Investment Trust Newsletter

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Our summer of turmoil continues, with heatwaves, the resignation of Boris Johnson as Prime Minister, rail and postal strikes, even higher gas prices, a new lockdown in Wuhan in China, and of course the continuing war in Ukraine. Yet markets seem quite calm against this backdrop, quietly assessing the latest hard data rather than reacting to lurid headlines. Growth stocks have actually rallied quite well over the past couple of weeks, and we continue to see numerous good opportunities for buyers in an investment trust sector that offers far cheaper ratings than it did a few months ago. The sector index that we track is up by 3.4% over the last month, indicating perhaps that prices have already discounted a lot of the bad news and may be preparing to look ahead without assuming the worst.

Major Price Changes Over One Month

RTW Venture	+27.52%
Augmentum Fintech	+23.37%
Seraphim Space	+21.61%
ICG Enterprise Trust	+18.27%
Alpha Real Trust	+16.99%
Doric Nimrod Air Two	+16.46%
Doric Nimrod Air Three	+15.04%
Schiehallion Fund 'C'	+14.19%
India Capital Growth Fund	+12.63%
Aurora Investment Trust	+11.08%
Chrysalis Investments	-15.95%
Oryx International Growth Fund	-14.76%
JZ Capital Partners	-13.02%
Fair Oaks Income 2021	-12.18%
Axiom European Financial Debt	-11.67%

Major Price Changes Over One Year

Literacy Capital	+101.50%
Riverstone Energy	+81.46%
Gabelli Merger Plus+ Trust	+73.38%
Amedeo Air Four Plus	+64.27%
Doric Nimrod Air Two	+56.65%
BH Macro USD	+55.78%
Taylor Maritime Investments	+44.90%
Gulf Investment Fund	+43.01%
Doric Nimrod Air Three	+39.25%
Gresham House Energy Storage Fund	+37.26%
JPMorgan Russian Securities	-90.03%
Chrysalis Investments	-61.42%
EPE Special Opportunities	-56.33%
Baillie Gifford US Growth	-51.42%
Baillie Gifford European Growth Trust	-44.98%

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

Two of the aircraft leasing trusts managed by Doric and Nimrod Capital feature strongly in the list of risers this month: **Doric Nimrod Air Two** (DNA2, 90p) up by 16%, and **Doric Nimrod Air Three** (DNA3, 48p) up by 15%. These trusts benefit from fixed lease rentals during a contractual term, and then the big unknown for the total return is the residual capital value of the aircraft at the end of the lease. DNA2 owns seven Airbus A380-861 aircraft leased until 2023 and 2024; and DNA3 owns four A380s, leased until 2025. The good news this month came from the predecessor trust, the first of the trio, **Doric Nimrod Air One** (DNA, 58p, ex-dividend), which is too small to be included in our table of price changes, but would otherwise be on top this month. It owns one aircraft which was leased to Emirates until December this year, and on 15th July the trust announced an agreement to sell the aircraft to Emirates at the end of is lease for £25.3m. This capital will be distributed to shareholders, net of liquidation and other costs, meaning that the board expects to distribute

66p between now (including the dividend to be paid on 29th July) and the liquidation expected in early 2023. That compared to the pre-announcement share price of 34p, so this was an excellent unanticipated outcome that gave DNA a big boost and set a good precedent for DNA2 and DNA3 to hopefully follow.

July also brought a significant bounce in some of the growth trusts that sold off heavily in the spring, helped by some technology results in the US that were not as bad as expected. The Nasdaq has rallied and trusts such as **Augmentum Fintech** (AUGM, 113.25p), **Bellevue Healthcare Trust** (BBH, 164.6p), and **Scottish Mortgage** (SMT, 830.6p) have bounced strongly from their lows. Investors are assessing whether these trusts, still on significant discounts, have been oversold to the extent that they now offer sufficient value to justify the higher risk inherent at this point in the economic cycle. As we explained last month, we feel the jury is still out on whether higher inflation will become embedded, depending partly on the amount of labour unrest and the pace of wage rises, or whether it could moderate quickly once the initial shock of higher energy prices dissipates. The answer to that question is unlikely to become any clearer before the autumn, which means we see no reason to make drastic changes to portfolios over the summer.

