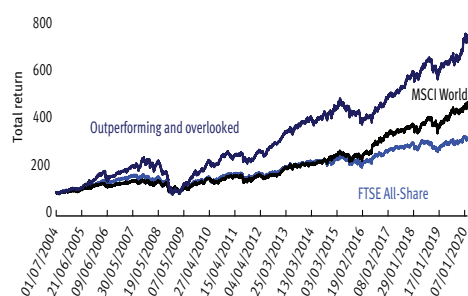




Alpha Investment Trusts: 10 Investment trust bargains from around the globe

The investment trust sector is wonderfully diverse. Our screen compares the best value closed-end funds, whatever their investment mandate, and identifies those with the best growth prospects. We screen for our top 25 trusts and select an automated portfolio of 10

Outperforming and overlooked trusts



Screen methodology:

To fairly compare investment trusts with different remits and capital structures, we assess funds' value relative to their historic mean premium/discount. Three-month share price momentum indicates market sentiment towards the funds. Next, a composite value-momentum ranking is arrived at using hedge fund manager Joel Greenblatt's 'Magic Formula' two-factor model. Our tables show the top 25 investment trusts and a portfolio of 10 investment trusts subject to additional selection criteria.

- The recently announced agreement between India and China to “disengage” their troops around the Himalayan border seems a fitting geopolitical backdrop for this month's investment trust screen.
- While the screen, which seeks to identify trusts showing an advantageous blend of strong recent performance and relative value, has only highlighted one trust that is specifically focused on one of the two countries – **JPMorgan Indian investment trust (JII)** – the four Asian generalists among its picks – **Fidelity Asian Values (FAS)**, **Asia Dragon (DGN)**, **Schroder Asian Total Return (ATR)** and **Pacific Assets (PAC)** – all have significant exposure to the countries.
- And while classified in a different sector, **JPMorgan Emerging Markets (JMG)** is also a play on the theme with almost two fifths of its assets in China and a further 15 per cent in India.

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Making fair comparison in the richly diverse investment trust sector

Valuation metrics for trusts are very limited relative to those for other equities, with the key measure of value being the discount or premium a trust's shares trade at, compared with its net asset value (NAV) per share. However, the average historic discount of individual trusts is strongly influenced by the assets they invest in and past performance, along with multiple other factors such as the trust's structure and the level of 'gearing' it employs to enhance returns. So, while one trust trading at a 10 per cent discount to NAV may look achingly cheap against its history, another trust trading at the same discount may be considered eye-wateringly expensive.

Meanwhile, an assessment of the underlying quality of an investment trust also depends on many factors that are often unique to the trust concerned. Screens are ill-suited to providing a nuanced analysis and direct comparisons between trusts with different characteristics can be misleading.

However, we have found that a useful screen can be created by focusing on two 'high-level' factors that researchers have shown to be predictive of future share price performance: 'value' and 'momentum'. Based on 14-year back-testing of the screen (the period over which we have been able to source reliable historic data), this strategy has produced a 619 per cent cumulative total return or 482 per cent if an annual dealing charge is included for the presumed yearly reshuffles of the portfolio. Over the same period, a 50:50 split between the FTSE All-Share and the MSCI World indices has produced a 250 per cent total return (see graph on page 1). This data is based on annual reshuffles of 10-stock portfolios like the one on page 5, which applies the rules listed on page 4.

How the screen works

The screen uses the following two criteria:

Value: To hunt for value, this screen looks at a trust's premium or discount compared with its own one-year historic average. A statistical measure known as the Z-score is used to do this which produces a standardised score based on where the premium or discount sits compared with its historic range (the score measures how many standard deviations the current valuation is from the mean average). A negative Z-score suggests a trust is cheap relative to its own historic standards (the larger the negative score the cheaper). A positive score suggests a trust is expensive. Because each trust has its current valuation compared with its own valuation history rather than that of other trusts, the Z-score can be used to make comparisons between trusts with very disparate valuation characteristics.

Momentum: The other factor the screen looks at is recent share price performance. There is a huge body of research that has found rising share prices tend to beget more of the same. Specifically, the screen wants to see strong share price performance over three months. The fact that the screen looks at price and not NAV performance means some credence is given to the wider market view of a trust's prospects. For example, if sentiment has been improving towards a trust, thereby narrowing its discount over the three months, this will create stronger momentum which means a more favourable ranking from the screen. Scepticism implied by a widening discount will, by contrast, act as a headwind to price performance. That said, the overall objective when combining momentum with value is to find promising performance trends that the market has not yet fully priced in.

