Investment Trust Newsletter

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The installation of Andy Burnham means that Britain has chalked up seven Prime Ministers in the last ten years (along with nine Chancellors of the Exchequer). Whatever their merits, we think it is beyond doubt that this persistent policy and fiscal uncertainty has been very unhelpful for domestically-focused British companies. The UK stock market is shrinking as takeovers far outstrip IPOs, and of course the same has been happening in the investment trust sector. At least here we can see a path back to stability, with regulatory improvements shifting towards help rather than hindrance. In addition to the issues over cost disclosure and the listing rules on which we have recently reported, the FCA is also consulting now on improvements to the Alternative Investment Fund Manager (AIFM) rules which we complained about back in 2014. Discounts across the sector have also levelled off at around 11%-12% on average, which does not look in any way problematic to us, so the background looks supportive. There will be some more consolidation still to come, but for many investors that won't affect the basic attractions of the many excellent investment trusts that continue to deliver strong returns.

Major Price Changes Over One Month

3i Group	+15.05%
Artemis UK Future Leaders	+13.00%
Greencoat Renewables	+11.42%
Globalworth Real Estate Investments	+11.30%
Gresham House Energy Storage Fund	+10.77%
Odyssean Investment Trust	+9.71%
Finsbury Growth & Income	+9.65%
NextEnergy Solar Fund	+8.93%
Caledonia Investments	+8.83%
SDCL Efficiency Income	+8.70%
Manchester and London	-19.65%
Gabelli Merchant Partners	-15.70%
Seraphim Space	-14.11%
VietNam Holding	-14.01%
Edinburgh Worldwide	-13.67%

Major Price Changes Over One Year

Biotech Growth Trust	+100.73%
Baker Steel Resources Trust	+94.78%
RTW Biotech Opportunities	+87.45%
Molten Ventures	+80.81%
CQS Natural Resources Growth & Inc	+74.68%
Seraphim Space Investment Trust	+73.32%
International Biotechnology Trust	+71.27%
Fidelity Emerging Markets	+69.72%
Schiehallion Fund	+65.06%
BlackRock World Mining	+60.80%
Home REIT	-74.77%
Digital 9 Infrastructure	-53.32%
Aquila European Renewables	-50.01%
Crystal Amber Fund	-42.63%
Chrysalis Investments	-32.46%

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

Following news of the agreed sale of **Bluefield Solar Income Fund** (BSIF, 92.3p) to Drax Group a couple of months ago for a price implying an 11% discount to net asset value, **NextEnergy Solar Fund** (NESF, 49.9p) has now chosen to put itself up for sale. The trust has announced it plans to undertake a formal sales process to flush out buyers for its solar assets. It does not currently have any offers on the table, nor is it in any discussions. As we know from many prior examples, corporate actions such as this can take quite a long time to execute, so we would not expect any substantive news on progress for some months. For that reason, we would not rush to buy the shares at this point, although we do feel there is probably some latent value available at the current share price of 49.9p. This compares to the latest net asset value of 76.1p, implying a discount of 34.4%, which does seem wide. This may well be a trust we come back to in the autumn.

BH MACRO (BHMG, 415.5p)

We selected BH Macro as one of our ISA choices at 435.75p in March, feeling that this hedge fund may be able to provide some balance to portfolios in a highly uncertain market, macroeconomic and political environment. The shares are down by 4.7% since that time, making this the worst performer of our six selections to date, but we feel the investment case is still intact. We tuned into an update from the managers last week to learn more about their current views.

This trust is a feeder fund, investing substantially all of its assets in the Brevan Howard Master Fund, which follows a macro-driven hedge strategy. Its traders try to identify trends in global fixed income, equity, and FX markets, using a variety of strategies to seek profit. Importantly, it is not generally correlated with global equity indices, meaning this is a real diversifier, providing something different to portfolios. BHMG is of most interest to investors who are concerned about the current level of equity markets and feel there could be a sharp setback. The trust's main marketing message is that since its inception, the BHMG sterling NAV per share produced positive returns in 17 out of the 20 worst-performing months for equity markets. Over 23 years the Master Fund has delivered an annualised return of 8.13% per annum.