Another of the trusts experiencing a strong positive rebound, **RTW Venture Fund** (RTW, US$1.2625), made the point in its quarterly investor report that the second quarter selling was "particularly unforgiving for small biotech companies." The trust says that in spite of a substantial rally over recent weeks, the Russell 2000 Biotech Index is still down by two-thirds from its February 2021 peak, "making this the deepest and longest bear market for the sector since the genomics bubble burst in 2000-2002. Valuations are at historic lows and the number of small and mid cap public companies trading at less than their cash is at a record high (34%)." That's a good reminder of just how negative the sentiment has become in certain sectors, in the US in particular, which is why M&A activity is starting to gain momentum and could really drive valuations in the third quarter unless the macroeconomic backdrop deteriorates further.

Some similar points were made in a trading update from **Seraphim Space** (SSIT, 78.6p), which was the biggest faller in June and one of the biggest risers last month. The trust said that despite the macroeconomic backdrop, investment activity in the global space domain remained strong in the period. Global security, food security and humanitarian support remain key drivers underpinning growth in the space domain, followed by climate and sustainability themes. Funding has continued unabated, and the operational performance of the portfolio companies remains strong in terms of their revenue and order books. The majority of holdings have sufficient cash to deliver against their growth strategies for at least another year without further capital, with the sole exception of a company called Altitude Angel (1.5% of net assets at 31st March), which will need to raise equity capital prior to Q2 2023. This business has recently announced a major commercial milestone in relation to an initial 265km drone superhighway in the UK, in partnership with BT, connecting airspace above Reading, Oxford, Milton Keynes, Cambridge, Coventry and Rugby over the next two years, with the option to expand the corridor to many other locations in the country. SSIT intends to reserve around two-thirds of its current cash balance (equal to around 25% of net assets) to support the next funding rounds of portfolio companies through to 31 December 2023, including Altitude Angel, with the balance available for new investments.

Part of the reason for the sharp fall in SSIT has been the performance of its two main listed investments, Arqit Quantum and Spire Global, which represented 14.3% of NAV as at 31st March. Their share prices fell substantially (59% and 66% respectively) during the quarter ended 30th June, in common with other SPAC-merged companies. The manager says he remains confident in the prospects for both companies which during the quarter ended 30 June 2022, both reported positive commercial performance and healthy cash balances. Overall, we see no reason to change our view on the trust, which we recommended as a multi-decade entry into a new industry with massive potential. That still holds, and we think the near-term volatility is best ignored, or treated as an opportunity to top-up at lower prices.

Chrysalis Investments (CHRY, 99.3p) is a notable exception to the rally in growth capital trusts, mainly due to a sharp haircut in the valuation for Klarna, which represented nearly 20% of assets at the end of March. Far from earlier expectations of another mark-up for Klarna, as we reported five months ago, the valuation was cut savagely from US$45.5bn to just US$6.65bn for its latest funding round. Chrysalis had already cut it to US$30bn, but this was a much sharper decline that was only partially mitigated by a rise in the valuation of another large holding in Wefox. The trust estimates its NAV to be 179.55p, implying a big discount for the share price of 44.7%, but that big shock from Klarna explains exactly why shareholders are somewhat sceptical and skittish. There may well be some excellent value here, but we would have to say the shares are SPECULATIVE.

SCHRODER JAPAN GROWTH FUND (SJG, 202p)

Whilst the UK and US grapple with uncomfortably high levels of inflation, the situation is considerably different for another of the world's largest economies, Japan.

Against the backdrop of so many years when the country has struggled against deflation, this global inflationary shock may not be entirely unwelcome, and to date inflation has been fairly muted. In June the figure for consumer price inflation in Japan was 2.2%, only just above the Bank of Japan's 2% target, and there are both cultural and historical reasons to expect far less upwards wage pressure than in the major western nations. We spoke to Masaki Taketsume, the London-based manager of Schroder Japan Growth Fund, for a first-hand update.

This £280m trust does not have a particularly high profile in a sector that has tended to be dominated in the past by the strong performance of the growth-oriented **Baillie Gifford Japan** (BGFD, 744.5p) or by the larger **JPMorgan Japanese** (JFJ, 473p), but its more balanced all-cap approach with a value style bias has seen it improving in relative performance, and over the last six months it is top of the sector, nearly flat in NAV terms. Its largest holdings include well-known names like Toyota, NTT, and Hitachi, and the trust appears to have been able to avoid serious falls during a period when both BGFD and JFJ have suffered double-digit losses.

