Investment Trust Newsletter

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Fuel shortages and media images comparing today to the darker moments of the 1970s economic crises have largely failed to trouble investors, who seem more concerned with processing just how life is normalising as the Covid-19 pandemic recedes. We'll have to see whether the traditionally volatile autumn period brings any stock market shocks, but for now the sector is very much business as usual.

Major Price Changes Over One Month

Geiger Counter	+34.75%
Acorn Income Fund	+15.64%
Schiehallion Fund	+15.39%
Seraphim Space Investment Trust	+13.51%
Riverstone Energy	+12.82%
JPMorgan Russian Securities	+12.53%
Fidelity Japan Trust	+11.98%
Atlantis Japan Growth Fund	+11.67%
Literacy Capital	+11.54%
Aberdeen Japan Investment Trust	+10.31%
Civitas Social Housing	-17.61%
Syncona	-16.04%
Macau Property Opportunities	-13.08%
Doric Nimrod Air Three	-12.64%
Baillie Gifford China Growth	-11.08%

Major Price Changes Over One Year

Electra Private Equity	+232.31%
Geiger Counter	+164.58%
Aberdeen Split Level Income	+110.70%
Chelverton UK Dividend	+105.86%
VietNam Holding	+95.99%
KKV Secured Loan Fund C	+88.66%
Oryx International Growth	+87.75%
Schroder European Real Estate	+86.80%
BMO Private Equity Trust	+86.37%
Aberforth Smaller Companies Trust	+84.46%
Syncona	-30.78%
Golden Prospect Precious Metals	-29.32%
Amedeo Air Four Plus	-21.33%
Macau Property Opportunities	-19.57%
Gabelli Merger Plus+ Trust	-18.60%

£25m market capitalisation filter applied; source Morningstar

Geiger Counter (GCL, 50p) has been a beneficiary of the spike in energy prices worldwide, which has had a knock-on effect on the price of uranium. According to the market consultants UxC the spot price for uranium currently stands at US$43/lb, up by around a third since the end of July. Market reports suggest some speculative buying by investment funds, and for the first time since the Fukushima Daiichi accident a decade ago, the International Atomic Energy Agency (IAEA) has revised up its projections of the potential growth of nuclear power capacity for electricity generation during the coming decades.

Seraphim Space Investment Trust (SSIT, 124.2p) has indeed enjoyed a stellar start to life after listing at 100p, but while we ask the usual questions about whether the price may have run ahead of itself, we would be inclined to let this one play out. The trust has made a follow-on investment of US$25m into a satellite broadband company called Isotropic Systems that illustrates the potential. Seraphim already had a small investment here in its seed portfolio, but this latest funding round was at a valuation 172% higher, so there was a NAV uplift as a result. The trust's manager James

Bruegger says "we now have the financial firepower to double down with conviction on our highest potential investments" and that the trust "has multiple other transactions that are expected to close in the near term." We rate the shares a LONG-TERM HOLD.

On the way down, there was more to the negative share price performance from **Civitas Social Housing** (CSH, 88.65p) than we knew last month. A report in The Sunday Times revealed that a short-seller by the name of ShadowFall has been targeting the company, raising questions about the role of private funding and long leases in a sensitive sector, and more specifically about some operating procedures relating to the way in which care home operations are split from their property interests. The article says that two Civitas directors failed to disclose an interest in a related party transaction, but our understanding is that it was discussed openly with the UK listing authority, which determined that this information did not need to be made public. The trust has dismissed the allegations as "based on factual inaccuracies, incorrect assumptions, erroneous comments and assertions which are not grounded in fact." Nevertheless, the media coverage has definitely cast a shadow, and it has not helped that the share price fall has relegated the trust out of the FTSE 250 Index, causing some index-trackers to sell as well.

Doubtless it is unsettling for shareholders to see the shares fall sharply and for the company to be under attack in this way. We feel we have something of an advantage though in having followed CSH for some time, and spoken to the managers on a regular basis over a period of years, getting to know something about their character and motivation. This gives us considerable comfort that CSH can bounce back, particularly as we imagine the trust will be doubly careful with disclosure from now on, and our view is that this situation has a lot of similarities to a previous setback in early 2019 that really first drew our attention to the trust. There is greater risk here now, but we think there is greater opportunity too. Our article in July 2019, when the shares were 84.5p, was about fears of a crackdown by the regulator that proved to be without much foundation, and the trust was able to slowly rebuild confidence with investors, who drove the price up to its peak of 120.8p in early August. The sharp setback since that time creates an opening, we think, for patient investors to establish or add to positions at a great price, with an initial yield on offer of 6.3%. BUY.

