

# The Rush to Value: Here are the investment trusts to watch

By Gavin Lumsden / 21 Jan, 2021



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Last November's 'vaccine rally' when stock markets soared following the release of drugs that could end the coronavirus pandemic has presented struggling 'value'-style funds and investment trusts with their best chance of recovery in a long time.

But which trusts stand to benefit from a possible durable style shift from 'growth' to 'value'? The table below is designed to help, based on a list of 36 investment trusts identified by analysts at JPMorgan Cazenove and Morningstar as having a bias to picking cheap and undervalued stocks.

It groups the trusts (in bold) in their sectors, starting with Global trusts before moving down to UK, regional and specialist stock exchange listed funds, alongside their three-month total shareholder returns (TSR) since the vaccine rally began and their longer-term 10-year

performance. Where applicable, their sector average performance and stock market index returns are also listed in italics underneath.

*For further information on any of the trusts in the table, check their factsheets by clicking the links in their share price tickers in the second column.*

The middle column shows the current gap between the trusts' share prices and their underlying net asset values (NAV). The vast majority of value trusts trade on discounts of up to 15% below NAV, a sign of how out of favour they have been after a 2020 in which growth funds - particularly those invested in tech and internet stocks - triumphed.

There are two exceptions: the UK-focused **Fidelity Special Values (FSV)** and **City of London (CTY)** both trade on small premiums above NAV as investors have warmed again to the domestic market and their portfolios of value stocks and - in City's case - their pledge to pay good dividends.

I'm puzzled by the absence of **Aurora (ARR)**, a deep value £161m trust run by Gary Channon at Phoenix Asset Management Partners in the same UK All Companies sector as Fidelity Special Values, which is stuffed with value stocks such as **Lloyds (LLOY)** bank, **easyJet (EZJ)** and house builder **Barratt Developments (BDEV)** and recovery stock **Hornby (HRN)**, the model railway company.

Nevertheless this is a very useful list. The main message from the table is how value trusts have generally rallied strongly since November with gains of over 40% in some cases, that begin to make up for the frequent long-term underperformance (right hand column) their shareholders have endured.

There are some unfortunate exceptions to this, such as **Scottish (SCIN)**, a bargain-hunting global investment trust whose shares have barely budged in the rush to value. More highlights of trusts that have done better and whose shares are either cheap or fair value, follow below the table.

There have been many false dawns for value investors in the past decade. This time could be different, says Christopher Brown, head of investment companies research at JPMorgan Cazenove who compiled the list and published it in his annual review last week.

Although previous value rallies have petered out, and this fourth quarter rebound may do the same if profound global technological and demographic changes continue to weigh in growth stocks' advantage, Brown says 'our global equity strategy team are calling for a continuation of the value rally in 2021.'

He adds: 'They say that if 2021 proves to be a year of cyclical growth recovery combined with some reflation, as happened in 2016-17, then the market styles and internals should at least show at least show a typical directional response.'

## On the up? Value trusts across the sectors

'Value' style investment trusts	Ticker	Premium (- discount) %	Three-month TSR %	Ten-year TSR %
AVI Global	<a href="#">AGT</a>	-10.2	17.5	117.7
EP Global Opportunities	<a href="#">EPG</a>	-10.7	8.0	81.6
Scottish	<a href="#">SCIN</a>	-10.3	1.7	88.0
MSCI AC World			9.4	181.9
Global Equity sector average			14.5	304.5
Aberdeen Diversified Inc & Gwth	<a href="#">ADIG</a>	-14.1	11.8	17.1
JPMorgan Global Core Real Assets	<a href="#">JARA</a>	3.1	-9.7	
Ruffer Investment	<a href="#">RICA</a>	0.0	9.2	47.3
Seneca Global Income & Growth	<a href="#">SIGT</a>	-2.2	17.6	121.7
Global Defensive sector average		-7.0	6.6	83.2
Murray International	<a href="#">MYI</a>	-3.7	20.4	88.4
Global Equity Income sector average		-1.3	12.8	127.0
Fidelity Special Values	<a href="#">FSV</a>	1.7	39.9	162.1
FTSE All Share			15.2	75.2
UK All Companies sector average		-2.1	30.6	134.3
Aberdeen Standard Equity Income	<a href="#">ASEI</a>	-9.9	27.0	60.4
BlackRock Income & Growth	<a href="#">BRIG</a>	-7.7	7.5	65.5
City of London	<a href="#">CTY</a>	3.1	14.5	96.8
Henderson High Income	<a href="#">HHI</a>	-6.7	15.8	108.5
Invesco Income Growth	<a href="#">IVI</a>	-8.0	20.5	109.8
JPMorgan Elect - Managed Income	<a href="#">JPEI</a>	-3.1	18.0	79.4
Lowland	<a href="#">LWI</a>	-4.7	31.5	100.5
Merchants	<a href="#">MRCH</a>	-1.1	27.4	91.2
Schroder Income Growth	<a href="#">SCF</a>	-0.1	18.8	121.3
Temple Bar	<a href="#">TMPL</a>	-8.3	36.8	60.4
UK Equity Income sector average		-3.3	17.9	101.5
Aberforth Smaller Companies	<a href="#">ASL</a>	-9.6	34.5	135.3
Chelverton UK Dividend	<a href="#">SDV</a>	-5.8	48.8	185.5
Numis Smaller Cos inc AIM ex ICs			19.7	109.8

