



Best in class

Revealing the top-rated investment trusts according to our new quantitative ranking system ...

Today, we introduce our investment trust ratings. According to the quantitative screens we have selected in an attempt to highlight the best performers in the closed-ended universe, the trusts discussed here have been the best in their classes over the last five years.

We have selected trusts using two different sets of criteria, aiming to identify the top performers for capital growth and for achieving a high and growing income.

There are many rating systems for open-ended funds, but no quantitative-based system for investment trusts that is available to the average investor.

While we cannot identify trusts which will perform well in the future – past out-performance is no guide to future out-performance – we hope these ratings will highlight the outstanding performers in the closed-ended universe and those managers who have best used the advantages of investment trusts to generate alpha.

We are trying to reward consistent and long-term outperformance, and so we have decided to look over a five-year period. All data is as of the end of December 2018, sourced from Morningstar and JPMorgan Cazenove. We have looked at NAV total return performance and discount value has not been considered: the aim is to identify those trusts which have performed the best rather than highlight bargains.

The Kepler Growth Rating

In our view the best measure to use for manager skill is the information ratio. This looks at alpha relative to the risk that a manager has taken. Unlike the better-known Sharpe ratio, the risk is calculated relative to the benchmark – technically, this relative risk is called tracking error. Essentially, information ratio allows us to determine how successful the manager has been at adding alpha with his stock picks relative to the risk of those stock picks. The information ratio thus gives a great bang for each buck, and incorporates a lot of information into one statistic.

The information ratio looks at risk relative to the benchmark. While this is a useful thing to identify to judge manager skill, it misses some vital elements of what investors experience as risk. Investors are, we believe, more concerned with risk of loss than they are with risk relative to a benchmark. Connected to this is the idea, examined by the texts of behavioural finance, that investors are more concerned about the loss of a pound than they are pleased by the gain of a pound – so-called “loss aversion”.

Therefore, we have looked at the upside / downside capture ratio to identify those trusts with a superior return profile. A ratio above 1 means that the trust captures more of the upside in rising markets than it does of the downside in falling markets. This allows for quite volatile investments to score highly, but only if the extra returns they generate in rising markets more than offset the extra losses they make in falling markets.

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Top Twenty Trusts For Capital Growth

NAME	SECTOR
Finsbury Growth & Income Ord	UK Equity Income
Fidelity Asian Values Ord	Asia Pacific - Excluding Japan
Invesco Perpetual UK Smaller Ord	UK Smaller Companies
Schroder Asian Total Return Inv.	Asia Pacific - Excluding Japan
Jupiter European Opportunities Ord	Europe
Fidelity European Values Ord	Europe
Strategic Equity Capital Ord	UK Smaller Companies
BlackRock Smaller Companies Ord	UK Smaller Companies
Henderson EuroTrust Ord	Europe
TR Property Ord	Property Securities
BlackRock Throgmorton Trust plc	UK Smaller Companies
Pacific Assets Ord	Asia Pacific - Excluding Japan
Invesco Asia Ord	Asia Pacific - Excluding Japan
Miton Global Opportunities Ord	Flexible Investment
JPMorgan Emerging Markets Ord	Global Emerging Markets
Diverse Income Trust Ord	UK Equity Income
Standard Life UK Smaller Co. Ord	UK Smaller Companies
Aberdeen New India Ord	Country Specialists: Asia Pacific
Baillie Gifford Shin Nippon Ord	Japanese Smaller Companies
Schroder Asia Pacific Ord	Asia Pacific - Excluding Japan

Source: Kepler Partners

Finsbury Growth & Income

Finsbury Growth & Income has a highly-concentrated portfolio of mainly UK companies, managed with an ultra-high conviction and low turnover stock picking approach by Lindsell Train co-founder Nick Train. The portfolio is made up of just 24 stocks, with the top 10 holdings accounting for c.80% of total NAV. Fund manager Nick Train ignores the benchmark entirely - investing in companies which he believes will perform well regardless of their weighting in the index. The trust tends to invest in companies that have been resilient over various cycles and exhibit steady

earnings growth over the long term, and has generated one of the best information ratios over five years.