HENDERSON SMALLER COMPANIES INVESTMENT TRUST (HSL, 1237p)

We last covered HSL in June 2020 when the share price was 814p, so it has been a dramatic 16 months for this £1.1bn trust as the economy has navigated the pandemic and the shares have jumped by 52%. The trust is ranked sixth of 16 peer group trusts by NAV performance over the last year, and we have long admired its consistent record under Neil Hermon's management. In the 18 financial years under his management the trust has outperformed its benchmark index in 16 of those years. In the last year to the end of May, the trust's NAV was up by 58.5%, beating the benchmark by 4.4%, and the current financial year has also started very well.

Neil provided an update in a virtual meeting a couple of weeks ago. The long-term argument for investing in UK small caps is extremely well rehearsed in view of their historic outperformance, partly because there is limited broker coverage and this part of the market is less efficient. That provides greater scope for a good manager to add value, and the investment trust structure helps as well: HSL uses moderate gearing, at 8.9% at the end of August. Neil adds that small caps tend to do well in the early recovery phase, which has certainly been the case over recent months.

Neil describes himself as a growth investor, but one that keeps valuation in mind, so more perhaps growth at a reasonable price ('GARP'). His view is long-term, trying to buy good quality companies and running the winners. It is not micro cap, and if anything there is a mid cap bias, with more in the FTSE 250.

Over the last year the trust has benefited from not owning miners, which do not really fit its investing criteria, but also from a number of positive contributors. Turning to the top two, the specialist media group Future (3.67% of assets) has announced extremely strong trading fed by growth in digital advertising and e-commerce, coupled with a successful acquisition programme; and Impax Asset Management (3.25% of assets) has been a winner as its AUM doubled in an environment where its strong ESG credentials have been attracting inflows of capital. Neil says "they are rated reasonably highly but the prospects look incredibly strong." There have been disappointments though, such as Clinigen, which faced a challenging year as a side effect of Covid-19, when cancer patients were given a lower priority, hurting sales of its cancer drug, and the same was true for its clinical trial services. Neil believes it is a good company that is undervalued.

One particularly interesting point Neil made is that the UK smaller companies trust sector has contracted over the last couple of decades, from perhaps 30 trusts when he first started, as weaker performers and smaller trusts have fallen by the wayside. He says "what we are left with now is a pretty effective and very competitive space overall; there are some good managers in the area, so we are pleased we can hold out head up in this area." We agree with those comments – there are quite a few good trusts that we could recommend in this sector, and we do believe that investors should have some exposure to UK smaller companies in their portfolios.

In addition to Impax Asset Management and Future, other large holdings include the housebuilder Bellway; the e-learning and software company Learning Technologies; the scientific equipment maker Oxford Instruments; the luxury watch retailer Watches of Switzerland; the video game developer Team17; the business telecoms firm Gamma Communications; the translation services provider RWS Holdings; and the pub operator Mitchell and Butlers. Neil's focus is very much on bottom-up stockpicking, and sector weightings are a consequence of that, but out of interest the trust is most overweight in software & computer services, electronic & electrical equipment, and household goods & home construction. It is underweight travel & leisure, REITs, banks, food producers, and precious metals & mining.

Some managers tend to be quite dismissive of IPOs, but Neil sees them as a "very good source of new investment opportunities," especially given the pent-up supply that arrived this year after an understandably fallow 2020. JanusHenderson have great access to these companies, usually meeting them well before they arrive, allowing time for a deep study of their prospects, and the trust has taken advantage of five this year, namely Alphawave IP, Auction Technology, Bridgepoint, Foresight, and Moonpig. Six other new holdings have been acquired too, in Access Intelligence, EMIS, Moneysupermarket, Restaurant Group, SigmaRoc, and Wickes. In part these have replaced companies that have disappeared from the portfolio as a result of takeovers, including Codemasters, John Laing, Sanne, St Modwen, Ultra Electronics, and Vectura. Neil says this is an inevitable result of the UK looking so cheap against international markets, that lots of US buyers have noticed the value.

