CITYWIRE INVESTMENT TRUST INSIDER

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David Stevenson: Overlooked trusts for the New Year

Our columnist presents his shortlist of solidly performing investment companies that attract little attention from investors.

BY DAVID STEVENSON

I thought I'd start the year with a shortlist of funds that, by and large, don't get too much attention, few broker notes and hardly any headlines but have produced solid, albeit sometimes unspectacular, results. Crucially, they all boast a particular strategy that seems focused and managers who are, on the whole, delivering. The headwinds are sometimes obvious – scale being the most obvious – but often it is simply a case of not being sexy enough to warrant closer attention (being a bit exotic doesn't tend to help in this harsh climate).

My list of funds starts with **Manchester & London** (MNL), a global equity fund. It isn't without controversy, with some very well-known fund analysts being openly critical, but you have to hand it to manager Mark Sheppard – if you are going to take big, bold, concentrated bets, he at least takes the right ones. The fund's big bet is on AI, with **Microsoft** and **Nvidia** the biggest holdings by a country mile (more than 60% of the portfolio).

As you might expect from such a bet, the fund's performance has been outstanding, with net asset value (NAV) up 54% in 2024, according to Morningstar, but the shares trade on a chunky 21% discount, which is a bit harsh. The fund has also changed its fee structure, increasing the annual management fee but dumping the performance fee. You could, of course, buy Microsoft and Nvidia stock yourself and probably get similar, though not identical, returns. However, Sheppard is very much plugged into the whole debate around AI and has been making some interesting side bets on vehicles such as **Arista Networks**.

Sticking with that American theme – because that's where the most interesting stocks are listed, aren't they? – **North American Income** (NAIT) deserves an honourable mention. Under new management at Janus Henderson, it has made up for a few lost years and played on the theme of broadening out the American bull market rally to include more dividend- and value-oriented big names on the American markets. Yet the discount has remained stubbornly in the double digits even though the fund produces a well-backed 3.6% yield, with NAV up a solid, if unspectacular, 16% over the past 12 months.

Active approaches

Switching to Japan, we have **AVI Japan Opportunity** (AJOT), which, along with a few other smaller cap-focused Japanese funds, has been making steady headway with a more active value-based approach. City investors have warmed considerably to this theme in recent years as Japanese equities have stormed ahead, and the discount on the fund is down to 3%, helped in part by a storming 22% increase in its share price in 2024 off the back of a 21% underlying return. This story – unwinding the Japanese value discount – has further to play.

In the UK, a considerably more challenging market, I've recently focused much of my attention on small- and micro-cap fund managers. **Strategic Equity Capital** (SEC) and **Odyssean** (OIT) have tended to hog the headlines in this niche space.

Still, there's an interesting battle shaping up between two smaller players: **Rockwood Strategic** (RKW) (with net assets of just under £100m) and **Onward Opportunities** (OWD), which is much smaller (under £30m) and newer. Both funds trade at a premium, which is a testament to the resilience of the UK micro-cap market, and had a great 2024. Onward, under Laurence Hulse, rose just under 34% last year versus Rockwood's 28%, with NAV a little way behind in both cases. Onward has more work to do to register with many UK investors, but its approach is interesting and worth paying attention to (as is Rockwood's).

Income picks

Moving into the world of alternatives, I'll start by highlighting **Petershill Partners** (PHLL). This Goldman Sachs-dominated alternative asset manager shop has had a troubled first few years, with many investors developing an allergic reaction to the Goldman link and underwhelming early performance.

However, Petershill is a prime vehicle for playing the remorseless rise of alternative asset managers. You might not like the Goldman connection, but Petershill is working hard to improve investor perceptions, including kicking off a big tender and share buybacks. The shares have responded by increasing their value in 2024 by 71%, although net asset growth has been more anaemic at 7%. Still, at a 29% discount, there could be further to go and the Goldman connection could come in handy as the world becomes ever more private.

Sticking with the private assets theme, **Pantheon Infrastructure** (PINT) has been in the shadow of the long-established **3i Infrastructure** (3IN). Recent numbers show underlying total returns of 11% in 2024, with a rolling 12-month NAV total return of 12.5%. The company has one of the highest three-year NAV total returns in the broad sector and the highest NAV total return over the last 12 months.

Yet, as analysts at Panmure Liberum point out, the shares still trade at a 20% discount to NAV. In their view, Pantheon Infrastructure should trade at a similar discount to NAV as 3i Infrastructure, the only diversified infrastructure fund with a comparable performance track record. Analysts at Investec are also big fans, observing recently that the 'portfolio weighted average discount rate is 13.6%, and given the material discount to NAV of 21.7%, we calculate the implied steady state return at the current share price is 15.5%, which represents an attractive prospective return'.