Invesco Perpetual UK Smaller Companies

Jonathan Brown and Robin West are fundamentally bottom-up stockpickers, with a wide remit across UK stocks. Their cautious approach to the **Invesco Perpetual UK Smaller Companies** Trust seeks to achieve above average returns through the cycle with lower volatility. This comes across in their low downside capture number. The managers look for high quality businesses with growth characteristics, and have a clear preference for companies with balance sheet strength. This, and a portfolio which typically comprises around 80-90 holdings with no position much bigger than 3%, means the managers say they "can sleep at night".

Fidelity Asian Values

This trust has a bias to smaller companies in the Asia Pacific region, looking to buy growth businesses at a reasonable price. Manager Nitin Bajaj has a value-orientated stock-picking approach and an absolute return perspective. Investing in the more efficient small caps has helped the trust score very highly on risk-adjusted alpha. Nitin has run the trust since 2013 and is based in Singapore.

Schroder Asian Total Return

Schroder Asian Total Return Investment Company (ATR) is a unique Asian equity portfolio with an unconstrained absolute return approach, which seeks to harness the upside from equities in the region over the long term whilst using derivatives to eliminate the 'noise' of market and country risk. The £290m trust, managed by Robin Parbrook and Lee King Fuei, melds bottom up stock-picking with the use of derivatives to eliminate top down country and market exposure when appropriate. This comes through in an extremely low downside capture ratio.

Jupiter European Opportunities

Run by Alexander Darwall since 2000, **JEQ** is another trust with a low turnover approach and a growth bias with a strong track record of alpha generation. The trust is highly concentrated, with a relatively low number of stocks, with the aim to find exceptional companies with the ability to grow irrespective of the economic environment. Despite the low number of holdings, the portfolio remains well diversified and the team aim to buy stocks which are largely uncorrelated in terms of their main risks.

Fidelity European Values

Fidelity European Values aims for long-term capital growth via a portfolio of European equities. It is managed



with a conservative stockpicking approach, aiming to identify companies with strong balance sheets, proven business models and disciplined use of capital which the manager hopes can grow their dividend regardless of the economic environment. The fund manager, Sam Morse, has more than 25 years' experience as an investor and has produced solid results at the helm of the trust since his appointment at the start of 2011, with a focus on quality businesses acquired at a reasonable price. The trust scores exceptionally high on information ratio.

Strategic Equity Capital

Strategic Equity Capital owns a highly concentrated portfolio of undervalued growth companies. The managers attempt to use private equity techniques to identify value, and pay particular attention to cash flows, the potential value of the company to an acquirer, as well as the capital structure. Despite a manager change in 2017m the strategy has remained the same, and the performance remains particularly strong in terms of upside / downside capture.

BlackRock Smaller Companies

BlackRock Smaller Companies trust owns a long-only portfolio of UK small caps run by Mike Prentis and Roland Arnold. The trust scores highly on both information ratio and upside / downside capture. It is another growth-focused trust. It takes a diversified approach, with over 680 stocks in the portfolio and no position rising to much more than 2%.

Henderson EuroTrust

Tim Stevenson has been managing the company's portfolio for the past 24 years, however in the past few months he has announced his retirement and it has been announced that James Ross will be taking over. Although **Henderson EuroTrust** has more of a focus on growth and total returns rather than the dividend per se, the board and manager do aim to provide a growing level of dividends to shareholders. Despite a change in manager, the investment process will remain largely the same. The portfolio will continue to be comprised of good quality, reliable companies which offer consistent returns for the shareholders.

TR Property

Managed by Marcus Phayre-Mudge at BMO, TR Property invests in the equities of property companies and related businesses, and has the ability to invest up to 20% in property directly, currently less than ten per cent. The trust invests in Europe including the UK, and has roughly two thirds on the continent.

BlackRock Throgmorton Trust

BlackRock Throgmorton Trust owns a growth-orientated portfolio of UK small and mid-caps run by Dan Whitestone with a bottom-up approach influenced by top down analysis. The trust has a long / short approach, with Dan using CFDs to short stocks which fail the quality criteria he uses to populate his long book. Valuation only comes in at the end of the process, with the managers willing to pay optically high valuations if they believe future growth is underestimated or misunderstood by the wider market.

Pacific Assets

Managed by Stewart Investors since 2010, **Pacific Assets** invests in Asia Pacific including Australia and New Zealand, with a focus on quality growth companies and high value placed on avoiding the loss of capital. Performance has generally been slow and steady, with the trust not scoring highly on upside capture, but doing extremely well on the downside and generating high levels of risk-adjusted alpha.