This was a confident update, and it was good to hear that an experienced, trusted manager like Neil was fairly optimistic about the outlook for cheap UK small caps. The trust is not a particular bargain on a discount of 7.9%, in line with the current sector average, but for investors who want good, reliable, sensible management, we think HSL's track record under Neil's watch speaks for itself. We rate the shares a STRONG LONG-TERM HOLD.

ALLIANCE TRUST (ATST, 1017p)

There is not always very much that is new to say about the big international generalist trusts, where our views tend to evolve slowly unless there is a change of management or approach. For Alliance, which adopted a multi-manager strategy in 2017, it too tends to make small adaptations to respond to changing opportunities and market conditions, and is unlikely to suddenly fly or sink to the outer reaches of the performance tables. It is targeting steady returns for long-term savers, and it should come as no surprise at all that it is bang in the middle of the NAV performance table for the global sector over the last three years.

The board of the trust employs a firm called Willis Tower Watson as the investment manager, overseeing the selection of individual 'stock pickers' responsible for their own high-conviction mini-portfolios within the whole. The idea – not entirely dissimilar to selecting a range of investment trusts for your own portfolio – is that the diversification offered by different management styles and geographic regions should reduce risk and volatility, while still delivering best-in-class returns. We think the case is not particularly proven: while the argument sounds strong, the reality is that multi-manager funds have had their ups and downs like all others, and have not really demonstrated a consistent edge over multi-asset strategies with a single manager. The other main trust with a strategy very similar to Alliance is **Witan Investment Trust** (WTAN, 244.75p), which has on occasions performed well in the peer group, but has also spent quite a lot of time in the lower half. Witan, incidentally, also takes advice from WTW on manager selection, although ultimately retains its independence and is self-managed, making its own decisions.

Craig Baker, the global chief investment officer for WTW and chair of the investment committee for Alliance Trust, says the ability get access to managers that would otherwise be unavailable to British retail investors is a big advantage, as is the careful instruction to each to construct a concentrated 'best ideas' portfolio of 10-20 stocks. ATST believes it avoids the potential pitfall of ending up with a massive collection of stocks across a whole range of markets, and that it can still control the blend of managers to take strategic decisions about the weightings in different areas over time. Craig says "every stock that is in the portfolio is someone's top 20 idea." The trust uses ten stock pickers from across the world with diverse styles, and these are reviewed and changed from time to time. In April the trust brought in two new managers, Michael Sramek of Sands Capital, a US long-term quality growth manager looking for innovative high-trajectory growth companies, including those working in new technologies; and Jonathan Mills and Simon Denison-Smith of Metropolis Capital, a more value-oriented London manager that seeks returns from a combination of the closing of the 'value gap' and increases in the intrinsic value of the businesses. The managers come from a private equity background, and think long-term. Craig called their management style "Warren Buffett-like." Overall, the deliberate mix of growth and value means the portfolio is in aggregate "pretty style neutral" with a beta of close to one (meaning it should move at roughly the same pace as the market), so that stock selection – alpha – is really what drives the trust's relative performance.

When selecting these managers, WTW draws on the work of its 80 or so researchers who are constantly assessing fund managers from around the world, more virtually than in-person at present, looking for sustainable competitive advantages. And like all of us, they wrestle with the question of how long to retain a manager that starts to underperform. There is no quick answer, but it is about forming judgements on what has changed, and sometimes the right answer is to increase exposure to managers that have underperformed, but where it is reasonable to remain confident in their abilities. On average, Alliance might expect to change perhaps one manager per year but one thing that won't change is the focus on equities. The policy is to remain as a pure global equity trust, rather than shifting into alternative assets.

One other point to make clear is that Alliance is not investing in these managers' funds, but is employing them to create specific segregated portfolios. That means the stocks are held by Alliance, and that WTW has access to them all of the time, and can perform 'look-through' analysis to check there is no imbalance caused, for example, by several managers being overweight in the same stocks. Bearing in mind this is a global portfolio that will naturally be heavily weighted towards the US, some of the leading names are those you might expect, such as Alphabet, Microsoft, Facebook, Visa, Amazon, salesforce.com, Nvidia, Mastercard, Taiwan Semiconductor Manufacturing, GlaxoSmithKline, Vale, Baidu, Walt Disney, and Adidas. The top 20 holdings account in total for nearly a third of the portfolio.