In the first six months of 2026 the sterling NAV per share was up by a modest 2.5%, which is not a great return. Chairman Richard Horlick says the trust had a strong start to the year but then a setback in March when the US/Iran conflict began. He expressed his confidence in the managers and their proven processes. On that topic, Aron Landy, the chief executive of the managers, says the business is a beneficiary of technological innovation, as its analysis involves a lot of data processing, and its methodology and tools are changing rapidly. He explains "the amount of energy and effort we put into AI and technology is extremely strong. We have a huge amount of data, both qualitative and quantitative. The quantitative numerical data comes from hundreds of different sources and is of all different kinds, from the very obvious market data to the much less obvious and perhaps more niche data points affecting specific markets or products. The qualitative data is mostly sell-side research and other documents, which are converted into data points which can be used by machines for onward processing."

Fash Golchin, the portfolio manager in charge of the trust, has been a key architect of the expansion of the activities of the master Fund into equities (using derivatives and options) over the past couple of years, in addition to the core interest rate and FX trading. The correlation to equities and bonds remains very low though, and there has been no change to the defensive nature of the trust, which is set to perform well when equities do badly. Fash talked at length about the importance of AI and its impact on macro thinking and on a wide range of other assets. In his view, this subject is not a sidebar. It is central to his thinking, and he sees it as a dynamic, evolving story. AI is already causing considerable disruption, and Fash is surprised there has not been more volatility in equities generally. He says there has instead been what he called factor volatility, which means dispersion of performance, so a considerable range of gains and losses from different stocks rather than direction for the market overall. This means that index hedges are cheap, but single stock risk is high. He sees more stock rotation coming and characterises the current market as having a lot of crowded trades and a lot of excitement built in. Against this background, he says that unwinds can be violent.

BHMG typically does well in severe shocks, so that's the reason for buying if you believe the current AI excitement is overblown. We have seen considerable turbulence in the shares of semiconductor stocks over the past few trading days, and it is always impossible to tell when specific market concerns can suddenly ignite a wider market sell-off. For that reason, we would be happy to keep BH Macro in portfolios.

CC JAPAN INCOME & GROWTH TRUST (CCJI, 267.5p)

We joined a webinar from the London-based manager for CC Japan Income and Growth Trust, which probably has the lowest profile of the four remaining trusts in the Japan sector, excluding those focusing on smaller companies. CCJI has a good track record, largely on a par with Schroder Japan Trust (SJG, 368p), which has been our favoured choice for some time. Over the last year, the trust's NAV total return is 30.4%, and over five years it is 107.5%. These are impressive figures, but clearly the assets have had a strong run higher, so we were interested to hear what the lead manager Richard Aston from Chikara Investments had to say about the prospects looking forward.

Richard says the trust has a simple strategy to buy businesses with sound finances, growing cash flows and a willingness to return capital to shareholders. It is not chasing growth, nor value for value's sake, and seeks a mix of capital and income returns. It pays a covered dividend to shareholders, not paid out of capital, nor bolstered by any use of derivatives. It runs a concentrated, benchmark-agnostic portfolio of roughly 30–40 companies and maintains structural gearing of approximately 20%, taking advantage of the investment trust structure and maintaining the focus on stock selection rather than attempting to make decisions on market timing.

A central argument is that Japan's equity revival remains a long-term corporate transformation story, rather than simply a short-term rerating. The TOPIX Index has actually risen by 561% over the last fifteen years (to 30th June), not far behind the S&P 500 Index (+621%) and well ahead of both the FTSE All-Share (+210%) and the STOXX Europe 600 Index (+295%). Richard credits much of this strength to a deliberate corporate and government policy to reinvigorate the economy and the stock market, helped very much by the Abenomics reform and restructuring program, including the reform of corporate governance that is far from over. He referred to the head of the Tokyo Stock Exchange, Hiromi Yamaji, who said recently that "corporate reform is only 20% complete." Greater capital discipline, rising dividends and buybacks, moderate inflation and a more normal interest-rate environment should continue supporting Japanese companies, he believes. Japan has delivered competitive long-term returns primarily through earnings growth, while valuations remain broadly comparable with global markets. The country may also be a beneficiary of the geopolitical uncertainty swirling around the US and China in particular. As a comparably neutral player, Japan is well positioned as a stable trade partner and has just signed a major new trade deal with India.