Invesco Asia

Ian Hargreaves, is a member of the Invesco Global Smaller Companies Group, and his expertise in this area is utilised on **Invesco Asia**, which is consistently overweight small and mid-caps. Valuation is a key element to the stock-selection process, in keeping with the philosophy and expertise of Invesco as a group. Ian looks for companies trading at a discount to intrinsic value with characteristics he likes, chiefly strong balance sheets and cash flow, and high barriers to entry. This focus on valuation is a relative rarity in emerging markets investment.

Miton Global Opportunities

Miton Global Opportunities is a fund of investment trusts which invests in "special situations", such as trusts trading on wide discounts where there is a catalyst for a re-rating. As such, it should be protected on the downside, and that comes through in the numbers. The upside / downside capture ratio is very strong, thanks partly to the trust investing in private assets and property as well as equities. Manager Nick Greenwood estimates pursues an opportunistic 'deep value' strategy that seeks to exploit the inefficiency of the investment trust market, relying on the ability of the manager, who has almost 40 years' experience in the sector, to spot likely opportunities.

JPMorgan Emerging Markets

JPMorgan Emerging Markets (JMG) aims to maximise total returns by investing in emerging market equities with a long-term, low turnover approach. The manager, Austin Forey, has been in place since 1994 and so has vast



experience in the region. His portfolio is concentrated in consumer names, financials and technology, selected on a bottom-up basis rather than for sector or country reasons. The trust has been a consistent outperformer in rising and falling markets, beating its benchmark index in NAV total return terms in seven of the past ten years.

Diverse Income Trust

Diverse Income Trust is a multi-cap UK equity income fund with a clear focus on stocks that can deliver a good and growing dividend. Despite the name and income objective, the trust is yielding too little to win an income rating, but the total returns on NAV have been strong, with the managers making good use of the AIM market and the trust doing very well in down markets helping it to generate strong risk-adjusted returns.

Standard Life UK Smaller Companies

Standard Life UK Smaller Companies is a relatively concentrated portfolio of quality growth stocks held for the long run, with a long-term track record of outperformance. Stock selection leans heavily on quantitative screens, with the manager, Harry Nimmo, analysing the output of a proprietary scoring system, called the Matrix, which assesses numerous metrics, and then meeting company management and investigating the strength of the company's business model. Harry has run the strategy since 1997 for the trust's sister open-ended fund and since 2003 for the trust itself. Historically, much of his outperformance has come in falling or flat markets.

Baillie Gifford Shin Nippon

This trust invests in small cap equities in Japan, implementing Baillie Gifford's house strategy. This is a bottom-up, growth-orientated approach, looking for companies with competent and dynamic management teams that are displaying growth in an area of the market that also has attractive growth opportunities. In particular, the managers of **Baillie Gifford Shin Nippon** like companies that have the potential to be 'disruptive' (with technology and biotechnology stocks well-represented in the portfolio). The approach is low turnover and highly active, and the active stock picks have been well-rewarded with the trust having the highest information ratio in our universe. However, the volatility has been high, with the trust capturing more than 100% of down moves in markets but an even greater percentage of up markets.

Schroder Asia Pacific

Schroder Asia Pacific aims to generate long-term capital growth from a portfolio of emerging Asian equities. Matthew Dobbs has run the trust since it was launched

in 1995, making him one of the most experienced fund managers in the UK and meaning he has worked through multiple market cycles. The trust is benchmark-aware, taking the MSCI AC Asia ex Japan index as its marker, but can diverge significantly on a country, sector or stock level, which we think important if a manager is to generate alpha.

The Kepler Income Rating

This rating is intended to identify trusts which have performed generated outstanding income without sacrificing capital growth. In other words, we want to try and identify those which have generated sound solid returns while delivering a high and rising income to investors.

We have therefore insisted on a minimum yield of three per cent and dividend growth on average of three per cent over the past five years.

At this stage, we have then applied our total return screens described above to trim the list down further, to those that have provided strong gains on a total return basis while offering good dividend growth and a decent yield.