Cost can be an issue, and WTW uses its size and prominence in the multi-manager sector to negotiate attractively low fees for the trust. The ongoing charges ratio (OCR) seems reasonable at 0.64%, without any performance fees on top, and the higher reduction in yield (RIY) measure comes in at 0.89%, below the sector average. Witan's costs are higher.

This year, the portfolio has been outperforming its MSCI All Country World Index benchmark, and Craig says the trust tends to work well when the market is advancing quite broadly. In 2020 the US market in particular was led by a narrow cohort of growth stocks, so that was a tougher comparative. The trust's decent performance and stable status quo is reflected in a current discount of 5.8% that tends not to fluctuate too much. This is modestly above the trust's 5% discount target, but looks comfortable enough.

Our view on Alliance is fairly neutral. If you own it as a long-term savings vehicle, we see no particular reason to dissuade you from continuing with it. WTW is doing a professional job of managing the trust carefully within its multi-manager remit, and we think the trust will probably provide you with solid middle-of-the-pack returns. The other giant global trust to consider is F&C Investment Trust (FCIT, 866.5p), which has been a marginally better performer over all recent periods and is available on a much wider discount of 10.5% that would probably make it our pick at present. We think a multi-asset approach probably makes sense too, rather than ATST's pure equity mandate. There is also RIT Capital Partners (RCP, 2590p) on a 6.3% discount, which is structured to have lower downside risk.

RTW VENTURE FUND (RTW, US$1.885; RTWG 140p)

We spoke to the managers of RTW Venture Fund, which invests in early-stage healthcare companies, after its interim results for the first six months of 2021 showed further development of the portfolio. It has broadened out to 34 companies after 13 new holdings were added during the period. Six holdings also launched successful IPOs, and RTW jumped through the hoops necessary to graduate to a premium listing, as we reported last month. One particular element of that could be subject to misinterpretation, as we explain below.

Let's cover that point straight away. In order to meet the requirements for the premium listing, the trust needed to comply with the concentration rules, and that meant reducing the hefty direct holding in Rocket Pharmaceuticals, which was nearly a quarter of the assets at the end of June. Our immediate thought was that this was the wrong time to be selling down the holding, in view of its recent weakness, but actually RTW has reassured us they did no such thing, replacing the direct holding with an indirect holding through another RTW fund, actually resulting in a small net increase in exposure.

We were happy with that, and happy too that the portfolio is maturing and becoming more diversified across a variety of disease areas and clinical stages. The portfolio is fairly fully invested, although a third of it is in 'non-core' assets that are held for liquidity reasons, so they can be sold readily when funds are needed for new or follow-on investments. RTW seems able to access a steady stream of opportunities from its pipeline, and has actually made three more investments since the period end in June, taking the total number of holdings to 37. One of the new investments is in a company called Inbrace, a medical technology company pioneering a behindthe-teeth brace for straightening teeth. Around a fifth of assets are in 'medtech', with the bulk in therapeutics. We asked about the final shape of the portfolio once complete, and how it may look in the future. Stephanie Sirota, the chief business officer of the manager, told us that in a steady state there may be something like 20 core companies and a tail of another 30 or so. The real core though will be the companies that RTW has started itself, like Rocket, where RTW's lifecycle policy is to hold them for the long-term to let the value really accrue over time. At the moment the portfolio has three such companies, namely Rocket, plus Jixing Pharmaceuticals in China, and Yarrow Biotechnology, a biotech developing antisense oligonucleotide-based therapeutics for disorders with high unmet need, which is at an earlier stage. Stephanie reckons that RTW may create a total of five companies in time, creating "a portfolio within a portfolio" for the trust. She enthused about the investment trust structure that really enables RTW to take a patient long-term view over the entire lifecycle of a company, because the trust is never forced to liquidate or distribute returns. "Full value recognition" is what the managers really focus on.