Masaki says that he feels "cautiously optimistic" about the Japanese equity market, partly on the basis that four key headwinds are not blowing so strongly. First, he says that Japan is much less concerned about monetary policy and he thinks the Bank of Japan will likely be the last central bank in developed markets to tighten the purse strings. Second, inflation is creeping up, but it is well below European and US price growth, and Masaki does not expect it to skyrocket, considering the country relatively well positioned. He believes that Japanese companies have sufficient pricing power to offset input cost hikes, and operating margins are being maintained, although the country is of course highly dependent on energy from outside and the yen is falling, so those are less helpful factors. Third, in terms of the economic cycle, Japan is some way behind the west and is still recovering from Covid-19, benefiting from the reopening and a rise in domestic consumption. Fourth, in terms of valuation Japan is one of the cheapest major markets in P/E terms, and it has an additional 'X' factor that is absent in other markets, namely the slow shift in corporate governance culture that is gradually becoming more shareholder friendly. Masaki noted that there have been record levels of share buybacks in April and May, so this is not merely anecdotal in nature. He considers the developments in corporate governance to be one of the most important sources of alpha generation for the trust. It varies massively between companies, making stockpicking very important, which suits the bottom-up style at Schroders. Masaki says the firm's experienced analysts that follow companies very closely over a long time period are able to 'sense' change in its early moments, which allows the trust to identify improving value. Masaki is based in London, and he has a Tokyo-based team of analysts, so they are able to cover all bases and arrange meetings with executive teams at different times. He says that management teams are becoming more open to discussing strategy with long-term investors like Schroders, and that greater engagement is here to stay.

The research methodology used by the trust has a strong valuation discipline and has a resulting value bias, but Masaki stresses that this is not the starting point – it is all about individual stockpicking. Portfolio turnover tends to be around 20%-25% per year, which is consistent with the Schroder analysts' three-year timeframe. Recently the turnover has been a little bit higher as Masaki has been reducing the number of holdings in the quest for more alpha, concentrating on the best ideas. He took over as manager in mid-2019, when the trust had a little over 80 holdings, and now the target is 60-70. Masaki says his focus is very much on the validity of the investment thesis for each company, so the main decision is whether the stock is in or out of the portfolio, rather than adjusting position sizing by adding and trimming. The portfolio is an all-cap portfolio, but overweight mid and small cap and underweight large cap. Masaki attributes this to a valuation gap and to a preference for domestic exposure which he believes is attractive now.

To illustrate the investment process, Masaki talked about a recently-sold holding, JSR Corporation, a chemical company. The trust initiated a position when the valuation was extremely low at 1x book value in spite of a growing healthcare business that was often ignored and underappreciated, and at the same time management was more committed to improving the capital allocation, shifting away from low margin business. This was a typical stock uncovered by the team's research efforts, and after the stock outperformed the trust was able to take a profit and sell out.

This was interesting background on Japan, confirming much that we have learned about improving corporate governance, and we can see why SJG has moved to the top of the peer group performance table with its value bias and sensible stockpicking approach. On a discount of 12.3%, wider than both its own twelve-month average of 11% and also the current sector average of 8.4%, we think the shares offer decent value at a time when an economy with lower inflation and a less hawkish central bank may well be attractive.

VPC SPECIALTY LENDING (VSL, 79.5p)

Shares in VPC Specialty Lending have fallen from the 85p-90p level at which they spent most of the second quarter of the year, already down from the year's

starting point at 92p. The trust pays a quarterly dividend of 2p per share, implying an annual yield now in excess of 10%, which looks worthy of investigation. We feel that VSL may have been unfairly punished for its involvement in the SPAC sector, which has fallen completely out of favour, although the risk level may also have risen for its core lending activities.

VPC Specialty Lending is a good descriptive name for this £300m trust, managed by Victory Park Capital in Chicago, and engaged in asset-backed lending to non-bank businesses operating in areas like small business lending, working capital products, consumer finance, and real estate, primarily in the US but also in Latin America, Asia, and Europe. These are mainly technology-enabled financial services companies, or fintech. The primary objective of the trust is to generate a good level of distributable income from the loans, plus some opportunity for capital returns from equity participation that arises from the core lending business and also from SPAC sponsorship.

