WISE FUNDS

Five exceptional investment trusts without the price tag

September 2020

Covid-19 has created a once-in-a-decade opportunity to pick-up some exceptional investment trusts at bargain levels. The pandemic's meteoric impact on economic and market sentiment have caused a number of trust discounts to dramatically widen. With many trusts now trading far below their net asset value, investors can now access attractive entry points in anticipation of a re-rating.

An above normal discount is enticing but it is important to look before you leap. A re-rating is not inevitable, but we look to access exceptional managers at times when their sectors are unfashionable and their styles are out of favour, ideally at a discount to their asset value. It is our conviction that this will lead to longer-term outperformance. From under-the-radar technology, to undervalued resources, we identify five trusts we believe currently offer exceptional value.

AGT
AVI GLOBAL TRUST

£780m market cap / 11% discount / 7.3% of TB Wise Multi-Asset Growth Fund

AVI is a global equity manager specialising in family-controlled holding companies and closed-ended funds. The manager focuses on special situations and currently has significant exposure to cash rich and positive cash-flow generating companies in Japan, under pressure from the government to become more shareholder friendly. Each of the positions in the trust offers not only value (the underlying portfolio currently trades at a more than 35% discount) but also performance catalysts – avoiding dreaded value traps.

What is particularly interesting in the context of the strong tech rally is AVI has managed to get exposure to this theme without paying hefty valuations. For example, one of its large investments is in Softbank who's worth, despite all the headlines, remains predominantly made up of its large stake in Alibaba, the listed Chinese e-commerce giant.

Softbank trades at a more than 50% discount to its net asset value and has, this year, announced a more than 20% share buyback program, providing support to the share price. Another example would be their investment in Prosus, the largest consumer internet company in Europe, whose value lies mainly in its holding in Tencent and trades at a 35% discount. It is likely to be included in a top European index shortly, which should bring attention to this company and help tighten its anomalous discount.

Oakley Capital Investments

£517m market cap / 29% discount / 3.1% of TB Wise Multi-Asset Growth Fund

Oakley Capital, the private equity trust founded by internet entrepreneur Peter Dubens, is a consumer-focused portfolio increasingly investing in companies utilising online delivery platforms, such as software solutions and digital infrastructure services. It also targets well-established, profitable businesses, rather than turnarounds. The main themes are consumption with a digital angle, education and technology, and media and telecommunications.

Around 70% of the portfolio companies operate a subscription-based or recurring revenue business model, more resilient to declines in customer demand. These types of business models are potentially less vulnerable to disruptions caused by the pandemic compared with the broader economy. Portfolio holdings include gift voucher platform Seven Miles and high-end Italian homeware brand Alessi, as well as digital and education businesses.

The trust just announced the sale of Casa.it, one of the leading online real estate classifieds groups in Italy, at a 50% premium, highlighting the kind of value that can be created by niche specialist investors away from headlines.

ODYSSEAN INVESTMENT TRUST PLC

£88m market cap / 6% discount / 2.6% of TB Wise Multi-Asset Growth Fund

Odyssean is a UK small companies investor applying a private equity approach to listed markets. This translates into a concentrated portfolio of influencing stakes, taken with a long-term mindset. This differentiated approach is often welcome by company management which allows Odyssean to engage with them to find the best pathway to generate growth. This is a time-consuming and specialist approach, which is why the managers concentrate on the niches they are experts in, namely TMT, services, healthcare and industrials.

Unlike larger companies, one of the main attractions of small caps is their potential to grow exponentially (it is easier to grow in the early stages than once one represents a significant proportion of market share already) and their prospects of being acquired by a larger competitor. Mergers and Acquisitions (M&A) is thus an important theme for this strategy and can offer a substantial return to investors.

Over the past 12 months, three holdings in the Odyssean portfolio of between 15 and 20 positions have received such bids from competitors. This is testament to the team’s ability to find undiscovered value opportunities. The most recent example is SDL, the trust’s top holding, which specialises in language translation software, which received an offer from RWS at a 52% premium.

£1.1bn market cap / 15% discount / 3% of TB Wise Multi-Asset Growth Fund

This trust was launched in 1994 and has been managed by the same manager, Katie Potts, since its inception. We believe that such experience is invaluable in today's environment and is one of the best ways to protect us from some of the follies we can observe currently in the tech space.

Another level of protection is provided by the trust's focus on smaller quoted companies globally, a sub-sector of technology which, while still relatively expensive, is trading at cheaper valuations than the larger peers. In addition, smaller companies offer the potential benefit of being targeted by larger competitors. Finally, half of the trust is currently exposed to UK tech companies where the manager finds a lot of relative value.

Despite all these mitigating factors, valuations can still feel uncomfortable, even in a trust like Herald. That said, in a market driven by momentum, it can be dangerous to sit completely on the side-lines. This trust allows us to get exposure to the tech sector via one of the most experienced investors in this field, away from the most headline-grabbing performers, with great growth potential and at a 15% discount to net asset value.

£71m market cap / 11% discount / 3.1% of TB Wise Multi-Asset Growth Fund

Although we focused above on some of our holdings that invest in technology companies at discounted prices, our portfolio is also comprised of many managers looking for undiscovered growth opportunities. Given current valuations, most of them find these outside of the tech sector and our multi-asset approach allows us to go beyond the traditional asset classes.

Baker Steel Resources is a good such example. The managers invest predominantly in unlisted companies in the natural resources sector. All the managers had on-the-ground mining experience before turning to investing, giving them a significant edge in this niche sector. Not only do early-stage mining companies offer outsized potential returns in themselves, their specialist approach allows the managers to get exposure directly to an array of commodities - many of them linked directly to global growth and themes such as the rise of electric vehicles and batteries.

Vincent Ropers
28 September 2020
Please note – this article contains the personal opinions of Vincent Ropers and is not intended as financial or investment advice. All statistics used throughout this article are sourced from Factset and the underlying Investment Trust managers.

TO LEARN MORE ABOUT THIS FUND, PLEASE CONTACT
01608 695 180 OR EMAIL JOHN.NEWTON@WISE-FUNDS.CO.UK
WWW.WISE-FUNDS.CO.UK