The pre-IPO space is popular on the London market at present, so RTW has been able to maintain its premium rating against its NAV of around US$1.83 and will likely raise more capital to take advantage of what Stephanie called its "robust" pipeline as it continues to hunt for assets at an early stage of their development. We think the Rocket Pharmaceuticals setback that has kept the RTW NAV and share price relatively quiet for a few months may be temporary, and we have been impressed with what the managers have already achieved in a short time as a public company. Now that the buying process has been simplified with a full listing, we are glad to recommend adding RTW to more mainstream healthcare holdings as a more speculative wildcard. We rate the shares a BUY.

The specialist debt provider **Biopharma Credit** (BPCR, US$0.982) has announced it too is set to graduate from the Specialist Fund Segment to the Premium Segment of the London Stock Exchange, which we warmly welcome. Whilst the SFS provides a route to market for some niche trusts that might not otherwise be able to go public in London, it is an ongoing source of frustration for retail investors that dealing in SFS-listed shares can sometimes be difficult or impossible, depending on how different brokers interpret the regulations.

STOCKBROKERS' RESEARCH

JPMorgan Cazenove remains resolutely bullish about the prospects for **Hipgnosis Songs Fund*** (SONG, 123.5p) and has reiterated its 'overweight' recommendation after a detailed analysis of the 500 Greatest Songs of All Time recently updated by Rolling Stone magazine for the first time in more than a decade. The list of songs has changed considerably, and whilst it remains a subjective guide, based on a poll of more than 250 industry participants, it is one indicator of quality and likely enduring popularity. Led by Aretha Franklin's 'Respect', the list contains more songs from the 1970s than any other decade, and SONG has more than a decent smattering of the collection, demonstrating its breadth of genres and vintages. The note says Hipgnosis has 51 songs on the list (including 'Rock Lobster' by the B-52s, 'Ain't No Sunshine' by Bill Withers, 'Back to Black' by Amy Winehouse, 'Toxic' by Britney Spears, and 'Smells Like Teen Spirit' by Nirvana), roughly double the number for **Round Hill Music Royalty Fund** (RHM, US$1.0625), on which the broker is neutral.

Winterflood has issued a note highlighting the 5% yield on **Murray International Trust** (MYI, 1087p) at a historically wide discount level. The trust aims to achieve an above average dividend yield, with long term growth in dividends and capital ahead of inflation, by investing principally in global equities. Equity investments are supplemented with fixed income positions, offering diversification of income generation and facilitating investment in lower-yielding stocks with high dividend growth potential. Manager Bruce Stout has been in place since June 2004 and has generated a track record of 16 consecutive years of dividend growth, although Winterflood note its disappointing relative performance over recent times. Over the past one, three and five years, the trust has underperformed the FTSE All-World benchmark and the Global Equity Income peer group on a NAV total return basis. Since the announcements of vaccine development in November 2020, the disparity in relative performance has narrowed, with the trust returning +17.6%, compared with +18.9% for the benchmark and +21.3% for the peer group.

The note puts much of the underperformance over the past few years down to the portfolio's tilt towards dividend payers in emerging markets, which renders it substantially different from the index and its peer group, with 29% in Asia and 12% in Latin America and other emerging markets. The broker says "in our view, it is encouraging to see some improvement in relative performance since the development of Covid-19 vaccines in November 2020, and we think that the manager is correct to point towards an expected full recovery in Asia in 2022 as a catalyst for further progress. Bruce Stout cautions that inflationary dynamics may take on a life of their own, and we think his allocation towards real asset ownership to counteract the possibility of a protracted inflationary episode is sensible. In addition, his intention to monetise the bond portfolio and redeploy into equities in case of a change in market conditions, in our view, may enable him to add high-quality companies at a valuation discount, as he successfully did in 2020."

The historical yield of 5% is one of the trust's key attractions, and with strong revenue reserves in place Winterflood say "we think it is probable that dividend progression can be maintained." The note concludes "the shares currently trade on a 7.5% discount – its widest level since March 2020, and significantly wider than its one-year (1.7%) and three-year (0.7%) average. Given the board's commitment to limit a persistent discount through the use of buybacks, we believe there is scope for the rating to recover, particularly as revenue returns from Asia improve in the coming year."

