



Fortune favours the brave (sometimes)

Our research suggests wide discounts often herald high NAV returns too...

Update
02 June 2021

Everybody I know calls me a contrarian. I disagree.

Nonetheless, the enduring popularity of our discount portfolio with readers can't help but pique our interest in contrarian opportunities. With our **discount opportunities portfolio**, we look for opportunities in investment trusts where we can see a reasonable rationale for a wide discount narrowing and the potential for NAV outperformance too. Several investment managers, such as the managers of **Miton Global Opportunities (MIGO)** and **AVI Global (AGT)** themselves seek discounted opportunities in trusts trading below their fundamental fair value.

If a discount does narrow, axiomatically it will help share price returns. However, when we updated our research on **JPMorgan Mid Cap (JMF)** back in March of this year, we noted that historically when the discount had exceeded certain levels, it not only tended to precede periods of share price outperformance but NAV outperformance too. This followed on from our previous observation on the same trust in September 2020, that, when the discount was more than one standard deviation below the historic median level, JMF tended to subsequently see strong NAV outperformance.

Inspired by Rodin, this got us thinking. Our thesis was that discounts might not only indicate the potential for a kicker to share price returns but potentially signal contrarian opportunities on a NAV basis too.

We've looked below at trusts on a sector basis, aiming to identify whether a wide discount across the sector does lead to higher average NAV returns. We used Z-scores, investigating the relationship between discount and subsequent NAV returns at one or two standard deviations below the rolling 12-month discount.

We found that typically, a Z-score of beneath -1 or -2 does indeed tend to precede periods of stronger average NAV performance, for most sectors at least. We think this suggests there is merit to adopting a degree of contrarianism and buying on a wide discount, not just in the hope of it narrowing. Such a strategy seems to have been particularly effective in Japan, Asia-Pacific and India, but has not worked universally. We say all of this, of course, with the proviso that past performance is not a reliable guide to future returns – and a big discount may well be there for a good reason, or even for a bad reason; as Keynes famously said: the markets can remain irrational longer than you can remain solvent!

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Methodology

We restricted our analysis to equity sectors as these will have daily updated NAVs (and thus discounts are more likely to be reflective of day-to-day sentiment with less skew by unchanged NAVs). For a first pass, we have looked at trusts investing in specific geographic regions where we believe discounts are likely to reflect sentiment towards those individual markets. We have not included the global sectors, as these will not typically be reflective of risk attitudes or asset allocation decisions to specific regions. We have also not included the UK, given the exceptional depth of trusts operating in the UK and UK equity income sectors. We will return to look at the UK and global trusts separately in the future.

We decided to use Z-scores. A Z-score is a measure of a specific value's relationship to a distribution of values. For a discount, it is the current discount minus the average discount, divided by the standard deviation of the data set from which the average is derived, and so is a measure of how far away from the average an individual data point is. In the context of discounts below, we have calculated rolling 12-month Z-scores from daily data; this looks at how discounts looked on any given day relative to the average of the previous 12-months and the standard deviation of that average. As with most distribution curves, a Z-score of less than -2 will be a very rare and unusual occurrence (in the lowest c. 2.5% of values in the distribution), while a Z-score of -1 would indicate the observation is in the lowest 16% of values.

We took the unweighted averages of the sectors, built up from the individual trusts, and tried to get as long a data series as practicable without significantly reducing the number of trusts included.



We looked at the 12-month Z-score of the discount on a given day versus the NAV total returns in the subsequent 12 months. We have then looked to see:

- If the Z-score was less than -2, how did the median subsequent returns on these days compare to the median return from all data points?
- If the Z-score was less than -1, how did the median subsequent returns on these days compare to the median return from all data points?
- In both instances, on what percentage of occasions would investors have subsequently seen returns superior to the median return over all time periods?

Clearly the exceptional circumstances of 2020 might distort results, so we have also shown in each instance how these return series would have looked at the start of 2020 as well. Using the median rather than the average further allows us to dilute the effect of exceptional events.