Richard is very positive about the new Prime Minister, saying "she has introduced a very definite change of outlook for Japan and a growth strategy." Growth is targeted in 17 strategic areas of the economy, and Richard is positive on the country in relation to its AI prospects too. He says new infrastructure spending will deliver the AI promise of the future and that the economy is "full of supply chain lynchpins" together with expertise in key areas such as robotics. The trust has exposure to companies working in factory automation, and whilst Richard is wary of jumping into other areas at early stages of their development, he sees future opportunities in entirely new applications such as elderly care.

CCJI has formulated its strategy to suit the Japanese market, with an emphasis on cash generation, valuation and corporate governance, not merely high dividend yields. The trust's holdings are chosen on a bottom-up basis and have stronger profitability than the wider TOPIX: the portfolio ROE is 12.1% versus 9.4%, with substantially higher operating and net margins. The portfolio's dividend yield of 2.4% is also ahead of the TOPIX index average of 2.1%. The portfolio is genuinely distinct, with an active share of 76%. Its ten largest holdings represent 47.6% of the total, led by Tokyo Electron, Sumitomo Mitsui Financial, Shin-Etsu Chemical and Mitsubishi UFJ Financial Group. Turnover is relatively low, with an average holding period of around five years. Richard says it is important for the managers to cultivate long-term relationships with their portfolio companies, working with them where possible to add value. About 20% of the portfolio is in the small cap space, where special situations are easier to find, with 15% in mid caps and 65% in large caps. By type, 29 holdings are classified as dividend growth, five as special situations, and seven as stable yielders.

The trust's annual dividend has grown at approximately 7.8% a year historically, reaching 5.9p per share for the last financial year, and highly likely to tick higher again this year. The interim dividend has already delivered an extra 0.1p. Based on an estimated 6p dividend, the yield is only 2.2%, so that is not a principal reason for buying the shares, but it is a contributor to the overall return.

The return has been particularly strong over the last year, with the NAV up by 30.4% compared to 38.8% from Schroder Japan, 20.0% from **JPMorgan Japanese** (JFJ, 781p), and 17.7% from **Baillie Gifford Japan** (BGFD, 1014p). The trust is also well ahead of all three of the Japanese smaller company trusts. The 20% structural gearing, the highest of the group, will definitely have helped, but the manager points to the consistency of the approach over time and the track record that shows it has worked through market cycles and very different macroeconomic environments.

We think CCJI is worthy of consideration, having proved its case quietly and considerably outperformed the activist-focused trusts that perhaps have a stronger media narrative. The quality of CCJI is recognised by the market rating, a modest 4.2% discount, but we think CCJI could be a trust to follow and perhaps to pick up if there is some sort of market setback that offers a well-priced entry point. One final factor to consider is the currency: CCJI does not hedge its yen exposure, so if the yen were to begin appreciating as some think it may, that could potentially be a useful tailwind for this trust.

PERFORMANCE DATA

Whilst all performance data is backward-looking, it is still an important part of the analytical armoury for any serious investment trust investor. Past returns cannot predict future outcomes, and headline figures may obscure the effects of market cycles, changes in management, gearing, discount movements and differing

investment mandates. Nevertheless, considered over several time periods and alongside appropriate benchmarks and peer groups, performance data can reveal useful evidence of consistency, resilience, volatility and the contribution of a trust's underlying strategy. Even for regular, seasoned investors who know the sector well, studying the data closely can uncover individual trust performances that genuinely surprise. From this month's Statistical Supplement, we have picked out ten trusts that challenged our assumptions – five positively, and five negatively.

Let's begin with the good news. After a tough patch that lasted for some time, we have been pleased to note the tremendous resurgence in the growth strategies deployed by trusts managed by Baillie Gifford. In Asia, **Pacific Horizon Trust** (PHI, 1002.5p) has a middle ranking over five years, reflecting that struggle, but is in the top spot over all other periods. Over one year, it is a remarkable leader, almost 20 percentage points ahead of its nearest rival. Unsurprisingly, it does have large allocations to the big growth behemoths in Korea and Taiwan. Between them, Samsung Electronics and Taiwan Semiconductor account for 27.5% of assets at the end of June, and the trust has an allocation of 34.4% to semiconductors and semiconductor equipment, with a further 14% in technology hardware, storage, and peripherals. We do think that implies considerable stock-specific and industry-specific risk, but in recent times, this strategy has been paying off handsomely for Pacific Horizon shareholders, and it is difficult to argue with an 18.6% compounded growth rate over the last ten years.