The business model for the loans involves very carefully structured deals whereby credit is extended in the form of senior secured facilities with significant overcollaterisation designed to minimise any loss in the event of default. The trust generated just over £21m in revenue in 2021, paying out £22m in dividends that are backed by revenue reserves amounting to nearly a year's coverage. That gives us confidence that the trust can continue to pay its steady dividend, which has been stable for the last 17 consecutive quarters and which underpins the value of the shares. The trust seems to have a very good steady record from its main lending activities, adding incremental value reliably from month to month, and we have no reason to think the dividend flow will be interrupted.

Moving on to the equity participation, the capital returns are obviously much more variable, but they have still been positive in the year to 31st May in spite of a fall in the SPAC investments that have tended to be the focus of a lot of attention. In part this is because of the earlier excitement from the successful SPAC combinations (with a company called Bakkt in particular) that generated significant capital uplifts that have since dissipated. Yet the SPAC activities were only ever a small slice of the risk here, with only US$5.4m of cost, and an end-May value of US$15.6m. In spite of a very disappointing recent performance from the three completed SPAC combinations and one other SPAC vehicle, the trust has still trebled its money from its part in the sponsorship activities. In the context of a US$300m trust this is all small beer now, but there is probably still a hangover from the earlier period when it seemed as though the VSL debt cake would have a fine thick topping of SPAC jam. Even so, this does not seem any reason to us for the trust's share price to be punished severely such that the yield is pushed above 10%.

That's not to say that the risk profile has not changed over recent months. VSL is lending to small fintech companies here, and in tougher market conditions there must be a greater risk of failure and therefore a process of asset recovery that may not prove quite as reliable as planned. We have found in the past that when debts go bad, even the most carefully-laid asset backing can sometimes go awry and result in losses. For this reason we can see that some discount is merited, but we think the trust has been excessively tainted by its involvement in the SPAC sector, thereby creating a good chance to buy into a solid underlying debt business at a good discount.

With all debt trusts it is a good idea to limit exposure, but we think VSL can merit a place in a diversified high income portfolio in spite of the evaporation of earlier SPAC windfalls. The trust remains the top performer in the direct lending sector over the last three years, with the highest yield and the widest discount by far, at 27.5% against a 9.6% sector average. We reckon that more than offsets the risks.

STOCKBROKERS' RESEARCH

On 15th July Winterflood issued a research note on **Personal Assets Trust** (PNL, £488.00), the well-known conservative trust that tries to protect and increase shareholders' funds. At the end of June the trust had around a third of its assets in equities, with half in bonds, 12% in gold-related investments, and 4% in cash. This high degree of non-equity exposure naturally means the trust is likely to lag markets during periods of rising prices, but equally means it is well placed to preserve capital in difficult markets. There is good inflation protection from the index-linked bonds, and the trust also cushions changes in market sentiment through its well established 'zero discount' policy using share buybacks and issuance to balance the supply and demand. As a result, Winterflood say that the trust has exhibited lower volatility than its closest peers in both NAV and share price terms over the last ten years, adding "in our opinion, Personal Assets Trust is an attractive proposition for investors looking for a defensive portfolio in the current volatile and uncertain environment." The broker continues to recommend the trust for investors looking for long-term, attractive absolute returns combined with low volatility.

At the other end of the risk spectrum, perhaps, Stifel issued a note on **Polar Capital Technology Trust*** (PCT, 2057.5p) on 27th July, noting that the year to 30th April was a tougher one for the trust after several years of strong performance. The trust's NAV fell by 8% over the twelve months, underperforming its benchmark by 7% as investors rotated into the megacaps like Apple and Microsoft rather than PCT's more growth-oriented smaller caps. Manager Ben Rogoff sold out of some of the work-from-home beneficiaries such as Delivery Hero and Peloton and added to semiconductor exposure, as well as to cloud infrastructure and cybersecurity. Ben says that in the current macro environment it is easy to forget how good the long-term technology story is and its importance to future productivity and economic growth. He also believes the climate challenge can only be met with more technology. In the near term, Ben says that valuations are still susceptible to further downside and highlights that the current drawdown is consistent with the average bear market of an -18% fall over 8 months. However, the average recessionary bear market sees a market fall of -33% over 17 months meaning the correction could still have a third of the way to go. Despite this, he says tech valuations have corrected so that next-gen software stocks now trade in line with incumbents on a forward EV/sales basis which last happened in 2015/16. Therefore, if a recession can be avoided, he says this could be a good buying opportunity – as it was then. Hence, although the trust currently has a high cash level of 6.8% at 30th June, reflecting his caution, he expects this level to decrease over the coming months. The trust has already begun to rebuild exposure to higher growth stocks – while maintaining modest Nasdaq put protection. If the imminent earnings season is supportive and stocks are reacting better, he expects the trust will move back towards being fully invested. Stifel conclude "PCT has a more defensive approach than its listed tech fund peers which is evidenced by its better relative performance year-to-date. The discount has gradually widened over the last two years but has recently narrowed to 8%. This reflects investors looking to increase exposure following the sector de-rating - a strategy we think is sensible. We retain our positive recommendation."