Asia-Pacific and Asia Pacific Equity Income

Eschewing the style of much modern prose, we shall start at the (alphabetical) beginning and look at the AIC Asia-Pacific and Asia-Pacific Income sectors. This data is available back to 30/05/2008 in both instances (though performance data initiates at 30/05/2009, from whence we can construct Z-scores). The below table shows the average (median) excess NAV total returns over 12 months when the discount has been one or two standard deviations below the mean and the percentage of periods in which it has then outperformed the median 12-month return.

Asia-Pacific Sector: Excess NAV Return Versus Median

| Z-SCORE | MEDIAN (RELATIVE) | OUTPERFORMED COMPARED TO ALL-PERIODS |
|-----------------|-------------------|--------------------------------------|
| <-1 | 9.5 | 79% |
| <-2 | 15.3 | 85% |
| Pre-2020 | | |
| Z-score <-1 | 6.6 | 73% |
| <-2 | 13.8 | 78% |

Source: Morningstar, Kepler calculations, 30/05/2009-25/05/2021

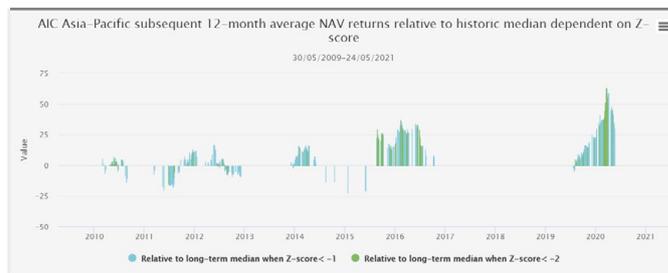
Past performance is not a reliable guide to future returns

So, from this table, we can see that:

- The median period when the Z-score of the sector (by unweighted average) was less than -1 has strongly outperformed (by c. 9.5% p.a.).
- This was even more pronounced on those occasions when the Z-score was less than -2.
- The 2020 period has skewed these median figures somewhat to the upside, but a significant outperformance remains.
- This has been a reasonably consistent pattern historically.

Although we've used median figures and looked at figures ex-2020 too, the consideration of clustering obviously remains of concern. Visually, however, when we look below, we can see that when it comes to the sector as a whole it has tended to pay to ignore the herd when discounts widen. Qualitatively, we would note some instances where contrarianism failed in this area in 2015; this was at a time of a mania in Chinese stocks, and we suspect the negative Z-scores were driven by fully merited scepticism on the part of UK trust investors as to the sustainability of NAV upside.

Fig.1: AIC Asia Pacific Sector; Unweighted Average Nav Returns Relative To Historic Median



Source: Morningstar, Kepler calculations, 30/05/2009-25/05/2021

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Interestingly, the efficacy of a contrarian strategy holds true in general yet seems much more muted when applied to equity income strategies in the same geographic region. We suspect this might be explained by money being stickier in income products, with investors more likely to hold through rough markets if they expect the dividend to be maintained. We note that the average annual discount volatility in the Asia Pacific Equity Income sector is lower than the Asia-Pacific sector, which we would suggest supports this somewhat. Stylistic concerns likely also play a part.



Asia-Pacific Sector: Excess NAV Return Versus Median

| Z-SCORE | MEDIAN (RELATIVE) | OUTPERFORMED COMPARED TO ALL PERIODS |
|-----------------|-------------------|--------------------------------------|
| <-1 | 3.5 | 58% |
| <-2 | 13.4 | 56% |
| pre-2020 | | |
| <-1 | 9.7 | 71% |
| <-2 | 19.0 | 68% |

Source: Morningstar, Kepler calculations, 30/05/2009-25/05/2021

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Whilst the impact may be more muted in equity income in this region, we note with interest that buying any individual trust over this period when it was itself trading at a Z-score less than -1 produced superior median subsequent 12-month NAV returns when compared against all other periods. Unfortunately, but likely as a consequence of recent history, none of the constituent trusts are currently in this position.