Top Twenty Trust For Income & Growth

NAME	YIELD (%)
JPMorgan European Income Pool Ord	4.4
Schroder Oriental Income Ord	4.2
Troy Income & Growth Ord	3.7
JPMorgan Asian Ord	4.7
Chelverton UK Dividend Trust Ord	5.2
BMO Capital & Income Ord	3.8
Mercantile Ord	3.4
Edinburgh Investment Ord	4.5
Baring Emerging Europe Ord	5.1
BlackRock Income and Growth Ord	3.9
Henderson Far East Income Ord	6.3
Seneca Global Income & Growth Trust Ord	4.1
BlackRock Frontiers Ord	4.2
City of London Ord	4.7
Aberdeen Asian Income Ord	4.6
Schroder Income Growth Ord	4.6
North American Income Trust Ord	3.2
Invesco Perp Select Glo Eq Inc Ord	3.7
Henderson International Income Ord	3.4
JPMorgan Claverhouse Ord	4.1



JPMorgan European (Income Shares)

JPMorgan European Investment Trust has two share classes: growth and income. **The income shares** have generated consistent income growth in recent years, helped by the ability to dip into the revenue reserves of the growth share class. The managers look for dividends that they view as secure, safe and sustainable. They screen for the top 30% of MSCI Europe ex UK stocks by yield and then attempts to avoid companies carrying dividend risk by analysing balance sheets, potential earnings and managements' commitment to future dividend payments. As well as generating a decent income, the trust has scored very highly on information ratio too.

Schroder Oriental Income

Schroder Oriental Income is managed by industry veteran Matthew Dobbs, who has 35 years' experience as a manager in the region. It aims for total returns from companies with attractive yields and has grown its dividend in every year since 2007. The majority of the trust's assets are in larger companies, but, reflecting the manager's small cap expertise (he also runs several specialist small cap portfolios), the trust has a significant overweight to mid-caps compared to the category average. The trust has done particularly well on the downside.

Troy Income & Growth

Troy Income & Growth runs a relatively concentrated portfolio of around 40 stocks, with a focus on blue chip UK listed companies which have strong franchises and sustainable dividend growth. The managers, Francis Brooke and Hugo Ure, place great importance on protecting investors' capital, which shows itself in strong downside characteristics, which come through in our quant ratings.

JPMorgan Asian

JPMorgan Asian seeks to outperform the MSCI Asia ex Japan benchmark and owns a portfolio made up of the best ideas backed by insights from a large proprietary research team. The main driver of return is stock selection rather than industry or country bets, and this has helped the trust produce strong risk-adjusted alpha. The focus of the fundamental research is on the economics – does the company produce good returns for shareholders – on duration – can those returns be sustained in the future – and governance – will those returns accrue to shareholders in full, or be impaired by poor governance.

Chelverton UK Dividend Trust

This is a small trust, with only £43m in net assets, geared through ZDP shares maturing in 2025 of £15m. David

Horner and David Taylor are small cap specialists and hold most of the fund in this area of the market, with some in mid caps too. The bottom up process focuses on finding companies with strong cash generation which provides confidence they can maintain and grow their dividends. **Chelverton UK Dividend Trust** has a high dividend yield of 5% and a track record of attractive upside / downside capture.

BMO Capital & Income

BMO Capital and Income (F&C Capital and Income until November 2018) aims to generate both capital and income growth, and has raised its dividend each year since launch in 1992. It does have the ability to pay out of capital, which gives extra confidence that the payment will be grown in future. The process has a value tilt, invests across the market cap spectrum and has scored well across our quant metrics.

Mercantile

Mercantile is a large and liquid UK mid-cap focused investment trust, with net assets of just under £2bn. It buys companies with strong earnings outlooks and operating in favourable industry or economic environments, with a strong bias to growth rather than value. It has a track record of outperforming strongly in rising markets, although has suffered when markets reverse.

Edinburgh

Edinburgh has had a run of bad performance in recent years, but its long-term numbers remain good and the manager, Mark Barnett, has achieved an attractive upside / downside capture ratio and good risk-adjusted alpha over five years along with solid dividend growth. Mark has been tilting his portfolio to UK domestic earnings as a result of his value conscious approach, and this has hurt returns in recent months.

Baring Emerging Europe

Baring Emerging Europe has generated significant alpha through stock selection, which has helped it score highly on our total return screens. In 2017, as part of a series of measures intended to close the discount, the board was given the ability to pay out capital as income; the expectation was for around 1% of NAV to be paid out as income per annum, which has given a significant boost to the payout.