Shifting sectors to biotechnology and healthcare, we found again that the margin of leadership for **Biotech Growth Trust** (BIOG, 1640p) over the last year exceeded our expectations. The trust delivered a remarkable total NAV return of 104.1% in the year to 21st July, a very long way ahead of its nearest rival, **International Biotechnology Trust** (IBT, 1080p), with a return of 73.4%. We note that IBT is ahead over five and ten years, but it is really this shorter-term performance that we wanted to dig into. We think this has been a golden period for BIOG because of its higher risk exposure to small cap and regulation-sensitive companies and also some modest use of gearing and warrants. This feels largely like a cyclical catch-up and a series of very particular circumstances that we feel may not be repeated in the year ahead. On that basis, we have certainly been impressed by this extraordinary performance, without necessarily wanting to change our core sector recommendation of **RTW Biotech Opportunities** (RTW, US$2.435) at this stage.

A trust that really surprised us in these tables was **Odyssean Investment Trust** (OIT, 225.5p) in the UK smaller companies sector. This trust has a lumpy performance record, and we have noted previously that it did very well in 2022 and then relatively poorly in 2023. In our table published in the previous edition of the supplement in May 2025 the trust was bottom of the peer group over one year, and we had not really spotted its dramatic improvement of late. It is way ahead of the competition over one year with a NAV total return of 29.7%, more than double its nearest challenger. OIT, managed by Stuart Widdowson and Ed Wielechowski, runs a very concentrated portfolio of just 17 companies and is prepared to take contrarian positions that may not initially be liked by the market. Recently the trust has enjoyed success from its three largest holdings in XP Power, Dialight, and Gooch & Housego. The latter attracted a cash offer in mid-July at a 41% premium to its prior closing price. Ed Wielechowski has also spoken about the attractions of small caps generally, saying "in recent years, the investment community has been in awe of scale. The largest US tech stocks (the 'Magnificent Seven') have delivered eye-catching returns, blockbuster IPOs have dominated headlines, and the UK's own FTSE 100 enjoyed a stellar 2025, delivering one of its best years on record. Against this backdrop, it is easy to overlook smaller companies. Yet one of the most enduring trends in finance deserves renewed attention: the long-term outperformance of smaller companies over their larger peers. The longest UK data series we could find comparing smaller and larger listed companies stretches back to 1955 — a track record spanning more than 70 years. Over this period, £1 invested in the UK's largest companies would have grown to £2,552, a striking illustration of long-run compounding. However, what is even more striking is that the same £1 invested in smaller companies would have grown to £6,531, roughly 2.5 times the return. Any long-term investor should be taking note of outperformance this significant and sustained." He goes on to add "small-cap investing is not without risk: less liquidity and greater volatility come with the territory. Nor is performance linear (or always predictable in the short term) — the past few years have seen smaller companies underperform, which we believe sets them up for a period of stronger relative performance, though this can take time. That is why we believe the right approach for investing in smaller companies is focused, active management — identifying the most attractive opportunities and building long-term, high conviction positions. It is exactly what we aim to do at Odyssean Capital."

These three profitable examples of trusts breaking out on the upside should all perhaps be classified as higher risk. Rather different, we think, is **BlackRock American Income** (BRAI, 279.5p), which we have not covered with great frequency. This trust has often been rather nondescript, arguably struggling to find a real identity for itself, hence its three slightly different names over the last five years, and it is really not a trust we would expect to see at the top of the performance tables. Yet there it is, number one in North America by some margin over the last twelve months with a NAV total return of 38.6%. In share price terms it has been even better as the shares have moved on to a small premium. The trust has benefited from its 'systematic active equity' strategy that was adopted in April 2025. This is less about the flair and personal insights generated by individual fund managers, and more about a data-enabled investment process that uses screens and signals to rank stocks and also to manage risk. This use of machine learning and AI in the management of portfolios by large asset management firms is quite common now in the active ETF sector, though less so in the more traditional investment trust sector. For BRAI the process seems to be working well, and its well-diversified portfolio of around 155 stocks has benefited from the 20% weighting to technology stocks, including Amazon, Apple, Microsoft, and Intel. The trust has also been rewarded for its banking exposure through JPMorgan Chase and Bank of America amongst others. We would not necessarily expect BRAI to remain as an outlier in performance terms, but we are nevertheless pleased to see this strategy paying off for patient shareholders.