AIC Asia-Pacific And Asia-Pacific Equity Income Trusts Median Subsequent Excess 12-Month Nav Returns When Compared To All Periods

| | Z-SCORE <-1 | Z-SCORE <-2 | CURRENT Z-SCORE |
|-------------------------------|-------------|-------------|-----------------|
| Aberdeen New Dawn | 6.8 | 10.1 | 0.5 |
| Asia Dragon | 7.6 | 15.1 | 0.6 |
| Pacific Assets | 5.7 | 21.7 | 0.6 |
| Pacific Horizon | 6.2 | 26.3 | -0.4 |
| Schroder Asian Total Return | 4.9 | 14.8 | 0.7 |
| Schroder AsiaPacific | 2.2 | 8.6 | 0.6 |
| Aberdeen Asian Income Ord | 0.7 | 5.8 | 1.2 |
| Henderson Far East Income | 8.6 | 11.6 | 0.3 |
| Invesco Asia | 2.1 | 9.4 | 1.4 |
| JPMorgan Asia Growth & Income | 2.1 | 7.5 | 1.1 |
| Schroder Oriental Income | 3.2 | 10.1 | 1.7 |

Source: Morningstar, Kepler calculations, 30/05/2009-25/05/2021

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Europe

Within Europe, we've included the constituents of both the AIC Europe and AIC European Smaller Companies sectors.

Europe And European Smaller Companies Sectors: Excess Nav Returns Versus Median

| Z-SCORE | MEDIAN (RELATIVE) | OUTPERFORMED COMPARED TO ALL-PERIODS |
|-----------------|-------------------|--------------------------------------|
| <-1 | 8.2 | 61% |
| <-2 | 13.4 | 70% |
| Pre-2020 | | |
| Z-score <-1 | 9.5 | 63% |
| <-2 | 13.2 | 67% |

Source: Morningstar, Kepler calculations, 30/05/2009-25/05/2021

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The relationship seems similarly positive but marginally less reliable than we saw with Asia-Pacific. Nonetheless, we still again see:

- Trusts have strongly outperformed (by c. 8.2% p.a.) when the Z-score of the sector (by unweighted average) was less than -1 when compared to all periods.
- This was even more pronounced on those occasions when the Z-score was less than -2.
- This has been a reasonably consistent pattern historically.

Again looking for whether the results may be due to success in one particular period, we can see that discount hunting is not a universally joyous experience in this sector. However, we can again see that it certainly seems to have tilted the odds in shareholders' direction. We, again, have data from 30/05/2008.

Fig.2: AIC Europe And European Smaller Companies Sectors; Unweighted Average Nav Returns Relative To Historic Median



Source: Morningstar, Kepler calculations, 30/05/2009-25/05/2021

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Yet, as with Asia-Pacific, European trusts individually have generally delivered notably superior returns compared to their own history when trading at low Z-scores. In this regard, we note that **European Opportunities (JEO)** currently displays a Z-score of -1.3 by our calculations. JEO retains its avowed quality bias; we have discussed some of the implications for these strategies [here](#).

AIC Europe And European Smaller Companies Trusts Median Subsequent Excess 12-Month Nav Returns When Compared To Their Returns Over All Periods

| | Z-SCORE <-1 | Z-SCORE <-2 | CURRENT Z-SCORE |
|---------------------------------------|-------------|-------------|-----------------|
| Baillie Gifford European Growth Trust | 15.7 | 24.1 | 0.3 |
| BlackRock Greater Europe | 5.0 | 7.6 | 1.0 |
| European Assets | 4.2 | 0.5 | 2.4 |
| European Opportunities Trust | 5.7 | 8.5 | -1.3 |
| Fidelity European Trust | 7.0 | 9.2 | -0.3 |
| Henderson European Focus Trust | 1.7 | 5.0 | 0.8 |
| Henderson EuroTrust | 3.7 | 11.2 | -0.5 |
| JPMorgan European Growth Pool | 2.9 | 19.7 | 1.0 |
| JPMorgan European Income Pool | 6.1 | 18.3 | 1.1 |
| JPMorgan European Smaller Comp | 6.4 | 13.3 | 0.0 |
| Montanaro European Smaller | 4.0 | 4.2 | -0.2 |
| TR European Growth | 1.0 | 5.3 | 0.8 |

Source: Morningstar, Kepler calculations, 30/05/2009-25/05/2021

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Global Emerging Markets

Trusts within the AIC Global Emerging Markets sector cover a wide variety of countries, but many investors allocate to the broader region (often augmenting with country or region-specific strategies). Sentiment often reflects broader market sentiment globally, but also considerations around factors like global trade growth or the outlook for the US Dollar.