BlackRock Income & Growth

BlackRock Income & Growth (BRIG) has twin aims of providing a rising dividend but also growth in capital over



the long term. The managers invest across the market cap spectrum, with a focus on free cash flow generation and a concentrated portfolio. The trust is small at just £54m, but the managers, Adam Avigdor and David Goldman, also manage the £370m, open-ended BlackRock UK Income fund to the same strategy.

Henderson Far East Income

Many of the top-performing managers of the past decade in emerging markets have taken a reasonably strict line on corporate governance in China and steered clear of SOEs. Michael Kerley, by contrast, is happy to take advantage of the yields on these stocks and to invest alongside the Chinese state. With them on the register, companies have a strong incentive to pay out a decent dividend. The yield is currently 6.5%.

Seneca Global Income & Growth

Seneca Global Income & Growth aims for a total return of CPI plus 6% after costs with a low volatility. The latter comes through in the upside and downside numbers, which are attractively tilted to the upside, although risk-adjusted alpha has been relatively weak compared to the other top scorers. The trust takes a value approach to multi-asset investing, and the portfolio includes UK and overseas equities, fixed interest, specialist investments and property.

BlackRock Frontiers

BlackRock Frontiers offers exposure to markets that tend to have lower correlations to the more developed regions. It is a relatively concentrated portfolio, and the managers, Sam Vecht and Emily Fletcher, use derivatives to gain exposure to some stocks if liquidity is poor. They use top-down analysis to understand the economic situation of the individual countries, while bottom-up analysis focuses on finding stocks that are cheap relative to their cashflow. Although yield is not a stated objective, the trust has performed strongly in terms of income generation and yields over 4%.

City of London

City of London aims for capital and income growth from UK equities, and has been managed by Job Curtis since 1991. The trust leans more to large caps than many in the UK equity income sector, and aims to yield 10% to 30% more than the market. It scores well across all metrics and offers an attractive 4.7% yield, boosted by large positions in Shell, HSBC and BP.

Aberdeen Asian Income

Aberdeen Asian Income has delivered solid dividend growth since launch and generally positive returns over most periods, tending to perform better during weaker phases for momentum. The team, headed by Hugh Young, invest in what they see as “quality companies at attractive valuations” focusing on Asian companies that have strong balance sheets and cashflow generation to deliver a blend of sustainable income and capital appreciation. The managers are long term investors and so turnover is low.

Schroder Income Growth

Schroder Income Growth is managed by Sue Noffke, who pursues a bottom-up strategy of blending higher-yielding shares, providing steady income, with lower-yielding shares that offer the potential for faster-growing dividends. The trust is relatively concentrated, with a bias to FTSE 100 stocks which provide the highest yields.

North American Income

This trust is managed by Ralph Bassett and Fran Radano, formerly of Aberdeen and now of Aberdeen Standard. In line with the approach of the Aberdeen teams, they look for quality companies at a good valuation, and this has helped it post an attractive upside /downside capture ratio. The yield on the trust has tended to be lower than the UK equity income trusts in line with the lower yields on the US market compared to the UK's.

Invesco Perpetual Select Global Equity Income

Invesco Perpetual Select Global Equity Income invests in high-quality companies worldwide at attractive valuations, offering appealing yields, sustainable income and capital upside. It owns a relatively concentrated portfolio made up of the Group committee's ‘best ideas’. The trust has a dividend policy, employed by the board since the 2016 financial year, which means that it can choose to supplement income with capital profits and led to a jump in the payout in that year.

Henderson International Income

Henderson International Income invests outside the UK, aiming to grow its dividend and capital. The trust has been managed by Ben Lofthouse since 2011 and has produced strong NAV outperformance in recent years along with a growing dividend. Ben is a valuation driven investor who focuses on undervalued companies that can generate strong free cash flow and, therefore, potentially produce a sustainable and growing dividend.



JPMorgan Claverhouse

JPMorgan Claverhouse invests in income-generating UK companies with a focus on those that provide consistent and growing dividends. Since a strategy review in 2012, the managers have pursued a more ‘high conviction’ approach, running their winners and keeping stocks as they become more expensive as long as earnings growth continues.



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