

"The exposure to high-quality assets in the UK that investment trusts offer, at wide discounts to net asset value, is compelling."

In plain sight



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I recently read the book "Red Notice" by Bill Browder. Whilst having long been vaguely aware of his story through his appearance on news interviews, it's embarrassing to admit that 9 years had passed since publication before I read it. It is probably the best international political crime thriller, not least by the fact it tells the sequence of gripping yet tragic and, crucially, true events that surpasses some of the best Hollywood writing. It follows the story of how Bill Browder founded Hermitage Capital Management in 1996 and invested in Russian companies in the early years after the end of the Cold War. However, in doing so he and his team uncovered fraud and corruption that resulted in state sponsored murder instructed from the very top of the Kremlin. Browder, who's life remains under threat to this day, was knighted in the King's Birthday Honours this month. Similar events were of course exposed by others, not least the work and campaigning of Alexei Navalny who tragically fell victim to the regime this year.

Investors who lost money when Russia invaded Ukraine in 2022 and saw their assets appropriated as a result of sanctions can't complain they weren't warned. I include myself here as I had a small amount invested in the country in my personal pension. People have a natural desire to ignore the risk of bad things to happen or at least rationalise them into thinking those bad things happen to other people. In some ways that is a natural coping mechanism, otherwise we wouldn't get out of bed. With the recent commemorations of D-Day and Apple's dramatisation of the bombing campaign with Masters of the Air, it's incredible how those involved coped at the time in the face of such stark odds against survival.

In my case I hadn't bothered to explore in more detail some of the things we were being warned about with regards Russia and to think how events could play out. We always need to try and seek to learn lessons from such events. From my own perspective it has given belated cause to reappraise the risks of investing in countries that do not share the same values as us, indeed have interests counter to ours. This is especially important considering the available returns on offer in the UK and in countries closer to home given where valuations currently sit.

One of the most attractive areas in terms of valuation is that of investment trusts. I have written on this subject a number of times over the last 12 months due to the various headwinds they have faced: rising bond yields; structural outflows from UK index ETFs that hold investment trusts and of course the current interpretation and mis-application of EU cost disclosure rules. All of these headwinds are showing signs of reversal. Consequently, the exposure to high quality assets across infrastructure, property and private equity in the UK and the developed Western World that investment trusts offer, at wide discounts to net asset value, is compelling.

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