When we look at this sector, we see a much weaker relationship between depressed Z-scores and stronger subsequent returns. In fact, we see that pre-2020 this

relationship was inverted! Moves towards tighter discounts or higher premiums presaged stronger NAV performance when looked at relative to all periods.

We attribute this in part to the large weighting of China in benchmark indices and most portfolios and have covered this further below.

Global Emerging Markets Sector: Excess NAV Returns Versus Median

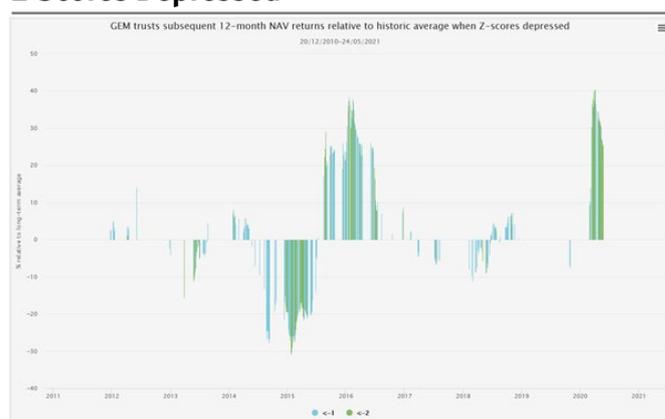
| Z-SCORE | MEDIAN (RELATIVE) | OUTPERFORMED COMPARED TO ALL-PERIODS |
|-----------------|-------------------|--------------------------------------|
| <-1 | 2.1 | 52.6% |
| <-2 | 9.0 | 56.5% |
| Pre-2020 | | |
| <-1 | -2.3 | 56.5% |
| <-2 | -6.9 | 40.7% |

Source: Morningstar, Kepler calculations, 20/12/2011-25/05/2021

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The impact of the Chinese market on this sector would seem supported when we look at the distribution of these return periods, as can be seen below. Although it is clear this remains by no means a strong indicator of contrarian NAV opportunities in other periods, the figures are undoubtedly pulled down by the denouement to the Chinese market melt-up and collapse in 2015.

Fig.3: GEM Trusts Unweighted Average Subsequent 12-Month Nav Return When Z-Scores Depressed



Source: Morningstar, Kepler calculations

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Surprisingly, then, it appears the strongest inverted relationship is to be found in **Blackrock Frontiers (BRFI)**, a trust which will typically have no exposure to the Chinese market. This could still make sense if we understand frontier markets to be secondary beneficiaries of rising



sentiment; flows feeding through to benefit NAV may well lag a general market pick-up. However, we think trust specific factors have also been in play, as we discuss in our upcoming note.

AIC Global Emerging Markets Trusts Median Subsequent Excess 12-Month Nav Returns When Compared To Their Returns Over All Periods

| | Z-SCORE <-1 | Z-SCORE <-2 | CURRENT Z-SCORE |
|--|-------------|-------------|-----------------|
| Aberdeen Emerging Markets | 6.85 | 27.95 | 0.17 |
| BlackRock Frontiers | -11.82 | -13.58 | -0.49 |
| Genesis Emerging Markets Fund | -2.89 | 0.58 | 1.36 |
| Gulf Investment Fund | -4.46 | 10.61 | 0.36 |
| JPMorgan Emerging Markets | 9.51 | 7.77 | 0.88 |
| JPMorgan Global Emerg Mkts Inc | 3.77 | 10.16 | 1.00 |
| Templeton Emerging Mkts Invmt Tr TEMIT | 1.23 | 3.50 | 2.07 |
| Utilico Emerging Markets | -1.01 | 10.81 | 1.33 |

Source: Morningstar, Kepler calculations, 20/12/2011-25/05/2021

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Japan

Like most offices, we here at KTI constantly bicker about which side everyone would have been on during the Meiji restoration. And the merits of green tea flavoured Kit-Kats. Suffice to say, Japan continues to divide opinion, and the heuristic bias of most investors seems to be that every figurative new day in the land of the rising sun is a false dawn.