Finally, on the positive side of the balance sheet, we had not really anticipated seeing **3i Group** (III, 2889.5p) at the head of the private equity sector for NAV total return over twelve months. The trust has experienced some well-publicised setbacks with its major portfolio holding Action Group that triggered a massive de-rating and shifted the shares from a large premium to a discount. Yet the NAV total return of 14.0% remains sufficient to keep the trust's number one rating over one year and indeed over all other periods. To reconcile this apparent contradiction, we need to remember that the news on Action was about a deceleration of growth rather than an actual contraction, and that the sharp fall in 3i's share price reflected a re-calibration of future expectations. Action has shown signs in its recent trading news of some improvement, so it will be interesting to see how this situation develops and how this tension between past performance and future expectation is resolved. 3i shares have bounced strongly over the last month, up by 15%.

Moving on to the bad news now, the first of the five trusts that stood out negatively for us was the re-named **JPMorgan India Growth & Income** (JIGI, 885.5p), which has a one-year NAV total return of -16.7%, the worst of the four India specialists. The board says the underperformance is due in large part to the trust's focus on higher quality, small and mid-cap names and suggests this is somewhat cyclical, but we don't think the longer-term record is particularly appealing either.

In Japan, **AVI Japan Opportunity** (AJOT, 166.25p) is a clear outlier over the last year, with a flat performance that is well behind the average 24.6% gain from trusts across large and small Japanese companies. The managers say that the market's recent narrow focus on AI and semiconductor-related stocks has been unhelpful for their strategy, which does not typically invest in those sectors or in high-growth companies. The trust has also suffered from stock-specific setbacks from holdings such as Eiken Chemical and Wacom, and has not been helped by the increase in allocation to the smallest companies under £250m market capitalisation, up from 31% a year ago to 47% at the end of June. In our view this increase makes the portfolio a little more idiosyncratic and likely to deviate from the average, which has been happening negatively of late. AJOT shares have remained highly-rated, although they have dropped back to a 5.8% discount now, still not wide enough in our view to provide enough compensation for the risk.

Nick Train's marked underperformance has been well covered in the press in relation to **Finsbury Growth & Income** (FGT, 816p), which has just enjoyed a decent bounce, but we had not quite appreciated the scale of the lag for **Lindsell Train Investment Trust** (LTI, 586p), which was once a superstar of the sector, able to maintain a large premium to NAV. How things have changed. In the global sector the trust stands out like a sore thumb, posting a -25.5% NAV total return over the last year against a +13.1% sector average. The trust's holding in its management company has not helped, only serving to amplify the decline as funds under management have slumped, and we think that even the staunchest of contrarian investors might find it challenging to make a strong case for the trust at this point. The market may be past the point where it was prepared to accept that Nick Train's style was temporarily out of favour, and has perhaps shifted now to a point where the fund management franchise has been permanently damaged.

In the global income sector, which comprises only five trusts now, **STS Global Income & Growth Trust** (STS, 236p) has lost money over the last year and is bottom of the peer group over all periods. We have not mentioned the trust in the newsletter for two years, so we thought it was time for a quick update. The trust is managed by James Harries of Troy Asset Management, and it invests in large, stable, high-quality, dividend-paying companies that are often dominant in their industries. STS acknowledges that its value-based conservative approach means it will tend to lag strong markets, and it deliberately has only 8% in information technology, which explains much of the recent underperformance. The largest holdings are in companies including Texas Instruments, BATS, Rentokil Initial, VINCI, and IG Group. Whilst STS has not been a trust we have recommended, and its track record hardly inspires any enthusiasm, we can see a good argument for its continued existence, to provide a steadier exposure to global markets for investors wishing to moderate risk. STS would almost certainly improve its relative standing in more difficult markets, or if the AI bubble does burst spectacularly, although we again think we would need to see a more attractive entry point than the current 1.6% discount for us to consider the trust.