With a quick nod to the new Bond film, Investec Research rates **European Opportunities Trust** (JEO, 807.5p) as a buy, saying the trust has been badly shaken, but not yet stirred by a brutal 14-month period. The trust was caught out by the Wirecard fraud that hurt the NAV badly, and then the managers proved too cautious during the pandemic, further extending the underperformance. Investec say though, "while this has undoubtedly been a highly disappointing chapter in the company's history, we regard Alex Darwall as one of the leading stock-pickers over the past 20 years. We highlight that the annualised NAV total return of the company since IPO in 2000 is still 12.3%, more than double the 5.6% achieved by the MSCI Europe index." The point is that if investors accept that a long-term, high conviction, active investment philosophy is the key for superior performance over time, then they should also accept there will be periods when this approach is punctuated by periods of significant underperformance. Investec conclude "we retain our confidence in the manager, philosophy and process, while any sustained change in market leadership could provide a much more supportive operating environment. The discount is now the widest in the peer group; we regard this as a rare opportunity and believe it reflects the recent experience, rather than the manager's long-term achievements, or current outlook."

Liberum Capital commented on the latest monthly update from **VPC Specialty Lending Investments** (VSL, 88.2p), which reported a strong end-August NAV figure of 108.7p, up by 3.9% over the month. That took the eight-month year-to-date return to 19.8%, boosted by capital returns from the trust's SPAC activity. The latest uplift came from VPC Impact Acquisition Holdings II's agreement to combine with FinAccel, the parent company of Kredivo, a buy now pay later platform in Indonesia. Following the transaction, FinAccel will become a publicly traded company with an expected equity value of US$2.5bn. The transaction is expected to close in Q3 2021. The cost of VSL's investment in the SPAC was US$1.25m and the implied transaction value of the position is US$12.0m. This would represent a 2.6% NAV increase before fees, or a 1.6% increase when held at a discounted value to reflect illiquidity and closing risks.

Liberum say the last 12 months has been an active period for equity investments, with the manager agreeing a number of SPAC deals. The FinAccel transaction value implies a high multiple on capital invested for VSL (6.3x at the discounted value), demonstrating the favourable economics for SPAC sponsors in the US. In total, Liberum calculate a 7.1x gross unrealised multiple on the US$5.4m invested across four SPACs, which have so far generated US$38.3m of value. They conclude "VSL's equity investments have contributed meaningfully to NAV performance in Q4 2020 and 2021. In addition to unrealised gains on SPAC transactions, several equity investments have been realised over this period (including positions in Bread and Elevate Credit). Approximately 25% of VSL's NAV is invested in equity positions. Despite the strong performance from both the debt and equity investments, the discount remains relatively wide (c.19%)."

Shore Capital issued a note on **Utilico Emerging Markets*** (UEM, 218.5p) on 9th September, pointing out that the trust has outperformed the MSCI Emerging Markets Index since inception, despite having a beta of just 0.78%. Sharing some of the defensive characteristics of utilities and the ability to capture the emerging markets growth trajectory over the medium-term, UEM has generated c.10% annualised total return since inception, outperforming the MSCI EM index. Despite having a covered dividend yield of 3.6% it is trading at an 12.5% discount. Shore Capital say "we believe that UEM is a differentiated, attractive vehicle for investors looking to access the growth in emerging markets via a portfolio of companies with strong growth prospects and attractive valuations."

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

MEMBERS' WEBSITE

More than 20% of subscribers have signed in to our new password-protected members website, which will remain open for all subscribers whenever you are ready. You can obtain electronic back copies on the site, and there is an index to help you find relevant articles. A blog will contain extra news and information, and there is also a discussion forum that we hope you will use to exchange ideas and opinions. To register for the site, you will need to request access the first time you visit, by creating an account with your email address and a password of your choosing. We will verify your access within 24 hours, which we only need to do once. The web address is www.itnmembers.co.uk and the site is live now.

