companies like Inchcape, Dunelm, QinetiQ, Cranswick, and Computacenter trade on an average forward P/E calculated at 11.9x earnings, with a PEG ratio of 0.63, lower than the benchmark thanks to greater growth expectations. The note concludes "market conditions have become more supportive as investors have responded positively to UK macroeconomic outperformance relative to peers, and we have started to see improvements in flows to the sector via ETFs. Allied to this, intra-index forward EPS momentum has been a tailwind as a strategy, and SCP's portfolio returns have remained well positioned for this environment."

Staying in the UK, Investec rates **Temple Bar Investment Trust** (TMPL, 263.75p) a buy, pointing to its differentiated approach to the UK that features a classic approach to value investing. Investec say "the management team is well-resourced, and this facilitates deep fundamental analysis that seeks to identify those companies trading at a significant discount to an intrinsic value, which is based on the manager's estimates of long-term earnings potential." Since the appointment of Redwheel in October 2000, the NAV total return of 116.0% is materially ahead of the FTSE All Share total return of 65.3%. Following many years of indiscriminate selling by institutional investors, the UK valuation discount versus global equities is close to record levels and the manager sees parallels with 2000 when investors were similarly entranced with US growth stocks and had little interest in old economy sectors. Looking forward, they see increased corporate activity and share buybacks as catalysts for a more supportive environment.

Deutsche Numis provided an update on **Chrysalis Investments*** (CHRY, 78.7p) following the interim results from the trust's 11.4% portfolio holding Klarna in late August. All metrics were strong, so Klarna looks on track for a possible US$20bn IPO next year. Chrysalis currently values the company at US$12bn. The broker concludes "we reiterate our view that the shares of Chrysalis look attractive on a c.46% discount to NAV, with several potential liquidity events including possible IPOs for Klarna and Starling, while press reports suggest that Visa is in talks with Featurespace over a deal that will value the company at around £700m (we estimate a carrying value

of c.£520m). Importantly, this would position Chrysalis well to commence buybacks, with the first £100m of realisation proceeds to be returned to shareholders. Thereafter, up to 25% of net cash profits will be distributed to shareholders, likely through buybacks."

** asterisks in this section indicate that the trust mentioned is a client of the stockbroker providing the research*

NEWS ROUND-UP

Artemis Alpha Trust (ATS, 382p) is proposing to merge into **Aurora Investment Trust** (ARR, 257.5p) to form an enlarged trust called Aurora UK Alpha. Artemis Alpha has a mixed track record with its UK growth companies portfolio and there were a couple of trigger points for this corporate action. The co-founder of the managers John Dodd is retiring, and this was his last management role as co-manager of ATS with Kartik Kumar. ATS was also committed to offering a 25% tender later in October that may have reduced the existing £140m trust to an uneconomic size, so a combination appears to make good sense. Aurora looks a suitable partner too, growing in presence and status, and with the key holdings in Frasers Group and Castelnau Group already in common. More than a third of the two portfolios overlap, and with Kartik also proposing to move with the trust, we think the practicalities of merging the portfolios should be straightforward. There will be the option of a cash exit for up to 25% of assets, a cost contribution from Aurora's manager Phoenix, and we expect the deal to conclude in the last quarter of this year.

Augmentum Fintech (AUGM, 105.75p) looks interesting to us, still rather out of favour along with most trusts that might be classified as 'growth capital', focused on early-stage companies. Some were sold off during the early-August market jitters. We think the fundamental case makes sense here because the UK does have a considerable part to play in the global fintech industry, unlike the broader tech sector that is highly US-centric. The trust's shares accelerated over 120p in the early summer on greater optimism about the prospects for more profitable realisations, but they suffered in the early-August market volatility and have dropped back into the 100p-110p trading band where they have sat for much of the last two years. As a result there is a fresh opportunity to buy in at a 36.1% discount that looks attractive for investors prepared to take a medium to long-term view.