AIC Japan And Japanese Smaller Companies Sectors; Excess Nav Returns Versus Median

| Z-SCORE | MEDIAN (RELATIVE) | OUTPERFORMED COMPARED TO ALL-PERIODS |
|-----------------|-------------------|--------------------------------------|
| <-1 | 3.7 | 89% |
| <-2 | 8.5 | 87% |
| Pre-2020 | | |
| Z-score <-1 | 7 | 91% |
| <-2 | 10.7 | 98% |

Source: Morningstar, Kepler calculations, 30/05/2009-25/05/2021

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Perhaps this explains the outperformance relative to other periods that we see when the Japanese and Japanese small-cap sectors are trading at low Z-scores? Although the swings are not as drastic as in Asia-Pacific or Europe, the consistency is greater. However, this sample pool does not include subsequent launches, such as AVI Japan Opportunity (AJOT) and Coupland Cardiff Japan Income & Growth (CCJI).

As we would expect given the returns from the sector's unweighted average, at a trust level median returns tend to be stronger subsequently in periods where the trust is discounted relative to its own history.

AIC Japan And Japanese Smaller Companies Trusts Median Subsequent Excess 12-Month Nav Returns When Compared To Their Returns Over All Periods

| | Z-SCORE <-1 | Z-SCORE <-2 | CURRENT Z-SCORE |
|------------------------------|-------------|-------------|-----------------|
| Aberdeen Japan | 1.7 | -0.1 | 0.5 |
| Baillie Giff Japan | 5.5 | 11.1 | 0.9 |
| Baillie Giff Shin Nippon | 3.6 | 5.9 | 0.6 |
| Fidelity Japan Trust | 2.8 | 0.8 | 0.4 |
| JPMorgan Japan Small Cap G&I | 2.3 | 5.9 | 0.6 |
| JPMorgan Japanese | 8.2 | 9.8 | 1.1 |
| Schroder Japan Growth | 4.8 | 19.7 | 0.4 |

Source: Morningstar, Kepler calculations, 30/05/2009-25/05/2021

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North America and North American Smaller Companies

As with Europe and Japan, we've combined the AIC North American and North American Smaller Companies sectors.

North America And North American Smaller Companies Sectors; Excess Nav Returns Versus Median

| Z-SCORE | MEDIAN (RELATIVE) (%) | OUTPERFORMED COMPARED TO ALL-PERIODS |
|-----------------|-----------------------|--------------------------------------|
| <-1 | 5.4 | 59% |
| <-2 | 6.2 | 71% |
| Pre-2020 | | |
| Z-score <-1 | 3.9 | 58% |
| <-2 | 4.5 | 65% |

Source: Morningstar, Kepler calculations, 24/10/2013-25/05/2021

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We again see that those periods with depressed Z-scores have tended to see stronger subsequent NAV returns when compared to all time periods. This also unsurprisingly (given the unweighted averages above) sees nearly all

AIC North American And North American Smaller Companies Trusts Median Subsequent Excess 12-Month Nav Returns When Compared To Their Returns Over All Periods

| TRUST | Z-SCORE <-1 | Z-SCORE <-2 | CURRENT Z-SCORE |
|-------------------------------------|-------------|-------------|-----------------|
| BlackRock North American | 3.9 | 7.7 | 1.07 |
| Canadian General Investments Unit | 4.3 | 7.3 | 0.3 |
| Middlefield Canadian Income | 2.8 | 1.7 | 0.7 |
| JPMorgan American | -4.7 | -8.6 | 0.49 |
| North American Income Trust | 3.1 | 13 | 0.24 |
| Brown Advisory US Smaller Companies | 3.7 | 6.6 | 1.92 |
| JPMorgan US Smaller Companies | 8.8 | 10.9 | 0.76 |

Source: Morningstar, Kepler calculations, 24/10/2013-25/05/2021

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trusts perform stronger relative to all periods from points where the discounts are low as measured by the Z-score.

Regional/country specialists

Whereas above we looked at sector averages within the AIC peer groups, here we have looked at our own regional or country sub-sectors.

The analysis is the same, but for our own subsectors pertaining to the country or region of focus within the emerging markets space. We've then compared subsequent NAV returns from these compared to their own history.

We looked at the following regions: China, India, Latin America, Russia and Eastern Europe, and Vietnam. We have also included the Aberdeen New Thai trust, the only Thai country specialist.

