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Weekly

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Use it or lose it

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As we bid farewell to another Rugby World Cup, I am reminded how my own rugby playing days are barely visible in the rear-view mirror. As a 'forward' I would frequently hear shouts from the referee of "Use it or lose it" if we didn't pass the ball out quick enough to the 'backs' once it had emerged from a scrum or ruck. Wasting the opportunity to use the ball, being penalised and conceding possession to the opposition is no way to win a match.

A similar call could be made regarding Investment Companies (ICs), or more commonly called Investment Trusts. Such vehicles in the UK are trading at "once in a generation" discount to their Net Asset Value (NAV). The reasons for this are numerous: rising bond yields, investor worries over the validity of reported NAVs, poor asset management performance by some (but certainly not all) management teams; and more recently the introduction of onerous regulatory guidance over the disclosure of costs of such vehicles.

This technical matter of cost disclosure has been covered in past articles, so I won't dwell on it here (**"In changing of the seasons we (Investment) Trust"** and "**I'm from the government and I'm here to help"**). However, the unintended outcome of that situation is that the normal balancing forces that could come into play as a market cycle turns are unable to function. The mouth-wateringly low valuations of many investment trusts cannot be bought by many traditional UK based institutional investors for fear of such investors increasing their optical (not economic) fees. The commercial reality for such institutions is overwhelming pragmatic investment decisions.

By reducing the natural pool of investors who can buy such ICs inevitably reduces the share price. However, not all investors are inhibited by such guidelines. Private retail investors can exploit such valuation dislocation; however, it is still imperative they do their own research and avoid ending up in badly managed 'value traps'. The ICs themselves are increasingly introducing share buy-back policies (for example buying back 100p of their own capital for just 70p, which is accretive to NAV, earnings per share and dividend cover). Management teams and Board directors are buying their own shares, often in quite substantial scale.

There is another growing predator seeking to take possession of valued assets on the cheap; overseas investors and/or private capital. We have already seen well run ICs such as Industrials REIT (MLI), Ediston Property Investment Company (EPIC) and Roundhill Music Royalty (RHM) fall to opportunistic bids. More will follow.

There is of course a neat potential solution to this challenge. Back in 2013 the EU law "Alternative Investment Fund Managers Directive (AIFMD)" was introduced. Its' well-meaning objective was to protect investors in lightly regulated funds; certainly not ICs that already have to: comply with listing rules and company Acts; are managed by regulated fund managers; produce audited accounts and are overseen by directors. However, the UK regulator, decided to bring listed investment companies into scope and call them Alternative Investment Funds (AIFs). This regulation brought additional financial cost to running ICs. However, the real impact did not become apparent until the cost disclosure guidance was introduced by the Investment Association (IA) under the watch of the FCA; this guidance brought ICs caught by AIFMD into scope. There is a further insidious impact from AIFMD in 2025, which results in punitive regulatory capital requirements for market makers dealing in ICs, the impact of which would reduce their trading liquidity.

The solution, therefore, is to cease classifying ICs as AIFs and therefore remove them from the AIFMD and even capture a "Brexit" win! So, the urgent appeal to the referee is clear: give damaging AIFMD regulations the red card; this will afford the remaining players on the field the confidence to return to a successful and expansive game plan and score those tries.

Urgent appeal to the referee is clear: give damaging Alternative Investment Fund Managers Directive regulations the red card.

Market Focus - 6 November 2023

- Global equities rose 5.6% last week
- The Federal Open Market Committee decided to hold interest rates at 5.5%, though hinting at a possible December rate hike
- Brent crude fell 6.2% to $84.89 a barrel
- Gold fell 0.7% to $1992.65 per ounce

US

- US equities rose 5.9% last week
- The latest Job Openings and Labor Turnover Survey (JOLTS) report for September showed job openings up to a 4-month high of 9.553m (vs 9.4m expected)
- October's Automatic Data Processing, Inc. (ADP) report showed private payrolls were only up 113k in October (vs 150k expected) and the 3-month rolling average fell to its lowest since March 2021
- Continuing claims for the week ending 21 October rose to 1.818m (vs 1.8m expected), their highest level since April 2023. Initial jobless claims for the week ending 28 October also rose to a 7-week high of 217k (vs 210k expected)
- Nonfarm payrolls for October came in below expectations at 150k, a significant drop from September
- The unemployment rate rose to 3.9% (vs 3.8% expected)

UK

- UK equities rose 1.7% last week
- The housing market showed little sign of revival, with mortgage approvals in September at an 8-month low of 43.3k
- The M4 money supply data indicated a year-on-year contraction of 3.9%, the fastest decline since August 2012
- The Bank of England kept rates at 5.25%, but a split 6-3 vote revealed three members preferring a 25bp hike

Europe

- European equities rose 3.6% last week
- The Euro area's flash Consumer Price Index (CPI) for October fell to 2.9%, below the 3.1% expected
- In Germany, CPI fell to 3.0% (vs 3.3% expected), while in Spain, it came in at 3.5% (vs 3.8% expected)
- Germany's Q3 GDP showed a modest contraction of 0.1%, better than the expected 0.2% contraction
- Q3 growth for the euro area showed a 0.1% contraction, marking the worst quarterly performance since Q2 2020 at the height of the pandemic.
- German unemployment increased by 30k in October, pushing the registered unemployment rate up to 5.8%, the highest level since June 2021