Bringing it all together

To assess both factors together, the screen uses the ranking method employed by hedge fund manager Joel Greenblatt in his two-factor 'magic formula' (the magic formula uses different inputs). The method simply ranks both factors and then adds the rankings together to find the trusts with the most attractive combined ranking.

The top 25 ranking trusts are presented in the table on page 5, while a portfolio of 10 trusts is published in the table on page 5 based on the following rules:

The 10-stock portfolio rules

- Market capitalisation must be more than £100m.
- No tracker or hedge funds.
- No more than half the portfolio (five out of 10 shares) should be in funds with a niche theme. Trusts defined as niche are those focused on non-mainstream asset classes or sub-sectors such as private equity, debt, technology and biotechnology, and those focused on single countries (excluding the UK and US) or high-risk economic regions such as emerging markets. I also regard Asian smaller companies trusts as niche, but not Asian generalists.
- No more than half the portfolio (five out of 10 shares) should be mainstream funds of the same type. This rule does not apply to global funds, but it does to other mainstream themes such as trusts investing in the UK (large and small companies), Europe, the US or Asia.
- All trusts must trade at a discount to NAV.

10-trust portfolio

Rank	Name	TIDM	Market cap	Price	DY	Z-score	Discount to NAV			Share price performance						
							Now	Avg	Low	High	1m	3m	6m	1y	3y	5y
1	BlackRock World Mining	BRWM	£700m	403p	5.5%	-1.8	-14.8%	-11.1%	-3.2%	-20.8%	-3.7%	11.6%	30.8%	21.6%	24.7%	143.5%
2	JPM Emg Mkts	JMG	£1,253m	1,050p	1.4%	-1.9	-11.2%	-8.0%	-3.8%	-15.7%	-0.2%	9.5%	17.1%	6.6%	31.8%	119.4%
3	Fidelity Asian Values	FAS	£254m	345p	2.6%	-1.4	-9.3%	-2.7%	5.2%	-14.8%	2.7%	8.5%	2.4%	-19.8%	-4.4%	72.8%
4	Herald	HRI	£1,044m	1,572p	-	-1.2	-18.1%	-14.5%	-5.3%	-28.8%	-6.4%	10.2%	28.6%	19.6%	40.5%	124.3%
5	European Assets	EAT	£367m	102p	6.9%	-1.9	-13.7%	-9.1%	-4.7%	-23.5%	-1.5%	5.8%	14.2%	4.6%	-6.0%	30.8%
6	JPM Indian	JII	£446m	569p	-	-1.1	-17.7%	-12.7%	-5.7%	-25.6%	1.3%	9.9%	-4.2%	-19.3%	-23.1%	17.9%
8	Asia Dragon	DGN	£521m	412p	1.2%	-1.5	-14.2%	-11.6%	-5.1%	-19.8%	2.0%	6.5%	10.3%	2.2%	18.9%	89.8%
10	Schroder Asian Total Return	ATR	£395m	404p	1.6%	-0.7	-1.8%	0.2%	5.6%	-16.3%	4.1%	14.1%	24.9%	12.3%	27.1%	139.1%
11	Scottish Mortgage	SMT	£13,518m	923p	0.4%	-0.6	-2.7%	-1.1%	7.6%	-16.5%	5.0%	23.7%	66.0%	81.2%	118.5%	287.9%
13	Pacific Assets	PAC	£306m	253p	1.2%	-1.9	-13.7%	-5.6%	2.5%	-15.4%	-3.1%	2.9%	4.6%	-12.3%	4.0%	45.9%