These numbers seem to suggest that a contrarian allocation strategy has worked very well in India and Thailand, and that a contrarian strategy, based upon allocating when Z-scores are depressed, has tended to coincide with periods of stronger returns for most of these markets (relative to their median over the whole period).

Regional And Country Specialists; Subsequent Absolute Excess Nav Returns In Periods Of Depressed Z-Scores Relative To All Periods

| | ABERDEEN NEW THAI | RUSSIA AND EASTERN EUROPE | LATIN AMERICA | CHINA | VIETNAM | INDIA |
|---|-------------------|---------------------------|---------------|-------|---------|-------|
| Z-score <-1 | 12.4 | 9.4 | 3.5 | -6.4 | 3.4 | 5.5 |
| Z-score <-2 | 23.9 | 13.9 | 5.2 | -17.2 | 9.3 | 17.3 |
| Pre-2020 | | | | | | |
| Z-score <-1 | 10 | 6.1 | 1.1 | -3.6 | 1.5 | 2.5 |
| Z-score <-2 | 21.7 | 5.5 | 1.1 | -14.8 | 4.2 | 13.1 |
| Outperformed relative to all periods | | | | | | |
| Z-score <-1 | 69.3% | 66.9% | 57.4% | 34.0% | 53.1% | 63.2% |
| Z-score <-2 | 85.0% | 67.6% | 60.9% | 21.4% | 65.2% | 81.3% |
| Pre-2020 | | | | | | |
| Z-score <-1 | 72.3% | 65.3% | 56.6% | 31.0% | 51.8% | 60.3% |
| Z-score <-2 | 95.8% | 64.1% | 57.1% | 12.4% | 65.3% | 77.2% |

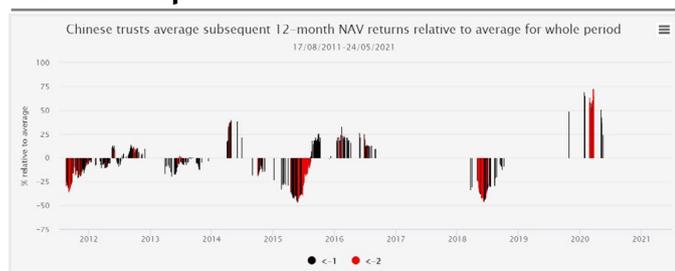
Source: Morningstar, Kepler calculations, 11/08/2011-24/05/2020

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Where it has clearly not worked, of course, is in China. In part, we think this has reflected the wise decision of many trust investors not to jump into the Chinese market mania of 2015, widening the Z-scores on the Chinese trusts prior to the miserable market denouement. Qualitatively, we suspect this reflects greater momentum input to the Chinese market in reflection of the policies pursued by the government in recent years regarding the regulation of money supply growth. Money supply is grown and slowed in the Chinese economy by the rate of the creation of credit, and when expansionary pushes occur in times of weaker global demand this often filters into rising margin debt and leveraged stock market participation. This often proves self-reinforcing, as does the negative impact of slowing credit growth.

Fig.4: Chinese Trusts Unweighted Average Subsequent 12-Month Nav Return When Z-Scores Depressed

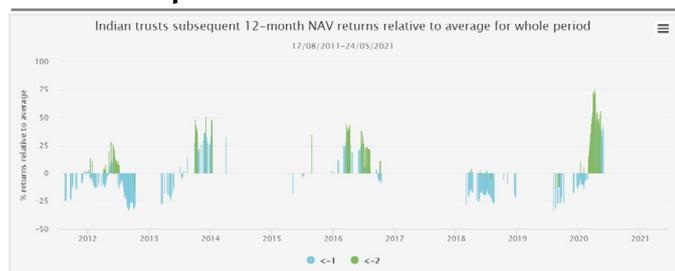


Source: Morningstar, Kepler calculations

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By contrast, investors looking to invest for the long-term in Indian investment trusts seem to well-advised to be lookout for tactical opportunities to allocate when Z-scores across the representative trusts move out below -2.

Fig.5: Indian Trusts Unweighted Average Subsequent 12-Month Nav Return When Z-Scores Depressed



Source: Morningstar, Kepler calculations

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Such a state of affairs is not, however, currently in place. Nonetheless, we note that the above is only relative to average rolling 12-month returns over the whole period and not indicative of absolute gains or losses.