A note from Investec on 26th July rated the private equity fund-of-funds **Pantheon International** (PIN, 252.25p) as a buy. The broker said "the price has fallen 25% year-to-date with the discount at a level we would typically associate with a portfolio and/or balance sheet in distress. However, this distress has been conspicuous by its absence. The NAV has proved highly resilient, reaching new all-time highs, and materially outperforming public markets (NAV total return of 11.5% in H1 vs. MSCI ACWI sterling adjusted total return of -11.0%). We expect PIN to continue to deliver superior long-term returns while a discount of 43% to our estimated current NAV represents a significant margin of safety in these turbulent times."

Conversely, Investec rates **Digital 9 Infrastructure** (DGI9, 112.6p) a sell after questioning the trust's recent acquisition of the Arqiva broadcast tower and satellite ground infrastructure stake for £459m. The broker highlights the relatively high level of leverage within the business and the short-term refinancing risk, and believes that these risks are exacerbated by the structure of the acquisition financing and the large position size within the D9 portfolio that the asset represents. Investec suggests the acquisition of Arqiva seems to have been structured sub-optimally in order to fit within the constraints of D9's investment restrictions (which were amended in January), rather than to appropriately reflect and respect the size of the transaction, wider portfolio construction considerations and balance sheet limitations. The note concludes "in our view, D9 has a concentrated and geared exposure to a levered asset with significant refinancing risk. This is an uncomfortable position for a supposedly lower risk core infrastructure fund. We downgrade to sell."

Liberum has a positive view on the private equity trust **Oakley Capital Investments** (OCI, 427.5p). The broker notes that EBITDA growth and accretive realisation activity have driven a 17% NAV total return in the first half of the year for the trust. Agreed exits for Contabo and Facile added 4% to NAV in the period. Liberum calculate a five-year NAV compound annual growth rate of 23% for OCI, and conclude "the portfolio remains conservatively valued and the mature portfolio offers scope for further realisation activity. We upgrade our FY 2022 NAV estimate by 12% due to outperformance against our forecasts. In addition to high NAV growth expectations, the 36% discount is compelling."

Numis Securities say that having completed its portfolio repositioning to focus exclusively on retail warehouses, **Ediston Property** (EPIC, 77p) reported a strong first quarter NAV, and given the MSCI IPD index has shown further strengthening of capital values in the second quarter, they would expect a further valuation uplift for the fund. Alongside industrials, Numis say the retail warehouse sector has been one of the strongest performing segments of commercial property markets over the past 12 months and the latest IPF survey forecasts show an expectation among market participants that this performance trend will continue over the coming years. In contrast to the high street retail and shopping centres, the retail warehouse sector is seen as complementary to the growth of e-commerce with the large car parks and easy access making the properties suitable to 'Click & Collect' and online order fulfilment. The broker concludes "this positive outlook for potential NAV growth from EPIC is not reflected by the company's shares trading at a c.26% discount to estimated NAV. This is likely driven by the fund being too small for some investors at £190m market cap and the portfolio's regional focus (26% in Wales, 26% in Scotland) making it less attractive to investors with a preference for London and the South East, as well as a possible overhang from sellers who do not want to be invested in a specialist mandate. Given the outlook for the asset class and the current discount for the fund, we would not be surprised if EPIC was the subject of takeover interest from an investor looking to gain exposure to a portfolio of retail warehouse assets."