NEW ISSUES

The Castelnau Group may sound more European than British, but is actually named after a road in south west London that is close to the home of Phoenix Asset Management Partners, who will manage this new trust. They are already the managers of **Aurora Investment Trust** (ARR, 213p). This new trust is aiming for £170m through the issue of shares at 100p each that will be listed on the Specialist Fund Segment in London. Led by the Phoenix chief executive Gary Channon, Castelnau will aim for returns in excess of the FTSE All Share Total Return Index over the long term from a specific high conviction value investing approach. It plans to target companies that are suffering from digitisation of commerce; apply a proprietary toolbox of methods to transform these businesses into valuable winners; generate significant upside shareholder value; hold for the very long-term and continue to reinvest capital at high rates of return; and lastly, to float minority positions to recognise value. Castelnau's holdings will be seeded from Phoenix-managed funds and include four companies (including holdings in three listed entities) which the Investment Manager has significant control or influence over and where it sees the biggest upside to the intrinsic value. Castelnau currently holds investments in two unlisted companies, Rawnet and Ocula Technologies, with existing clients of the manager committing to transfer holdings in four underlying investee portfolio companies (Dignity, Hornby, Phoenix S.G. Limited - the principal asset of which is a 58.1% holding in Stanley Gibbons Group, and WLS International) on initial admission in exchange for shares. One interesting wrinkle here is that Sir Peter Wood, the British entrepreneur and innovator, has committed to make a cornerstone investment of £25m in the placing, via his wholly owned and controlled investment vehicle SPWOne. Sir Peter says he has known Gary for many years and that they share "the same long-term outlook and belief in the importance of building great British companies over time." It will be interesting to see how this trust shapes up.

The oversubscribed secondary fund-raising by **Digital 9 Infrastructure** (DGI9, 107.3p) that pulled in £275m against a £200m target, illustrates how popular some alternative asset sectors are at present. We can understand why the trust stands at a premium to its end-June NAV of 103.3p. We do worry though that the popularity of alternative assets as a broad class might encourage some areas of lower returns to join the party, particularly when coupled with the current enthusiasm for ESG and sustainability. Forestry, for example, has always existed on the fringes of the investment world, often with some tax breaks to provide encouragement, but we think it is reasonable to be sceptical of the returns from assets that take so long to physically grow. A new trust seeking up to £200m now from the issue of shares at 100p each is **Foresight Sustainable Forestry Company** (FSFC), which rightly points out it could be a natural and growing store of value, independent of the economic cycle. We don't doubt its lack of correlation. Richard Kelly, co-founder of Foresight Forestry, says that globally and in the UK there is increasing demand for forestry and timber-related products, with global demand expected to quadruple by 2050. A global shortage of timber is not helped by the fact that it takes 40 years for a newly-planted forest to mature for harvesting, and Richard believes there is "significant upward pressure on UK timber prices." Robert Guest, also a co-founder, says the trust will offer a portfolio that will be a mix of existing and new forests in the UK, with a target return of CPI + 5% once fully invested. Part of that return may come from carbon credits. A prospectus is due this month, and first dealings in November. Separately, from what smells very much like pre-IPO research, we suspect a sustainable fishing trust is also on its way.

NEWS ROUND-UP

Trading will cease in the shares of **Acorn Income Fund** (AIF, 418p) on October 12th, by which time holders will need to decide whether they are content with the default option of a rollover into an open-ended fund managed by Unicorn, or whether they prefer to take the cash, in which case you will need to make that election through your stockbroking account. If you have no tax considerations then the cash would be our choice, and that should be paid around mid-November. Waiting for the payout should provide a better return than selling in the market at the bid price of 412p, with the NAV currently at 441.5p per share.

The results for the year to 30th June looked strong for the activist **Crystal Amber Fund** (CRS, 1p), with a total return of 41.2% for the year. The NAV at 30th June was 146.8p per share, dropping back to 138.8p by the end of August. The trust has a stable portfolio of UK smaller companies, with chunky positions in Hurricane Energy, De La Rue, GI Dynamics, Equals, and Allied Minds, although it has exited some other investments. No new positions have been opened since 2018 though, and CRS is reaching an important inflexion point where some change seems likely. At this year's AGM, which is usually in the second half of November, a continuation vote is scheduled that requires a 75% majority to pass, and that seems unlikely. In June the trust announced it had received a letter from Saba Capital Management, which holds more than 25% of the voting rights, saying it would vote against continuation, in which case the directors must formulate proposals for a reorganisation, reconstruction, or winding up. Unless Saba changes its mind, this seems inevitable, in which case there could well be some extra value here for patient investors willing to wait and see what happens, and what price CRS can achieve for its stakes. In our view the 17.9% discount offers some scope for speculative profit, and we would not be sellers at this level.