As at: 11 September 20

Source: Winterflood Investment Trusts

Top 25

Rank	Name	TIDM	Market Cap	Price	DY	Z Score	Discount to NAV			Share price performance						
							Now	Avg	Low	High	1m	3m	6m	1y	3y	5y
1	BlackRock World Mining	BRWM	£700m	403p	5.5%	-1.8	-14.8%	-11.1%	-3.2%	-20.8%	-3.7%	11.6%	30.8%	21.6%	24.7%	143.5%
2	JPM Emg Mkts	JMG	£1,253m	1,050p	1.4%	-1.9	-11.2%	-8.0%	-3.8%	-15.7%	-0.2%	9.5%	17.1%	6.6%	31.8%	119.4%
3	Fidelity Asian Values	FAS	£254m	345p	2.6%	-1.4	-9.3%	-2.7%	5.2%	-14.8%	2.7%	8.5%	2.4%	-19.8%	-4.4%	72.8%
4	Herald	HRI	£1,044m	1,572p	-	-1.2	-18.1%	-14.5%	-5.3%	-28.8%	-6.4%	10.2%	28.6%	19.6%	40.5%	124.3%
5	European Assets	EAT	£367m	102p	6.9%	-1.9	-13.7%	-9.1%	-4.7%	-23.5%	-1.5%	5.8%	14.2%	4.6%	-6.0%	30.8%
6	JPM Indian	JII	£446m	569p	-	-1.1	-17.7%	-12.7%	-5.7%	-25.6%	1.3%	9.9%	-4.2%	-19.3%	-23.1%	17.9%
7	Aberdeen Emerging Markets	AEMC	£253m	550p	4.0%	-1.8	-18.4%	-14.8%	-10.8%	-19.1%	0.5%	5.8%	2.8%	-1.4%	0.6%	62.8%
8	Asia Dragon	DGN	£521m	412p	1.2%	-1.5	-14.2%	-11.6%	-5.1%	-19.8%	2.0%	6.5%	10.3%	2.2%	18.9%	89.8%
9	Genesis Emg Mkts	GSS	£896m	738p	2.0%	-1.8	-14.9%	-11.6%	-7.6%	-18.5%	-0.4%	4.4%	9.2%	-3.1%	13.9%	78.8%
10	Schroder Asian Total Return	ATR	£395m	404p	1.6%	-0.7	-1.8%	0.2%	5.6%	-16.3%	4.1%	14.1%	24.9%	12.3%	27.1%	139.1%
11	Scottish Mortgage	SMT	£13,518m	923p	0.4%	-0.6	-2.7%	-1.1%	7.6%	-16.5%	5.0%	23.7%	66.0%	81.2%	118.5%	287.9%
12	Aberdeen New India	ANII	£249m	425p	-	-0.7	-16.9%	-15.1%	-9.7%	-25.3%	3.9%	11.8%	5.2%	-9.1%	-8.0%	41.2%
13	Pacific Assets	PAC	£306m	253p	1.2%	-1.9	-13.7%	-5.6%	2.5%	-15.4%	-3.1%	2.9%	4.6%	-12.3%	4.0%	45.9%
14	JPM Global Emg Mkts Income #	JEMI	£342m	115p	4.4%	-1.2	-10.8%	-6.5%	2.2%	-18.5%	-0.9%	5.0%	2.2%	-11.4%	0.2%	53.3%
15	SME Credit Realisation Fund	SCRIF	£120m	56p	9.4%	-0.6	-32.4%	-23.2%	-4.1%	-46.4%	1.6%	11.6%	-23.8%	-17.3%	-25.4%	-
16	TR European Growth	TRG	£493m	983p	2.3%	-0.4	-15.8%	-14.5%	-6.0%	-22.1%	6.9%	15.9%	26.8%	20.1%	-13.5%	79.2%
17	Henderson European Focus	HEFT	£277m	1,298p	2.4%	-0.8	-11.4%	-9.8%	-3.3%	-16.0%	6.4%	8.1%	18.5%	6.0%	1.0%	40.6%
18	Starwood Euro Real Estate Fin.	SWEF	£345m	84p	7.8%	-1.0	-18.6%	-9.2%	1.7%	-37.8%	-1.7%	5.8%	-13.5%	-12.2%	-7.3%	10.3%
19	Empiric Student Property	ESP	£410m	68p	-	-0.7	-33.7%	-22.1%	1.2%	-47.8%	8.5%	8.6%	-22.4%	-24.9%	-31.5%	-20.6%
19	JPM Smaller Cos	JMI	£198m	254p	2.2%	-0.4	-11.6%	-9.8%	0.4%	-27.6%	5.0%	13.9%	10.0%	16.3%	39.7%	59.1%
21	Invesco Enhanced Inc	IPE	£118m	68p	7.4%	-0.9	-7.2%	-1.8%	5.1%	-28.4%	1.0%	5.9%	-6.4%	-1.3%	3.3%	35.3%
22	JPM European - Growth	JETG	£206m	278p	1.9%	-1.3	-19.1%	-16.4%	-12.9%	-27.0%	1.1%	3.4%	18.8%	-2.3%	-2.4%	34.6%
23	AVI Global Trust	AGT	£774m	729p	2.8%	-0.9	-12.3%	-10.7%	-6.3%	-15.6%	2.4%	5.5%	13.9%	-1.0%	11.2%	76.9%
24	JPM Euro Smaller Cos	JESC	£643m	403p	1.7%	-0.2	-14.2%	-13.7%	-9.5%	-24.1%	6.9%	17.8%	26.9%	14.1%	9.7%	74.8%
25	Aberdeen New Dawn	ABD	£288m	263p	1.6%	-0.5	-13.4%	-12.4%	-7.8%	-20.2%	3.4%	10.3%	13.6%	5.9%	19.6%	94.1%

Winterflood Investment Trusts

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(Methodology and screens by Algy Hall)

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