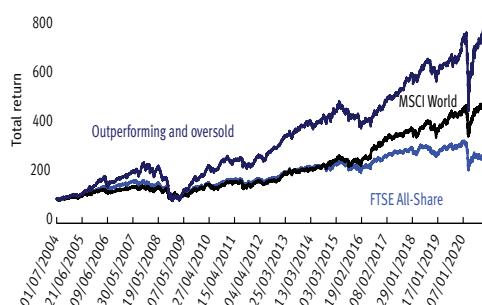




Alpha Investment Trusts: 10 Investment trust bargains from around the globe

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 oversold long-term



Source: Thomson Datastream

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.

While it is still very early days in the life of this regular report, the trusts highlighted by the first two Alpha reports have been doing well. All 20 of the trusts have so far produced a better total return than the FTSE All-Share and 17 have out done the MSCI World index. Overall, the 10 trusts highlighted in July's report have delivered a 12 per cent total return over the past three months compared with a negative 4.2 per cent from the FTSE All-Share and 3.7 per cent from the MSCI World index.

Meanwhile the 10 trusts from September have returned 7.4 per cent in a month compared with negative 2.2 per cent from the FTSE All-Share and a positive 2.1 per cent from the MSCI World index.

Analyst: Algy Hall
algy.hall@ft.com

Alpha Production Editor: Sameera Hai Baig

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	Standard Life UK Smaller Cos	SLS	£548m	550p	1.4%	-0.9	-7.6%	-4.9%	5.4%	-15.6%	1.5%	12.1%	25.9%	14.9%	21.7%	78.1%
2	Pacific Assets	PAC	£336m	278p	1.1%	-1.0	-10.8%	-6.6%	2.2%	-15.4%	2.8%	8.2%	17.8%	-1.3%	13.1%	52.0%
3	Fidelity Asian Values #	FAS	£263m	358p	2.4%	-1.2	-9.7%	-3.9%	4.1%	-14.8%	1.3%	5.8%	18.0%	-12.0%	-2.6%	68.8%
4	Independent Inv. Trust	IIT	£237m	437p	3.0%	-1.2	-12.9%	-8.1%	0.4%	-22.4%	-0.7%	5.8%	10.6%	-13.6%	-28.2%	38.2%
5	Aurora	ARR	£122m	162p	2.8%	-0.8	-3.7%	-0.7%	8.5%	-10.6%	0.3%	10.2%	4.5%	-19.4%	-16.6%	11.2%
6	AVI Global Trust	AGT	£783m	742p	2.8%	-1.2	-13.0%	-10.9%	-6.3%	-15.6%	-0.8%	5.3%	29.7%	4.0%	10.8%	76.3%
7	JPM US Smaller Cos	JUSC	£186m	318p	0.8%	-0.7	-8.2%	-4.5%	5.0%	-18.8%	5.3%	12.2%	27.5%	3.6%	17.2%	79.9%
8	BMO Commercial Property	BCPT	£502m	63p	8.4%	-0.9	-47.9%	-33.5%	-8.8%	-66.8%	-2.3%	6.8%	-15.0%	-46.8%	-50.8%	-45.1%
9	JPM Indian	JII	£463m	595p	-	-0.8	-17.1%	-13.6%	-5.7%	-25.6%	3.3%	7.4%	28.8%	-17.5%	-20.1%	16.2%
10	CC Japan Income & Growth	CCJI	£168m	125p	3.6%	-1.3	-11.0%	-5.0%	3.1%	-14.3%	0.2%	2.9%	6.8%	-17.3%	-6.6%	-