Shore Capital issued an interesting note on 19th July about **Nippon Active Value Fund*** (NAVF, 115p), the activist investor that is seeking to unlock value from Japanese small cap companies that are resistant to beneficial corporate change. The broker discusses the approach by NAVF's managers to a portfolio company called Intage Holdings, the trust's second-largest holding at 12.4% of assets at the end of June. The investment managers (Rising Sun Management, or RSM) had already approached the management of Intage, a market research firm, to undertake a buyout, but they are now coming back with fresh proposals to be made at the company's forthcoming AGM. The proposals are to replace the current management incentive scheme, to buy back shares, and to greatly increase the dividend. This high level of engagement will not always pay off, but Shore concludes "investors in NAVF should benefit from the significant change in corporate governance practices currently occurring in Japan. Backed by a team of analysts based in Tokyo, and a management team with extensive experience dealing with corporates in Japan, RSM is well placed to continue to identify significant opportunities, particularly amongst small and mid-cap Japanese corporates. Many of these have little or no sell-side analyst coverage and are languishing at valuations that do not reflect the potential of the underlying business."

JPMorgan Cazenove makes an interesting observation about the run-off for the post of Prime Minister, noting that Liz Truss has committed to abandoning the scheduled corporation tax hike from 19% to 25% that was proposed by Rishi Sunak. Should Liz Truss become PM, there could be a benefit therefore for trusts that calculate their net asset values using discounted cash flow models net of UK corporation tax. In the renewables sector, the broker calculates that the big gainer would be **Greencoat UK Wind** (UKW, 154.55p) with an estimated uplift of 4.5%, followed by **JLEN Environmental** (JLEN, 122.5p) 3.8%, **Bluefield Solar** (BSIF 134.25p) 3.2%, **The Renewables Infrastructure Group** (TRIG, 135.4p) 2.5%, **NextEnergy Solar** (NESF, 111.1p) 1.8% and **Foresight Solar** (FSFL, 119.7p) 1.4%. In the wider infrastructure sector, **HICL Infrastructure** (HICL, 173.9p) could see an uplift of 2.9%, and **International Public Partnerships** (INPP, 162.9p) an estimated 2.4%.

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

SECONDARY FUND-RAISINGS

If you have followed the sector for a while, you will have noted that secondary fund-raisings from existing trusts have over recent years dwarfed the amount of capital raised from IPOs. Many trusts in the alternative asset space, relating to renewable energy in particular, have returned to the market several times to expand their portfolios and take up further pipeline opportunities. In the main it has been beneficial for all investors for these trusts to grow, but it has sometimes been frustrating for private (retail) investors that they are not able to participate in placings that are organised quickly with selected institutional investors. That may be about to change.

A report published last week by HM Treasury recommends that companies involve retail investors in all capital raisings. The report says that companies will be required to give due consideration to retail investors and how to involve then as fully as possible on all capital raisings including undocumented placings, for example by using a technology-driven solution or through a 'repair'-style follow-on offer after an institutional fundraise. The report suggests follow-on offers are made on the same terms as the institutional placing using a cleansing statement and short-form offer document, limited to a maximum of 20% of the placing size, capped at £30,000 per investor and open for five trading days.

This seems like a major step in the right direction in levelling the playing field for private investors, and we note the report was welcomed by the AIC's chief executive Richard Stone, who said "retail investors are a growing audience for investment companies and it's only fair they have the opportunity to take part in fundraising for existing investment companies as well as IPOs."

NEWS ROUND-UP

It has been a year now since **BlackRock Sustainable American Income Trust** (BRSA, 204p) added its 'sustainable' tag with the dual objectives of performance coupled with measurable and favourable ESG outcomes. The trust aims to compile a high conviction portfolio of high quality companies that are either ESG leaders, ESG improvers, or sustainability enablers. As we might expect in a tricky market, the trust has fared relatively well with this approach, delivering a 13% one-year return close to the top of the sector and a dividend yield of 4.1% as well. The largest sector allocations are financials, healthcare and technology, with holdings in companies including AstraZeneca (the trust can allocate up to 25% outside the US), Verizon Communications, Sanofi, Cisco Systems, Wells Fargo, Willis Towers Watson, and Citigroup. After a sharp rally though, the shares have re-rated to a premium of 2.2%, which looks FULLY VALUED to us.