Finally for this section, there is Bill Ackman's **Pershing Square Holdings** (PSH, 3774p), which has been a stinker over the last year in a generally strong North American sector. The trust still has a good five-year track record, but its concentrated portfolio has not performed well of late and one of its major corporate plays did not come off as hoped. The trust held a large stake in Universal Music Group, 13% of assets at the turn of the year, and the trust's managers proposed an ambitious takeover and relisting, rejected by UMG. The stake was subsequently sold, and this episode probably did PSH no favours. The stockbroker JPMorgan Cazenove has an overweight rating on the shares on their wide discount of 34.0%, commenting "as a closed-ended fund with a long only strategy invested in listed US stocks, we don't think there are good fundamental reasons for the PSH discount to NAV remaining as wide as it currently is. Equally, we see no clear catalyst for the discount to narrow and it has remained much wider than the other listed peers for many years despite strong relative NAV performance net of fees and costs."

PRIVATE EQUITY

In the private equity sector, where there remains plenty of value for contrarian investors, we want to note a couple of valuation shifts. The first has been an improvement: a moderate narrowing of the discount on **HarbourVest Global Private Equity** (HVPE, 3375p) to 23.2% rather than the 30%-50% discount range that had seemingly become normalised for the trust over the period from mid-2022 to late 2025. The trust's board has been proactive in introducing measures aimed at improving the rating, including share buybacks and a US$400m tender offer at a 10% discount due this autumn. These measures are having some effect, we think, but possibly at a cost to longer-term growth as capital is deployed to shrink the trust rather than to plant new seeds for future prosperity.

Moving the other way, we wrote in February about the sharp fall in the share price of **HgCapital Trust** (HGT, 385.5p), which has remained in the doldrums. The trust was hit quite suddenly by widespread fears of a 'SaaSpocalypse' – an ugly term for concerns that the rapid pace of AI development will threaten the profitable software-as-a-service industry in which HGT specialises. These concerns have not gone away, but while the jury is out the market is demanding a greater risk premium, hence the current discount of 26.8%, largely in line with the rest of the private equity sector. HGT is no longer getting much credit for its excellent long-term track record. In conversation with the trust's chairman Jim Strang, the senior partner of the managers Hg, Nic Humphries, explained his thoughts on the current position. Nic said they are still raising large sums of money from institutional investors for their strategy, and still investing their own money into the investment trust. Partners of Hg currently own around 6% of HGT. The managers' plan, already announced, is to invest more and to lift the overall percentage owned by the partners and the management firm to around 15%. They hope this 'skin in the game' will increase confidence, and Nic says it is also a rational response to what they believe will be a very good investment currently trading at a bargain level. He also sees that it is rational for non-specialist investors to regard the growing influence of AI as a potential disruptor for existing software. He is quick to add, though, that this view is indiscriminate, and that some software providers are more likely to benefit from the integration of AI. Hg has always targeted businesses with very high degrees of protection and customer loyalty, and Nic believes they can gain from lower costs of development (meaning higher margins) as well as capturing more market share from improved products that potential and existing customers will both like. Whilst the narrative has changed, the facts and the financial evidence may not. AI may be additive rather than substitutive, particularly for back-office functions like accounting and payroll, where there is considerable resistance to switching away from trusted products and providers. On top of that, Hg has an internal AI data science team of more than 20 people plus over 100 AI engineers in its 'Catalyst' team (partnered with Anthropic) who work with portfolio companies and help them develop new capabilities. Nic says "our message to all of our portfolio companies is very simple – you have to become an AI company." He says the firm went through a very similar transition about 15 years ago when they had to move all of their businesses from being on-premise software with data rooms and CDs to be web or SaaS based software. Nic says "that was actually a much more difficult technological and business process transition than this one. This one is actually, on a relative basis, easier. It's probably a bigger opportunity, but it's actually an easier transition to make."

HGT has around 60 investments in its portfolio, and Jim Strang says that on pure trading metrics they are performing better than last year. Higher revenues, profits, bookings, pipelines, and product launches are all part of the matrix that Hg tries to foster in developing healthy businesses that will be highly sought after by other buyers. Nic says they always think about potential exits before they invest, and of course exiting profitably is central to the private equity proposition. Nic talked about two exits agreed late last year, Intelerad and GTreasury, both of which had developed new agentic AI products under Hg's umbrella that Nic says "really turned the dial up." In these cases the sales were achieved at a premium because of the change in technology – the AI was an accelerant rather than a brake. Nic says they are seeing this in many other portfolio companies, where productivity and profitability are taking a step up.