Rest of the World/Asia

- Global emerging market equities rose 3.1% last week
- Japanese equities rose 3.0%
- Chinese equities rose 1.1%
- The official manufacturing Purchasing Managers Index (PMI) in China contracted to 49.5 in October, signalling renewed sector weakness. The non-manufacturing PMI also dropped to 50.6 from 51.7 in September, suggesting that the economy is still struggling despite better-than-expected Q3 GDP data reported recently
- The Bank of Japan (BoJ) marginally tweaked its yield curve control settings by allowing 10-year Japanese government bond yields to increase above 1%, redefining it as a loose "upper bound" Subsequently, after this decision, the BoJ announced an unscheduled bond purchase program to curb the rise in yields

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Market Summary - 6 November 2023

Asset Class / Region	Currency	Cumulative returns: Week ending 3 November	Month to date	YTD 2023	12 months
Developed Markets Equities					
United States	USD	5.9%	3.9%	14.6%	18.5%
United Kingdom	GBP	1.7%	1.2%	2.7%	6.9%
Continental Europe	EUR	3.6%	2.6%	8.1%	12.7%
Japan	JPY	3.0%	3.0%	25.7%	22.8%
Asia Pacific (ex Japan)	USD	2.9%	3.6%	-1.0%	14.3%
Australia	AUD	2.2%	2.9%	2.7%	6.0%
Global	USD	5.6%	4.2%	12.4%	18.8%
Emerging Markets Equities					
Emerging Europe	USD	3.4%	3.2%	20.5%	48.3%
Emerging Asia	USD	2.4%	3.1%	0.0%	15.5%
Emerging Latin America	USD	6.1%	7.7%	15.7%	8.9%
BRICs	USD	1.6%	2.6%	-2.4%	12.0%
China	USD	1.1%	2.6%	-8.9%	17.6%
MENA countries	USD	4.4%	2.0%	-1.8%	-8.0%
South Africa	USD	8.7%	8.4%	-4.0%	11.2%
India	USD	1.3%	1.1%	6.8%	7.2%
Global emerging markets	USD	3.1%	3.6%	1.4%	13.1%
Bonds					
US Treasuries	USD	1.5%	1.9%	-0.6%	1.7%
US Treasuries (inflation protected)	USD	1.5%	2.0%	0.3%	2.4%
US Corporate (investment grade)	USD	1.9%	2.3%	0.9%	5.9%
US High Yield	USD	2.7%	2.4%	7.2%	9.6%
UK Gilts	GBP	2.1%	1.8%	-3.0%	-4.5%
UK Corporate (investment grade)	GBP	1.9%	1.5%	2.6%	4.5%
Euro Government Bonds	EUR	1.6%	1.2%	1.6%	-0.3%
Euro Corporate (investment grade)	EUR	1.1%	0.8%	3.5%	5.0%
Euro High Yield	EUR	1.2%	0.8%	6.7%	10.0%
Japanese Government	JPY	-0.3%	0.2%	-1.9%	-3.4%
Australian Government	AUD	0.6%	1.0%	-0.4%	-0.5%
Global Government Bonds	USD	1.8%	2.2%	-2.5%	2.6%
Global Bonds	USD	2.1%	2.4%	-0.6%	5.0%
Global Convertible Bonds	USD	2.3%	2.5%	0.9%	6.2%
Emerging Market Bonds	USD	3.4%	3.1%	1.3%	10.1%

Asset Class / Region	Currency	Cumulative returns: Week ending 3 November	Month to date	YTD 2023	12 months
Property					
US Property Securities	USD	8.3%	5.8%	-1.8%	1.2%
Australian Property Securities	AUD	6.9%	6.5%	-1.8%	-0.7%
Asia Property Securities	USD	3.0%	3.9%	-10.6%	4.8%
Global Property Securities	USD	7.5%	6.0%	-2.7%	4.6%
Currencies					
Euro	USD	1.5%	1.5%	0.2%	10.2%
UK Pound Sterling	USD	2.1%	1.9%	2.4%	10.8%
Japanese Yen	USD	0.2%	1.4%	-12.3%	-0.7%
Australian Dollar	USD	2.7%	2.7%	-4.5%	3.5%
South African Rand	USD	3.2%	2.6%	-6.5%	1.0%
Swiss Franc	USD	0.6%	1.3%	2.7%	12.8%
Chinese Yuan*	USD	0.2%	0.2%	-5.6%	0.0%
Commodities & Alternatives					
Commodities	USD	-1.3%	0.5%	-0.1%	0.2%
Agricultural Commodities	USD	-0.5%	0.9%	1.7%	2.7%
Oil	USD	-6.2%	-2.9%	-1.2%	-10.3%
Gold	USD	-0.7%	0.4%	9.2%	22.3%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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