GCP Asset Backed Income (GABI, 98.6p) has a non-performing property loan in its portfolio of 54 loans. The loan to a developer of co-living spaces in London and New York, as part of a lending syndicate, has run into trouble because the developer has gone into administration and has been written down substantially, by an amount equivalent to 3.7p per share. This is a surprise in view of the apparently strong loan-to-value position for this situation, but it reflects a deteriorating position. Even so, the situation is being addressed actively, and in time GABI may be able to write back some of this lost value. It is disappointing this has happened at a time when the rest of the trust's portfolio seems to be performing very well, with some early repayments boosting the returns and the trust saying it expects its proposed dividend of 6.3p for the year to be fully covered. The co-living loan problem seems to be a one-off issue that has, for now, wiped out six months of good NAV growth from the rest of the portfolio. It's a setback, but not one that causes us to change our generally positive view of the trust. We don't think long-term holders have any cause for panic, and we rate the shares a HOLD for an attractive dividend yield.

Stenprop has now renamed itself as **Industrials REIT** (MLI, 186p) to align with its investment strategy. Following the sale of its Trafalgar Court office building in Guernsey, the trust is now 92% invested in multi-let industrials, and intends to push this figure towards 100% by March 2022. The strategic shift towards MLI that started in 2017 looks sensible and well-timed, given the high demand for these assets and rising rental values.

Pershing Square Holdings (PSH, 2665p) has been a major beneficiary of the IPO of Universal Music Group in Amsterdam. UMG's shares jumped on their debut, which was great news for PSH. You may remember that PSH took a big chunk of UMG stock when the deal for its SPAC to buy 10% of UMG fell through. It paid around US$2.5bn for a 6.4% stake in UMG, accounting for around a quarter of the NAV at the end of July, and that is now looking like another canny bit of business from Bill Ackman, the manager of PSH. At a market price of €23.53, the stake in UMG is worth around US$3.2bn, pushing up the estimated NAV for PSH to US$52.12 (3883p) and implying a discount of 31.4%. To our minds, this looks far too wide. The concentration of UMG in the portfolio is a concern, so PSH does look like an above average risk holding, but nevertheless we think it remains a good HOLD.

Phoenix Spree Deutschland (PSDL, 394p) has released its interim results for the first six months of 2021, showing a total return of 3.6% for the period. The trust said that following the positive Mietendeckel ruling it has adopted a more proactive buyback strategy to take advantage of the valuation discount, and has bought back more than 3% of its shares at an average discount of 12%. It also said it has collected more than 91% of the backdated Mietendeckel rents already, and that it has an occupancy rate of 98.7%, a record high. Perhaps the greatest impact of all though from the whole Mietendeckel fiasco was that it forced PSDL to think more actively about converting its buildings to condominiums for sale, which has been a very profitable diversion. In the first six months, sales were achieved at an average 25.4% premium to book value, and with three-quarters of the portfolio now registered as condominiums there is scope for further sales. The managers are seeing higher rents too, and have also kick-started some delayed construction projects to create seven new residential units that should become available for sale or rental in the first half of 2022. Some political uncertainty still hangs over Berlin, but otherwise this was a thoroughly bullish outlook statement that continues to augur well for the trust.

Schroder UK Public Private (SUPP, 34.4p), the former Woodford Patient Capital Trust, should be about to benefit from one of the previous manager's better investments. Oxford Nanopore Technologies, which has developed a new generation of DNA/RNA sequencing technology for biologists working in areas such as healthcare and food safety, is nearing its IPO in London. This is the trust's largest holding, representing 26.5% of total investments at the end of June. SUPP owns 3.7% of the company, and values its holding at £90.75m, implying a value for Oxford Nanopore of around £2.5bn. The Times has reported though that it has set its offer price at a value of £3.6bn, in which case SUPP stands to benefit to the tune of around £40m, or 4.4p per share. Already the shares stand at a fairly generous discount of 15.4% to their NAV of 40.65p, and we think an uplift of the size indicated could give the shares a quick short-term boost.

The next issue of Investment Trust Newsletter is published on Saturday 6th November.

The FTSE 350 Closed End Investments Index is down 289.45 points (-2.07%) to 13,720.51 since the last newsletter.

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