Interestingly, when asked about the discount, Jim Strang's first reaction was to talk about the focus on messaging and communication, and we agree this is central here. There is an obvious clash between the broader market narrative around the 'SaaSpocalypse' and the completely different message from the managers that they feel they are most likely to be beneficiaries rather than casualties from this period of swift technological change. There is no reconciliation to be had. It feels as though there is a battle going on here, and the NAV numbers will eventually prove who is right. On buybacks, Jim said the board is reluctant to extend its existing programme, feeling that "the impact of shrinking the company is a real long-term strategic effect, and we are reluctant to do that in the absence of all the other options that we have." This contrasts with the strategy being followed by the board of HVPE, and we prefer it. We can see that the structural risk is higher now for HGT than in the past, but our bets are on the experience of the management to navigate this period successfully.

We rated HGT shares a 'hold' in February while we digested the sharp share price fall: on reflection now we are upgrading and on this discount we rate the shares a BUY.

Literacy Capital (BOOK, 299p) has also de-rated as the initial excitement over its barnstorming start to life on the public market has faded away. Chairman Paul Pindar reiterated in a new interview that the trust is intended to be very different from traditional private equity structures that have fixed lives and are immediately looking for ways to exit. BOOK can take a longer-term, patient view, trying to build companies effectively. He says that typically, private investors would look to make two or three times their money after two to four years of holding, but he says "if you look at the five exits we've had since we listed Literacy Capital, the five exits have been 10x money, 10x money, 15x money, 5.2x money, and 2.5x money." There is more emphasis on compounding returns. There is also a far greater emphasis on aligning interests with shareholders – there is no performance fee, and the Pindar family has a holding of just under 40% of the shares – a lot of 'skin in the game.'

That's the good news, and we have viewed this as a compelling and genuinely positive story from the start, but we would have to recognise the market has changed its view of the trust as its early performance has (unsurprisingly) proved unsustainable. You may remember the trust arrived on the market with a bang and BOOK shares soared by 230% in three years before falling back as the NAV performance moderated and veered into negative territory. The premium rating has evaporated and been replaced by a wide discount of 36.7%. Paul Pindar lays some of the blame for the de-rating with the Labour government, who delayed their initial Budget, raising fears about higher capital gains tax, and then hurt small companies thanks to "employers' national insurance being jacked up quite materially." Paul adds "and if you're one of the small businesses that sits in our portfolio, that was one of the most damaging things that could have been done to them." More specific to the trust though, Paul accepts that they had not put enough effort into core investor relations, which they are trying to address now. He points out that the trust's NAV is still close to its all-time high, and he says "we still have a portfolio of fundamentally pretty attractive businesses, but our share price discount to NAV is the widest it's ever been. We need to give investors fresh reasons to get excited."

The trust's second quarter NAV announcement didn't quite step up to the mark in this regard, showing a NAV of 472.6p, down by 1.8%. The weather was blamed for a write-down of the holding in Oxygen Activeplay, which runs indoor activity parks. Richard Pindar did say though that two holdings, RCI and Grayce, which were previously detractors from NAV, are now contributing positively to the valuation. The trust also said that it expects further NAV uplifts from its portfolio company Trinitatum in future quarters as new contracts go live. Despite the headline number, there was a positive tone to the release, and we noted the statement that "further initiatives are planned to stimulate awareness and demand for BOOK shares, including discussions to explore moving the fund's listing to the official list on the main market." We think that could help.

Our reading of the situation at BOOK is that the fundamental drivers of what attracted investors in its early life on the public market are still in place, but that headwinds for the UK smaller companies sector have caused a pause in the value creation and realisation that we would expect to resume in due course. We feel the market has over-reacted to this quieter period and rate the shares a BUY on this wide discount.