In July we noted **Balanced Commercial Property Trust** (BCPT, 94.75p) "could be on the way out" after a strategic review indicated the need for change, and just as we go to press the trust has received a cash takeover offer of 96p per share from Starwood funds, which we think is a good outcome. The last reported NAV was 105.1p per share at the end of June, and given the costs and difficulty of realising property value piecemeal, a sale of the entire company is by far the cleanest outcome for shareholders. The board is recommending the offer and says the acquisition "compares favourably to the risk-adjusted returns that may be generated by other strategic options (with the acquisition representing both an acceleration of the timing of returns, and an improvement on the expected net present value, to be delivered pursuant to a managed wind-down)." The deal should complete in the fourth quarter, subject to approval by BCPT shareholders, and along with the news below from **Tritax EuroBox** (BOXE, €0.814) these takeovers mark the latest strands to a string of property trusts to disappear during this downturn. JPMorgan Cazenove have helpfully summarised the M&A that has occurred in the UK listed property sector. They say "in June 2023 Blackstone completed an all cash offer for Industrial REIT at a 3.7% premium to the last reported NAV prior to the deal announcement, in August 2023 CK Asset Holdings completed an all cash offer for Civitas Social Housing at a 26.7% discount to the last reported NAV prior to the deal announcement, in August 2023 LondonMetric acquired CT Property Trust in an all share offer that implied around a 6% discount to NAV, in March 2024 LondonMetric acquired LXI REIT in an all share merger that implied a 4% discount to NAV, and in May 2024 Tritax Big Box completed in all-share merger with UK Commercial Property Trust that implied around a 10% discount to NAV."

We deliberately picked **BBGI Global Infrastructure** (BBGI, 136.3p) as a low-risk buy for income at the time of our ISA picks in March, and as a potential beneficiary of an improving interest rate environment. That is exactly how this choice has developed so far, paying a reliable and growing income (the six-monthly payment of 4.2p should have landed in accounts this week), and slowly gaining in capital value as the discount rates used to value long-dated assets have reduced. The trust's interim results for the first six months of 2024 were reassuringly unexciting, which is what we wanted. For us, BBGI offers predictable availability-based revenues that should not be affected by the economic cycle or by fluctuations in capital markets. Sure enough, the trust delivered a steady NAV total return of 2.4% in the first half in spite of some currency headwinds, confirmed 99.9% availability from its projects, and said the portfolio was performing in line with expectations. BBGI has a very strong balance sheet, with its revolving credit facility fully paid back, and undoubtedly sits at the low-risk end of the infrastructure spectrum. It is possible that other infrastructure funds will generate greater returns, but we like BBGI's solidity as ballast for a portfolio. It has grown its NAV and dividends every year, and in addition to these hard metrics it scores well on having a socially impactful portfolio. Its capital has

been used to fund roads, bridges, schools, police and fire stations, hospitals, and hydroelectric power – all essential parts of infrastructure to allow society to function as we would like. Overall the portfolio is 54% transport, 20% healthcare, 12% civic infrastructure, 9% education, 3% affordable housing, and 2% clean energy. About a third of the portfolio is in Canada, with the same in the UK, and the rest spread between Europe, the US, and Australia. On a 9.5% discount and with a yield of 6.1% we think the valuation is less compelling now than it was in March, so it is no longer an obvious buy, but we don't see any reason why existing shareholders should not continue to HOLD the shares.

Bellevue Healthcare Trust (BBH, 153.5p) has released details of its annual redemption right for shareholders, although there is no need for a decision until early October. We feel that with the shares on a 7.5% discount there is not much in it either way, in which case this opportunity is really for those who were looking for the exit door in any case. Most holders can safely ignore it. One curiosity we noticed is that the trust has extended the gap between the date for redemption requests and the actual calculation and payment, which it attributes to the need to comply with checks under the UK financial sanctions legislation, to ensure all holders can be properly identified. By reducing the certainty of returns it may have the effect too of reducing redemptions. This 'hard' discount control mechanism does seem to be something of a distraction here, and we are not sure it is really helping the trust.