Moving on to the income space, TwentyFour has been quietly building a decent track record with its debt funds, not least **Twenty Four Select Monthly Income** (SMIF), which recently announced strong numbers. The fund yields a solid 8%-plus net income and trades just a tad above par. The NAV total return for 2024 was 16%, including dividends of 7.38p, well ahead of the 6p target.

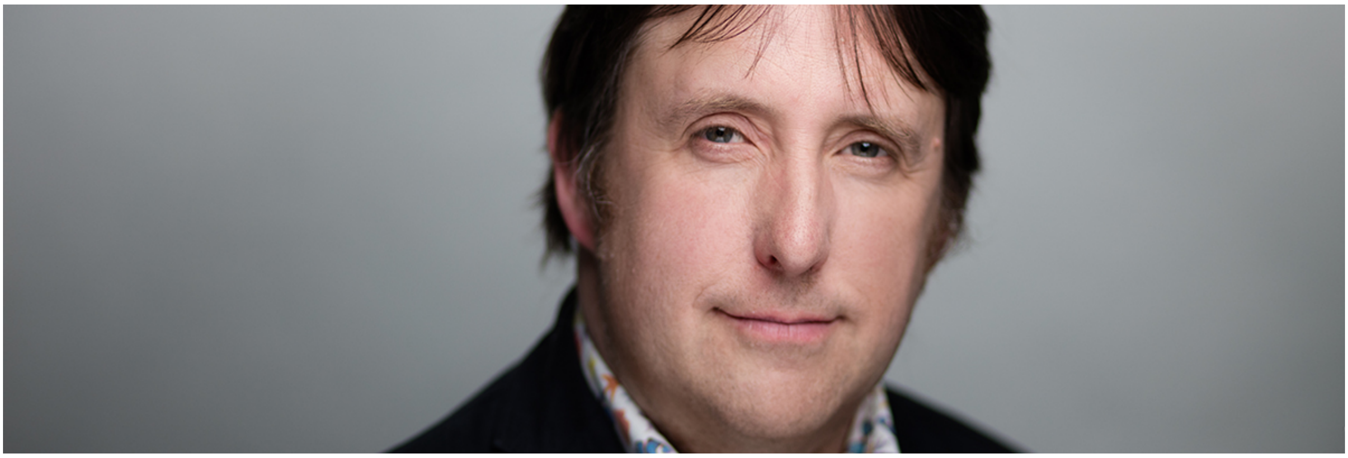
As analysts from Deutsche Numis point out: 'SMIF is one of the few [investment companies] trading on a premium and issuing shares, reflecting its strong performance and attractive yield. We believe SMIF is an attractive option for income-seeking investors and expect the yield to remain high given exposure to sectors that have benefited from rising rates and continue to offer an attractive return outlook from a diversified portfolio of holdings in less liquid parts of credit markets.'

Remaining with the debt theme, I'm also slightly at a loss as to why **EJF Investments** (EJFI) remains so under-researched and, even more, under-owned. This small but very specialist fund invests in US bank debt, yields about 8.5% and saw its share price increase 31% last year, ahead of NAV returns of 9%. The share price has undoubtedly been helped by a smart, recent move by the board: it announced an annual 5% tender offer mechanism in each of the next five years. The annual exit will be capped at 5% of share capital, although shareholders can tender up to their entire holding.

The fund is small – market cap under £75m – and trades at a 26% discount, which seems peculiar, especially when US president-elect Donald Trump is likely to go all-out for bank deregulation, specifically to help the smaller, local banks EJFI caters to.

I'll finish with a fund that isn't underappreciated as such, but still warrants a mention: **Law Debenture** (LWDB). It's one of the few mainstream equity funds trading at a premium and boasted solid, rather than spectacular, shareholder returns of 16% in 2024 (and NAV growth of 12%).

The Janus Henderson-managed strategy has delivered underlying total returns of 124% (9.5% per annum) over the past 10 years, outperforming the 82% (6% p.a.) return from its FTSE All Share index benchmark. There's also that solid professional services business unit, which helps to smooth out returns alongside the UK-focused value approach of managers James Henderson and Laura Foll. Add in a 3.7% yield plus a low-cost management fee of 0.3% (the ongoing charge is closer to 0.5%), and you have a cheap, relatively boring, long-term investment vehicle that is well positioned to benefit from any upside in UK equities.



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