NEWS ROUND-UP

As we suspected, there have been further developments relating to the bid for **Alternative Income REIT** (AIRE, 73p). First of all, Glenstone REIT returned with a modestly improved offer of 71.4p per share, although there was some sleight of hand involved here, as the offer would be reduced by the amount of any further dividends declared by AIRE, which has indeed subsequently declared its quarterly 1.4p dividend as always intended. So this was actually no improvement on Glenstone's previous bid of 70p. It still looks like a 'lowball' offer, and we are not surprised that it has attracted a minimal level of acceptances. The main development is that Glenstone's offer was trumped by a possible proposal from **AEW UK REIT** (AEWU, 106.6p) coming back for the second time. AEWU has suggested an all-share offer of 0.725 of one of its shares for every AIRE share. With AEWU standing at 106.6p but due shortly to go ex-dividend of a 2p payment, that conservatively values AIRE at 75.8p per share, roughly a 10% discount to NAV. This seems like a reasonable offer to us, although it has yet to be confirmed. AEWU has until 28th August to confirm its bid or to back away, as it did in March. We were confused by that at the time and did not understand why the trust had failed to follow through on its earlier bid, so it was interesting to read some explanation of what happened. AEWU said that at the time certain key information was not available in time for it to process the bid fully within the required time frame, and in addition it lacked access to discuss the terms with Glenstone, AIRE's largest shareholder. It has expressed disappointment that it was unable to complete the bid at that time and seems keen to do so now, so we would be very surprised if this did not progress. The market initially appeared more sceptical, but the current share price of 71p-75p now seems largely up with events.

Brown Advisory US Smaller Companies (BASC, 1612.5p) has announced a strategic review that follows a period of very dull performance. US small companies have been the very poor relations for quite some time to the mega-cap and technology companies that have really been driving the US stock market higher. Over the last five years, BASC has returned a very modest 14.6% in total. It has also lagged its benchmark index significantly, delivering less than half of its return over that five-year period. Over one year, the returns looked quite good in absolute terms, +24.5%, but again, against the index to the end of June, up 45.4%, the trust's returns look very pedestrian. There is already a performance-related tender offer on the cards for the second half of 2028, but that seems some way off. It is perhaps not surprising that the trust says "a number of shareholders have indicated a preference for a liquidity opportunity in the shorter term." Those shareholders may include Saba Capital, which has a 16% stake.

The board of **Golden Prospect Precious Metals** (GPM, 85p) sprang a surprise in mid-July when they announced the management contract would be moving to Baker Steel Capital Managers in the third quarter of the year. You may remember that the portfolio managers Keith Watson and Robert Crayfourd resigned from CQS Manulife in March to move to Tufton Investment Management, and we think there was a general expectation that the management contract would most likely follow them. This has already happened for **CQS Natural Resources Growth and Income** (CYN, 352.5p), although **Geiger Counter** (GCL, 57p) has transferred to some other managers within Manulife Canada for the moment while the board considers its longer-term options. GPM will be managed by Mark Burridge and Trevor Steel at Baker Steel, and there will also be a number of other changes to the trust. The fees will be lower, a new 6% enhanced dividend policy will be initiated, and the trust may move to the main market. We'll see how this works out, but we do feel this unexpected switch shows the true independence of the board. This serves as a useful reminder that it is a strength of the investment trust structure that the managers work for the trust and can be replaced.

There has been more disappointment for shareholders in **Gore Street Energy Storage** Fund (GSF, 46.6p). The trust's final results for the year to 31st of March were poor. The net asset value total return for the year was -23.9%, reducing the NAV to 74.9p. The main culprit was a reduction in the power price forecast curves, but on top of that, actual revenue was lower. There was a writedown of the Cremzow asset in Germany ahead of its sale, a writedown of the Big Rock facility in California, and the inclusion of project oversight costs. There could be some clearing of the decks going on here, but nevertheless the figures undoubtedly look disappointing and we feel the trust will need to demonstrate to the market that it is making good progress with some well-priced asset sales. For the moment, the market is signalling that it much prefers the strategy employed by **Gresham House Energy Storage** (GRID, 92.8p) to sacrifice dividends to invest in growth. The discount to NAV for GSF at 36.6% is way worse than that of GRID at 22.1%, and that tells its own story.

James Henderson, the manager of **Lowland** (LWI, 184.25p) and **Law Debenture** (LWDB, 1251p), will retire in June 2027 after a 44-year career. This is some way off, allowing for a smooth transition of responsibilities to Laura Foll, who has worked alongside James for a number of years. There will be no changes to the trusts' investment objectives or strategies, and whilst we understand the disappointment of a very well-liked fund manager stepping aside, we don't see any reason to sell out. Separately, George Ensor, the portfolio manager for **River UK Micro Cap** (RMMC, 233p), has resigned unexpectedly, although he says he will continue to manage the portfolio while arrangements are made for a suitable successor. We wonder whether the management contract may move with him to a different manager in due course – watch this space.

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

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The FTSE 350 Closed End Investments Index is down 459.04 points (-3.04%) to 14,663.50 since the last newsletter.