Harmony Energy Income Trust (HEIT, 51.6p) updated the market on its asset sale process when reporting its quarterly net asset value for the end of July, down by 1.4% to 94.8p per share. The trust continues to experience mixed returns from its GB battery portfolio but seems to be moving in the right direction with more capacity coming on stream. It says that interest from potential bidders for some of its assets is strong and that it expects to receive indicative non-binding offers before the end of September. We do not know either the price or the size of these transactions, and of course the trust is trying to sell at a very weak point in the market – so not the best time – but nevertheless it is hard to believe there won't be any uplift in value here with the shares trading on a near-50% discount. In spite of the lack of dividend payments for the moment, we think existing holders should be patient and await the outcome of the sales process.

We noticed a curiosity buried in the interim results from **Impact Healthcare REIT** (IHR, 88.5p), which generally looked satisfactory with a 2.6% increase in NAV to 117.98p per share. The trust says that an FCA rule change restricting the use of certain sustainable terms means that it will need to change its name to replace the word 'impact', which cannot be used unless the primary aim of the business is social impact. The company will provide an update in due course, but this sounds like another irritating example of excessive regulatory zeal creating unnecessary cost and confusion.

We said in July that a forthcoming continuation vote might lend more urgency to plans for asset sales and share buybacks from **JLEN Environmental Assets** (JLEN, 95.5p). In early August the trust sold 51% of its anaerobic digestion assets to a company called Future Biogas that is backed by **3i Infrastructure** (3IN, 341.25p). For JLEN the transaction provides £68m of cash, allowing it to pay down some debt and to allocate £20m to share buybacks, and this news was well received by the market that had been calling for some recycling of capital. Whilst we think the high dividend yield of 8.0% remains attractive, the discount has narrowed somewhat from 23.6% in July to 17.2% now. Interestingly, this was perceived as a good deal for 3IN too, but we feel slightly uncomfortable with this easy conclusion that it is a win-win for all parties when assets are effectively shuffled from one trust to another. Returning to JLEN, it is proposing to change its name to Foresight Environmental Infrastructure this month, subject of course to shareholders voting against the discontinuation resolution at the AGM on 13th September.

Riverstone Credit Opportunities (RCOI, US$0.8375) cut its second quarter dividend as anticipated, to a rather disappointing 0.7 US cents per share, but also had good news for shareholders in the form of a 25% return of capital. The trust is in wind-down mode and is set to return US$23m through a compulsory redemption of around 25% of the share capital at the latest NAV plus the dividend, which comes to US$1.017. This is a decent uplift, and we are surprised that the shares have not traded at least a few cents higher on the news, although the waters are muddied somewhat by further news of financial difficulties at the shipbuilders Harland & Wolff, to which the trust has an outstanding loan. Shareholders on the register on 9th September should receive the redemption payment on 19th September.

Staying with the same firm of managers, **Riverstone Energy** (RSE, 803p) is not an easy trust to understand. It has a colourful record from its listing in late 2013 to the present time, with plenty of highs and lows along the way. Depending on timing, investors may have made or lost a great deal on Riverstone Energy over the years. The trust raised £760m from its launch but then took a long time to get invested and had put less than 40% of its money to work after 18 months on the market. Its shares sank to a wide discount as a result but then rallied sharply again as its holdings in North American oil and gas companies started to deliver against a backdrop of stronger oil prices, peaking at 1385p in 2017. By the middle of 2019 some disappointing valuations and

weaker crude prices had dragged the share price back below its starting level of 1000p and the trust was attracting some criticism for its high fees. It ended 2019 as the worst share price performer in the whole sector with a drop of more than 60% and fell further as the pandemic hit in early 2020. The shares hit a low of 108p, then bounced quickly. A discontinuation vote in November 2020 was looming though, with a chunky exit fee in prospect for the managers, but they could also block it together with cornerstone investors, raising governance issues. That was indeed the outcome, and the trust decided to transition towards clean energy investments to capture the zeitgeist of the day. RSE shares rallied by more than 60% in 2021 and carried on rising in 2022 in spite of a continuing wide discount. The shares briefly regained the 1000p mark earlier this year but remain volatile and the trust is clearly a tricky proposition for investors.