Region And Country Specialists: Current Z-Scores

| TRUST | CURRENT Z-SCORE |
|-------------------------------------|-----------------|
| Aberdeen New Thai | 0.45 |
| JPMorgan Russian Securities | -1.35 |
| Barings Emerging EMEA Opportunities | -0.23 |
| Russia and Eastern Europe | -0.77 |
| BlackRock Latin American | 0.13 |
| Aberdeen Latin American Income | 0.72 |
| Latin America | 0.59 |
| Fidelity China Special | 0.49 |
| JPMorgan China Growth & Income plc | 0.78 |
| China | 0.68 |
| VietNam Holding | -0.53 |
| VinaCapital Vietnam Opp Fund | 0.06 |
| Vietnam | -0.24 |
| Aberdeen New India | 0.74 |
| JPMorgan Indian | 1.01 |
| India Capital Growth | 1.13 |
| India | 1.10 |

Source: Morningstar, Kepler calculations, as at 24/05/2021

Conclusion

“In investing, what is comfortable is rarely profitable” - Rob Arnott

Discounts can widen relative to recent history for different reasons. Sometimes it is simply share prices failing to keep up with NAV. As we saw above, the lagging share prices and widening discounts in Chinese trusts in 2015 proved more prescient than NAVs. Sometimes market panics see sell-offs in shares disproportionate to NAV declines.

In the Japanese, Asia-Pacific and European sectors, long-term investors with strategic allocations to these markets certainly seem well advised to lean into any widening in discounts. Subsequent NAV returns have tended on average to be stronger than when compared to all other periods, and fairly consistently so. This holds true also for most region or country-specific subsectors in areas such as Latin America, India, Russia, Vietnam and Thailand.

China, indeed, appears to be very much the outlier in this data (and we attribute the weaker association within Global Emerging Markets at least in part to significant Chinese weightings within benchmarks and portfolios).



We continue to look for discounted opportunities at the trust-specific level in our **discounted opportunities portfolio**. We think there may also be broader asset allocation opportunities from looking at sector-level discounts. When we look at the unweighted sector average Z-scores below, we see that most are positive at this time.

Unweighted Sector Average Z-Scores

| SECTOR/SUBSECTOR | Z-SCORE |
|---|---------|
| Asia-Pacific (including AP Equity Income) | 0.76 |
| China | 0.28 |
| Europe (including smaller companies) | 0.62 |
| Global Emerging Markets | 0.96 |
| India | 1.01 |
| Japan (including smaller companies) | 0.70 |
| Latin America | 0.59 |
| Russia and Eastern Europe | -0.77 |
| North America (including smaller companies) | 1.07 |
| Thailand | 0.45 |
| UK & UK Equity Income | 1.42 |
| Vietnam | -0.70 |

Source: Morningstar, Kepler calculations, as at 24/05/2021

These figures would perhaps suggest caution. The extraordinary ramp-up in markets since last March and signs of 'bubbly' market speculation speak to this. Nonetheless, we think opportunities remain where we can see potential catalysts to discount narrowing in strong trusts. We can see the Z-scores of our discounted opportunities portfolio below. With the Z-score a lagging indicator, in many instances these are elevated relative

Discounted Opportunities Portfolio: Current Z-Scores

| TRUST | CURRENT Z-SCORE |
|--------------------------------|-----------------|
| Aberdeen Smaller Companies Inc | 0.95 |
| Aberdeen Standard Asia Focus | 0.17 |
| CC Japan Income & Growth | 0.66 |
| Downing Strategic Micro-Cap | 1.22 |
| Henderson Opportunities | 2.31 |
| Menhaden | -0.5 |
| NB Private Equity | 0.98 |
| Oakley Capital Investments | 1.65 |
| Riverstone Energy | -0.94 |
| Schroder Japan Growth | 0.56 |
| Scottish Oriental Smaller Cos | 0.79 |

Source: Morningstar, Kepler calculations, as at 25/05/2021

to recent history as discounts have narrowed. We will continue to update our discount opportunities portfolio in the future.

For long-term investors with strategic allocations to different regions, we think the data set out above supports Buffett's maxim; be greedy when others fearful, and fearful when they are greedy.



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