'Value' style investment trusts	Ticker	Premium (- discount) %	Three-month TSR %	Ten-year TSR %
<i>UK Smaller Company sector average</i>		-6.2	22.4	217.3
<b>JPMorgan European - Income</b>	<a href="#">JETI</a>	-9.3	18.2	127.0
<i>MSCI Europe</i>			9.7	93.8
<i>Europe Equity sector average</i>		-5.3	8.3	202.6
<b>BlackRock North American Income</b>	<a href="#">BRNA</a>	-7.1	11.6	
<b>North American Income</b>	<a href="#">NAIT</a>	-11.6	8.8	154.9
<i>S&amp;P 500</i>			6.3	327.4
<i>US Equity sector average</i>		-2.9	14.2	245.1
<b>Middlefield Canadian Income</b>	<a href="#">MCT</a>	-14.6	15.8	66.7
<b>Aberdeen Asian Income</b>	<a href="#">AAIF</a>	-9.3	21.4	110.6
<b>Henderson Far East Income</b>	<a href="#">HFEL</a>	2.1	13.8	79.2
<b>Schroder Oriental Income</b>	<a href="#">SOI</a>	-4.7	19.8	160.3
<i>MSCI AC Asia Pacific (ex Jap)</i>			16.5	126.3
<i>Asia Pacific Income sector average</i>		-3.8	18.4	113.8
<b>Fidelity Asian Values</b>	<a href="#">FAS</a>	-1.5	27.6	141.2
<i>Asia Pacific Smaller Companies sector average</i>		-6.9	22.5	120.5
<b>Aberdeen New Thai</b>	<a href="#">ANW</a>		13.2	114.4
<i>Bangkok SET index</i>			25.1	144.6
<b>BlackRock Frontiers</b>	<a href="#">BRFI</a>	-2.1	28.9	66.5
<b>Jupiter Emerging &amp; Frontier Income</b>	<a href="#">JEFI</a>	-6.2	25.9	
<b>ScotGems</b>	<a href="#">SGEM</a>	-17.1	19.1	
<i>MSCI Emerging Markets</i>			17.3	77.8
<i>MSCI Frontier Markets</i>			5.4	61.5
<i>Global Emerging Markets sector average</i>		-7.8	20.3	93.6
<b>Barings Emerging EMEA Opportunities</b>	<a href="#">BEMO</a>	-12.5	25.6	9.3
<b>JPMorgan Russian Securities</b>	<a href="#">JRS</a>	-11.2	19.8	31.4
<b>Utilico Emerging Markets</b>	<a href="#">UEM</a>	-12.8	16.5	69.9
<b>BlackRock Energy &amp; Resources Income</b>	<a href="#">BERI</a>	-7.7	40.5	-3.1

Source: JPMorgan Cazenove and Numis Securities 19/1/21

## Value trusts that look interesting

Topping the table is **AVI Global (AVI)**, an investor in undervalued investment companies, whose shares have jumped 17.5% in the past three months, ahead of the average global equity trust gain of 14.5%. AVI's value style means it lags the long-term 10-year average of its sector, but that's partly because the peer group is dominated by growth trusts like **Scottish Mortgage (SMT)**, which has generated a hard-to-beat 903% return in the past decade.

AVI shares trade on a 10% discount, around their one-year average, which makes them good value if not 'cheap'. Despite its value ethos the trust is not opposed to investing in technology. In its latest fact sheet Joe Bauernfreund reveals that one contributor to its 6% gain in December was its holding in **VNV Global (STO: VNV)**, a Swedish investment company with a stake in **Babylon**, an early-stage digital healthcare stock, excitement over which has driven VNV's shares to a 40% premium, although the manager thinks that still understates the true worth of the private company.

If you're looking for something more defensive, **Ruffer Investment Company (RICA)** leans more to value than either of its main wealth preservation rivals, **Capital Gearing (CGT)** and **Personal Assets (PNL)**. Its shares are up over 9% since November, no doubt helped by the small but profitable exposure the multi-asset fund has taken in cryptocurrency bitcoin. The 10-year return of 47% isn't exciting but does reflect its safety-first approach and the effect of underperformance a couple of years ago. Trading at net asset value, the shares are fairly priced.

Among the crowd of UK equity income trusts smarting from last year's coronavirus and dividend crises, none had a rougher time than **Temple Bar (TMPL)**. Its deeply contrarian former manager Alastair Mundy left in early 2020 as its shares halved in the lockdown. His replacements - Nick Purves and Ian Lance at RWC Investments - are experienced value fund managers who have tidied up the portfolio and benefited from the rebound. The shares have enjoyed a 37% increase in the past three months but are still trailing the underlying value of the portfolio on an 8% discount, which while it has narrowed is wider than the sector's 3% average.

This is a crunch year for Thomas Moore, manager of **Aberdeen Standard Equity Income (ASEI)** whose board has effectively told him and Aberdeen Standard to improve performance or face the sack. The switch to value could have come in the nick of time for the investor in mid-cap stocks blighted by the post-Brexit referendum malaise before being struck by the pandemic poleaxe. The trust is up 27% since November but stands on a 10% discount which may reflect investors' view of the hill Moore has to climb to turn this trust around.

UK smaller company specialists **Aberforth (ASL)** and **Chelverton (SDV)** have also enjoyed the snapback to value, jumping 34.5% and 49% in the recent rebound, but are still available on discounts of nearly 10% and 6% respectively.

And lastly, all three of the Asian equity income trusts in our table have struggled in the tech-dominated markets of recent years and could do well if higher yielding, lower growth stocks stay in favour. **Aberdeen Asian Income (AAIF)** is the cheapest on a 9% discount.