Following the acquisition of the RSE portfolio company Hammerhead Energy last November the trust found itself with excess cash that it decided to return to shareholders through a US$200m tender offer at 1050p per share in March. This leaves RSE as a smaller trust now with around £350m of net assets, and a considerably smaller market capitalisation that reflects the wide NAV discount of 35.5%. The portfolio is around 63% invested in conventional oil and gas assets, with 16% in decarbonisation investments that have proved poor performers to date, and the remainder in cash. There is a mix of listed and unlisted investments, but like **Castelnau Group** (CGL, 100.5p), **Crystal Amber Fund** (CRS, 108p), **3i Group** (III, 3090p), **Baker Steel Resources Trust** (BSRT, 49.5p), **Manchester & London** (MNL, 623p), **Hansa Investment Company** (HAN, 228p; HANA, 226p), **Chrysalis Investments** (CHRY, 78.7p), **Geiger Counter** (GCL, 39p), **Aurora Investment Trust** (ARR, 257.5p), **Schroders Capital Global Innovation** (INOV, 10.625p) and others, RSE is a highly concentrated trust with a large holding in a single company. At the end of June the US oil producer Permian Resources accounted for 34% of the net asset value; an unlisted European company called Onyx that operates coal and biomass fired power plants made up another 15%; and another US oil producer, Veren, 14%. That degree of concentration makes RSE a high-risk proposition, as does the influence of the oil price, so we can expect more volatility ahead. And whilst that discount of 35.5% looks wide in absolute terms it has been much wider over the last twelve months. The stockbroker JPMorgan Cazenove removed RSE from its model portfolio in June after its strong run higher, and we consider the shares to be SPECULATIVE.

Staying at the specialist end of the sector for a moment, **Tetragon Financial Group** (TFG, US$10.00; TFGS, 790p) continues to frustrate in share price terms. A solid NAV performance in July took the overall returns to 4.4% for the year, which is not bad, but the discount to NAV remains a complete outlier at 68.3%. As we have explained before, there are some good reasons for this, most notably the lack of voting control, but it still looks anomalous and could change if there is a management will to do so at some stage. One important point we would make though is that we would generally AVOID the sterling shares with the ticker code TFGS. We know that some (not all) platform brokers only allow clients to deal in these sterling shares, which are less liquid and with a much wider dealing spread than the dollar version.

At some point in the next few months we expect more news on the winding-up of **Triple Point Energy Transition** (TENT, 70.4p), which has made good progress with its sales and has one major asset left in the form of its hydroelectric portfolio (plus a small LED receivables asset). The trust has paid off its borrowings now and has a cash balance. The last stated NAV per share came in at 86.7p at the end of March, but everything hinges now on what price can be achieved for this last major holding. Our back-of-the-envelope calculations suggest there could be 20% share price upside from a good outcome and that TENT would need to take around a 30% haircut on the valuation of the hydroelectric asset to remove all of that potential uplift. On the balance of risk and reward we feel it is worth exhibiting some patience here and waiting for the conclusion, which has been promised in this financial year to the end of March. The shares are at their highest level for 18 months and are a HOLD.

The board of **Tritax EuroBox** (BOXE, €0.814) has recommended an all-share offer from the London-listed property giant Segro, which is offering 0.0765 of its shares for each BOXE share. With Segro shares at 867.6p that implies value of around €0.79 per BOXE share, but their small premium to this level reflects the fact that this is not quite a done deal. Brookfield Asset Management threw its hat into the ring some time ago and has until 23rd September to make a competing offer. It makes sense to wait for that news before accepting the Segro bid.

The next issue of Investment Trust Newsletter is published on Saturday 5th October.

www.tipsheets.co.uk **www.itnmembers.co.uk**

The FTSE 350 Closed End Investments Index is down 568.61 points (-4.60%) to 11,786.07 since the last newsletter.