This rating throws the massive 34% discount on **Pershing Square Holdings** (PSH, 2600p) into relief. Whilst the hedge-style activities of Bill Ackman can sometimes be controversial, the additional risk does not seem to merit such a wide discount. You might remember the saga of the SPAC, Pershing Square Tontine Holdings (PSTH), which raised US$4bn through an IPO two years ago, and was subsequently thwarted in its ambition to combine with Universal Music Group. Now that market sentiment has turned strongly against SPAC merger transactions, PSTH has been unable to strike another deal and has reached the end of its timeline, meaning that it must return the capital. This closes the chapter on this potential revenue for Pershing Square Holdings, but this outcome was largely expected and seems unlikely to stop Bill Ackman from pursuing other lines of innovative financing and deal-making. In the same sector, **JPMorgan American** (JAM, 733p) has announced that a change of portfolio manager will be coming in due course, as Timothy Parton, who looks after the growth portfolio, intends to retire in early 2024. He is providing a long notice period to allow for a smooth handover, so we would not anticipate any issues arising here.

A change of manager has also been announced by **Brunner Investment Trust** (BUT, 998p). Matthew Tillett has stepped down from his position as lead manager, so Christian Schneider - deputy chief investment officer for AllianzGI's Global Growth franchise - will assume the role for now, supported by Marcus Morris-Eyton. The board and AllianzGI will continue to review the structure of the team, including the appointment of a permanent lead portfolio manager. The Brunner Investment Trust will continue to be managed as an all-weather portfolio appropriate for a multitude of different market conditions with its balanced approach to portfolio construction and strong focus on valuation. It is an AIC 'dividend hero' with 50 consecutive years of rising dividends. Separately, Hamish Baillie is also stepping aside from his role as co-manager of **Ruffer Investment Company** (RICA, 296p) to pursue other opportunities, leaving Duncan McInnes to continue as manager.

The three managers responsible for **Ecofin US Renewables Infrastructure Trust** (RNEW, US0.975) are leaving for a new venture. The trust's shares have traded quietly since launch in December 2020, but they did fall a few cents on this news, which is a little troubling. Ecofin says that its experienced private sustainable infrastructure team is in place, but shareholders will want some news on the lead portfolio manager arrangements before too long.

GCP Asset Backed Income (GABI, 91.5p) has taken a further 1.2p per share writedown on its problem co-living group loan to reduce the end-June NAV to 98.45p, down by 0.9% over the quarter. Overall though, the trust's lending activities are progressing as usual, with 59 loans across 22 sectors, including football finance and battery storage. Only two loans have caused any concerns, with valuations prudently adjusted, and we continue to believe GABI offers well-managed exposure to a resilient group of borrowers. The quarterly dividend of 1.58125p implies an annual dividend yield of 6.9%, which looks attractive. On the topic of attractive yields, we will also note in passing that the price of **Impact Healthcare REIT** (IHR, 116.2p) has now dipped below the price of the recent fund-raising, and we think this is a good entry price for what should be a very reliable dividend yield of 5.6%.

Gore Street Energy Storage (GSF, 121.3p) delivered a 3.1% increase in net asset value in the first quarter of the year, which was a little disappointing. The stockbrokers Stifel attribute this muted performance to cash drag, as the trust had high levels of liquidity to cover future commitments, after a lot of new deals in the last year. More than half of GSF's portfolio is under construction or in its pre-construction phase, so it is easy to argue the trust's best days are still ahead and that patience will be rewarded. We are fully convinced now that battery storage can be a lucrative sector for facilities providing vital balancing services for stressed energy networks, and there have been an increasing number of examples of occasions when excess profits have been available. During the recent heatwave, for example, the National Grid came under stress because some power plants were undergoing summer maintenance at the precise moment that others had to be constrained due to overheating, the wind stopped blowing, and the solar production came largely at the wrong time of day. Bloomberg reported that the National Grid was forced to pay an extremely high price for emergency power from Belgian suppliers to prevent a blackout in London. For investors making a choice in this small sub-sector though, GSF looks like the laggard of the three at present, well behind the sector leader **Gresham House Energy Storage** (GRID, 157.75p) in terms of recent performance.

Henderson Far East Income (HFEL, 280.25p) has nudged its quarterly dividend up from 5.9p to 6p, implying a current annual dividend yield of 8.6%, which is hard to beat from an equity trust. We think the trust offers the prospect of sound returns going forward, and manager Mike Kerley says the trust is faring better in this current environment as companies that generate cash flow and pay dividends are being rewarded, whereas that was less true in the prior growth-dominated period. The trust has done well from its holdings in financials and materials, and Mike says he is more optimistic on China now than he has been. The Chinese government is starting to stimulate the economy at a time when most western governments are moving in the opposite direction. Inflation is less of a problem in Asia, currencies are holding up reasonably, and Mike sees plenty of companies with pricing power at the production end of the supply chain. He sees current dividend levels as sustainable, and strikes a confident note on his outlook for post-pandemic Asia. HFEL shares are not cheap on a 3% premium to NAV at present, above their twelve-month average premium of 0.7%, but for income investors wanting to keep a toe in equities for some potential capital growth as well, we think HFEL can prove a steady holding.