As at: 19 October 2020
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	Standard Life UK Smaller Cos	SLS	£548m	550p	1.4%	-0.9	-7.6%	-4.9%	5.4%	-15.6%	1.5%	12.1%	25.9%	14.9%	21.7%	78.1%
2	Pacific Assets	PAC	£336m	278p	1.1%	-1.0	-10.8%	-6.6%	2.2%	-15.4%	2.8%	8.2%	17.8%	-1.3%	13.1%	52.0%
3	Fidelity Asian Values #	FAS	£263m	358p	2.4%	-1.2	-9.7%	-3.9%	4.1%	-14.8%	1.3%	5.8%	18.0%	-12.0%	-2.6%	68.8%
4	Independent Inv. Trust	IIT	£237m	437p	3.0%	-1.2	-12.9%	-8.1%	0.4%	-22.4%	-0.7%	5.8%	10.6%	-13.6%	-28.2%	38.2%
5	Aurora	ARR	£122m	162p	2.8%	-0.8	-3.7%	-0.7%	8.5%	-10.6%	0.3%	10.2%	4.5%	-19.4%	-16.6%	11.2%
6	AVI Global Trust	AGT	£783m	742p	2.8%	-1.2	-13.0%	-10.9%	-6.3%	-15.6%	-0.8%	5.3%	29.7%	4.0%	10.8%	76.3%
7	JPM US Smaller Cos	JUSC	£186m	318p	0.8%	-0.7	-8.2%	-4.5%	5.0%	-18.8%	5.3%	12.2%	27.5%	3.6%	17.2%	79.9%
8	BMO Commercial Property	BCPT	£502m	63p	8.4%	-0.9	-47.9%	-33.5%	-8.8%	-66.8%	-2.3%	6.8%	-15.0%	-46.8%	-50.8%	-45.1%
9	JPM Indian	JII	£463m	595p	-	-0.8	-17.1%	-13.6%	-5.7%	-25.6%	3.3%	7.4%	28.8%	-17.5%	-20.1%	16.2%
10	CC Japan Income & Growth	CCJI	£168m	125p	3.6%	-1.3	-11.0%	-5.0%	3.1%	-14.3%	0.2%	2.9%	6.8%	-17.3%	-6.6%	-
11	JPM Mid Cap	JMF	£217m	926p	3.2%	-1.2	-13.6%	-7.2%	5.0%	-17.1%	1.7%	3.4%	14.6%	-15.8%	-10.8%	14.0%
12	Polar Capital Technology	PCT	£3,021m	2,200p	-	-0.9	-4.8%	-1.8%	6.1%	-15.9%	4.8%	4.5%	33.0%	53.4%	99.6%	296.4%
13	Artemis Alpha Trust	ATS	£111m	282p	1.9%	-1.7	-20.6%	-16.5%	-7.7%	-21.2%	-0.5%	0.5%	12.6%	1.9%	-1.0%	20.3%
14	European Assets	EAT	£381m	106p	6.1%	-0.7	-11.1%	-9.5%	-4.7%	-23.5%	1.2%	7.7%	28.3%	12.0%	-1.7%	39.2%
15	Jupiter US Smaller Cos	JUS	£127m	1,023p	-	-0.6	-13.7%	-11.8%	-5.6%	-21.2%	3.0%	8.7%	28.8%	-2.6%	19.0%	70.0%
16	Aberdeen Asian Income #	AAIF	£344m	195p	4.7%	-0.8	-11.6%	-9.7%	-4.6%	-16.4%	-0.9%	4.4%	16.2%	-3.4%	2.2%	45.6%
17	Schroder UK Mid Cap	SCP	£177m	505p	3.7%	-0.3	-13.1%	-11.8%	-1.7%	-19.9%	9.3%	13.2%	30.2%	-6.4%	3.1%	27.5%
18	BlackRock Smaller Cos	BRSC	£645m	1,320p	2.5%	-0.9	-8.9%	-3.9%	3.8%	-17.2%	7.8%	3.1%	8.9%	-5.5%	10.0%	59.4%
19	JPM Global Emg Mkts Income	JEMI	£346m	117p	4.4%	-1.4	-11.4%	-7.3%	0.4%	-18.5%	-2.1%	0.4%	17.7%	-6.2%	-2.5%	54.7%
20	Invesco Perpetual UK SmCos #	IPU	£136m	401p	4.6%	-1.2	-17.0%	-7.4%	4.0%	-21.8%	3.8%	1.4%	-0.5%	-19.3%	-11.0%	26.0%
20	Witan	WTAN	£1,586m	195p	2.9%	-0.9	-9.6%	-6.6%	-1.1%	-17.5%	2.2%	3.5%	16.5%	-6.6%	-0.4%	43.2%
22	BMO Global Smaller Cos	BGSC	£749m	127p	1.3%	-0.5	-9.1%	-7.6%	-1.0%	-21.8%	2.9%	9.3%	23.5%	-3.8%	-2.9%	40.3%
22	F&C Investment Trust	FCIT	£3,852m	716p	1.6%	-1.1	-10.1%	-5.3%	2.2%	-19.5%	2.3%	1.7%	16.4%	5.8%	21.1%	83.6%
24	Henderson Smaller Cos	HSL	£613m	820p	2.9%	-0.6	-9.5%	-6.6%	3.3%	-16.3%	6.8%	6.5%	14.7%	-3.2%	7.3%	41.6%
25	TR Property	TRY	£1,163m	367p	3.8%	-0.5	-8.5%	-4.7%	6.5%	-28.2%	3.5%	7.5%	9.7%	-13.9%	8.2%	45.1%

As at: 19 October 2020
Winterflood Investment Trusts

(Methodology and screens by Algy Hall)

© The Financial Times Limited 2020. Investors Chronicle is a trademark of The Financial Times Limited. "Financial Times" and "FT" are registered trademarks and service marks of The Financial Times Limited. All rights reserved. No part of this publication or information contained within it may be commercially exploited in any way without prior permission in writing from the editor.

Permitted Use: By purchasing this magazine, you agree that the intellectual property rights (including copyright and database rights) in its content belong to The Financial Times Limited and/or its licensors. This magazine is for your own personal, non-commercial use. You must not use any of the content as part of any commercial product or service, including without limitation any which reduces the need for third parties to use the Investors Chronicle magazine and/or website, or which creates revenue from the content, or which is to the detriment of our own ability to generate revenues from that content. For example, you must not use any of our content in any syndication, content aggregation, news aggregation, tips aggregation, library, archive or similar service, and you must not capture any such content, whether systematically, regularly or otherwise, in any form of database without our prior written permission. These contractual rights are without prejudice to our rights to protect our intellectual property rights under law.

Investors Chronicle adheres to a self-regulation regime under the FT Editorial Code of Practice: A link to the FT Editorial Code of Practice can be found at www.ft.com/editorialcode. Many of the charts in the magazine are based on material supplied by Thomson Datastream and S&P Capital IQ.

Material (including tips) contained in this magazine is for general information only and is not intended to be relied upon by individual readers in making (or refraining from making) any specific investment decision. Appropriate independent advice should be obtained before making any such decisions. The Financial Times Limited does not accept any liability for any loss suffered by any reader as a result of any such decision.

ISSN 0261-3115.