We last wrote about **Premier Miton Global Renewables** (PMGR, 180.5p) in the May newsletter, when we highlighted it as one of the few ways to buy into renewables without paying a premium rating. Even so, we felt its discount of 8.7% at the time when the shares were 192.25p was "up with events." Three months on, the NAV has slipped slightly to 206.6p and the shares are now on a wider discount of 12.9%. That looks TOO CHEAP to us, for exposure to a combination of higher power prices and a sector of growing strategic importance. In the trust's latest factsheet, manager James Smith argues that "Continental Europe appears to be heading for what can only be described as an energy crisis. French utilities companies have warned that this winter is likely to see power rationing. The technical closures of many French nuclear reactors this year has seen France swapping its usual role as a power exporter into being a significant importer of power, including from the UK. The reduction in Russian gas flows has forced German gas importers to buy more expensive Liquefied natural gas (LNG) from elsewhere, causing substantial losses. In turn, the German government has been forced to produce proposals to spread the resulting losses among energy users to avoid bankrupting the gas importers. It is, therefore, unsurprising that wholesale power prices have increased still further in the UK and Europe. Despite this, markets have fixated on the macro economic headwinds, and those companies that are likely to benefit from the power price environment have not yet seen much credit reflected in their share prices." With well-placed holdings in a range of renewable power companies, including **Greencoat UK Wind** (UKW, 154.55p), **NextEnergy Solar Fund** (NESF, 111.1p), and **Gresham House Energy Storage Fund** (GRID, 157.75p), we think PMGR offers quick and easy access to a ready-made renewables portfolio if you do not have one already – and on a double-digit discount rating as a bonus. We rate the shares a BUY. We also think **Ecofin Global Utilities & Infrastructure** (EGL, 222.5p) is a good trust for similar reasons as PMGR, and the shares are more liquid, but they stand on a small premium with a lower yield of 3.3%.

When we wrote about **Round Hill Music Royalty Fund** (RHM, US$0.995) in June we said "for now, there are still some hurdles for private investors to think about before investing in RHM, which is traded in US dollars and listed on the Specialist Fund Segment (SFS), which can be an issue when trying to deal through some platform stockbrokers. Reading between the lines, we think the trust would like to make itself more easily accessible for retail investors and may be pondering both a main market listing and perhaps a sterling share class in due course." Sure enough, the trust said in mid-July that it was intending to apply for a premium listing on the London Stock Exchange, and an additional quote denominated in sterling. This is a quick process, and has already been completed – the ticker code for the new sterling quote is RHMP and the dealing spread on the sterling shares is 81p-84p. We think the trust should benefit from these changes and is easier now for private investors to trade without currency complication. We also note that the US Copyright Royalty Board ruling has finally been upheld by the US courts, meaning that the higher agreed rates of royalties must now be paid, including the backdated payments. Industry reports also indicate that music streaming is continuing to grow, which augurs well for future revenue flows for RHM and for **Hipgnosis Songs Fund** (SONG, 111.2p), which is languishing on an inexplicable discount of 28.1%. This looks STRONG VALUE to us, and we rate the shares a buy. The only reason we can think of to justify the lowly rating is that the trust has found itself in a Catch-22 situation where it needs the shares to re-rate sharply to a premium so that it can raise more capital, but its inability to do so is causing concern that results in the discount. For existing shareholders, the message is don't stop believing – we think SONG will find a way to re-rate in due course.

As we anticipated, the board of **ScotGems** (SGEM, 77.5p) has decided, after consulting with shareholders, to advance proposals for a voluntary liquidation. The manager has already realised 83% of the trust's portfolio, so we would expect news of a full return of cash (less costs) fairly soon. With the shares on an 8% discount to the estimated NAV of 84.4p there is some potential additional value to reward patient holders, although probably not enough to justify fresh purchases at the market buying price of 80p.

The next issue of Investment Trust Newsletter is published on Saturday 3rd September.

The FTSE 350 Closed End Investments Index is up 382.31 points (+3.38%) to 11,704.79 since the last newsletter.