CITYWIRE
FUNDS INSIDER

David Kempton: The global investment trusts I can't beat

By David Kempton / 19 Dec, 2022

As an investor and trader in UK companies for many years, I have always been mindful that I'm investing in just a small pond, while there's a wide ocean of other exciting opportunities which I ignore to my detriment. UK-quoted companies represent only 3.7% of global equity markets, trailing the US (around 60%), Japan (5.8%) and China (4.1%).

The first 20 years of my working life as an international engineering contractor gave me a good early insight into some of the world's emerging regions. When I changed careers, I never neglected these potential sectors, which can offer outstanding growth and rewards, while still carrying some inherent risks.

Without the time and commitment to assess this adequately, I have always sub-contracted such investment to a full-time expert on the region via a relevant investment trust.

I favour closed-end investment trusts over open-ended unit trusts and OEICs, where any realisation of investor capital requires the fund managers to sell the underlying holdings. Frequently, in tough market conditions, unit trust managers experience high levels of redemptions, forcing them to sell down portfolios to meet these demands, invariably occurring at times of poor market liquidity.

Alternatively, during good times they can be faced with large inflows, which can prove hard to invest into quality assets. The investment trust manager has no such problems, meaning that over long periods they tend to outperform the unitised assets of unit trusts and OEICs.

In strong markets, well-regarded trusts tend to run at premiums, whereby the share price exceeds the net asset value (NAV) per share. Alternatively, when markets are depressed, large discounts occur which enables some very well-managed trusts to be bought at discounts of 20%, or even up to 30% in some instances.

Global trust picks

I write this from the southern tip of Patagonia, so remote as to feel detached from the world. From that perspective, I feel able to review a UK battered by Brexit implications, Covid, inflation, insecure politics, rising yields, strikes and now even inclement weather. It doesn't look the best place to invest, even if UK shares are considered historically cheap.

It is possible that our children may decide that UK and old Europe are not the best places to live, but for now I want to live in Britain, while my money is free to travel and invest anywhere. I own other trusts, which form core holdings, but I have recently added to my 'travelling money' with the following trusts.

Pershing Square Holdings (PSH) is an investment trust whose objective is to preserve capital through long and occasionally short investment positions in equity or debt, mainly of US securities. Managed by legendary billionaire hedge fund manager Bill Ackman, the fund aims to perform well in both bull and bear markets. A highly focused fund, with the top 10 holdings accounting for as much as three quarters of the portfolio, it has achieved 1% and 107% growth over one and three years respectively. The current 36% discount seems harsh.

Canadian General Investments (CGI) has a market value of £464m, with 15% gearing, and is focused on medium- to long-term investments primarily in Canada. The company's objective is to provide better-than-average returns. It was up 12% in November, and has delivered -12% and 67% over one and three years respectively. With a wide unconstrained portfolio across sectors, it is invested 77% in Canada and 22% in the US, but the shares are always on a surprisingly high discount, now 34%. This may be due to only 50% of equity being free float, or the relatively high level of gearing. Either way, it looks churlish given the performance and track record

Emerging markets have been a tough place to be in 2022 against the backdrop of a strong dollar and a slowdown in China, but equities there have surged in the last five weeks with the zero-Covid policy relaxing following a series of protests and Presidents Xi Jinping and Joe Biden meeting at the G20 summit, leading to a thawing in relations. If the world's second-largest economy properly re-opens – bearing in mind that the Covid situation already looks to be worsening in China – it may even save the world from recession and would certainly be a dramatic game changer. There is a huge amount of pent-up demand for a recovery in global trade and markets tend to look six months ahead.

China certainly needs to catch up as the average forward price-to-earnings ratio for constituents of the MSCI China index is 8.2, against 11.5 for MSCI Emerging Markets. Recently, though, rising confidence has boosted the China index 30% from its recent nadi on 31 October.

I have bought **JP Morgan China Growth and Income Trust** (JCGI), which is invested in 'Greater China' companies quoted on the Hong Kong, China and Taiwan stock exchanges, or which derive a substantial part of their revenues from these territories. Currently yielding 6% and geared 18%, the fund gained 21% in the last month. Down 21% and up 23% over one and three years respectively, it is in the top quartile of its peers.

India has a similarly-sized population of 1.4bn, but much better demographics and benefits from a legal system still influenced by the old British Commonwealth days. As you drive across India with its myriad of regional languages, the only common tongue is

English, universally spoken by significant numbers of highly educated and hard-working youth.

I have bought China as an opportunist situation but my Indian trust holding is there for the very long game. **India Capital Growth** (IGC) makes the most of the closed-end structure by having a high conviction portfolio in relatively illiquid mid-cap companies. The mid-cap focus of the fund gives greater exposure to the domestic economy which is a powerful structural growth story for years to come based on the demographics, strong government finances and a proactive central bank. Up 5% in 3 months and an impressive 9% and 66% over one and three years, the shares are currently on a 9% discount.

When emerging market currencies weaken against the dollar it becomes more expensive to service existing dollar-denominated debt, precipitating capital outflows. However, as we go through 2023 and world trade starts to recover, interest rates should reduce with a weakening dollar significantly enhancing the growth potential for emerging markets.

I have held on to **VinaCapital Vietnam Opportunity Fund** (VOF) through the last difficult year, when the price reduced 7%. But my loyalty has been rewarded with the fund up 11% in the last month. Up 31% over three years and now at a 13% discount, I am tempted to add to this holding.

I have gone back into **BlackRock World Mining Trust** (BRWM), investing in mining and metal assets worldwide, principally in quoted securities. Up to 10% of gross assets may be held in physical metals and up to 20% in unquoted investments. The largest holdings include **Glencore** (GLEN) at 8.4%, **BHP** (BHP) at 8.2%, and Brazil's **Vale** at 8.1% giving exposure to copper, nickel, aluminium, and steel making. The current global decline in trade has reduced confidence, typically leading to significant underinvestment in new mining projects, thereby leading to a large gap between supply and demand – further enhanced by geopolitical tensions threatening supplies. Yielding 6%, up 15% in three months, 35% over one year and 129% over three, the trust currently stands on a 1.5% premium.

I have no trusts specific to UK equities, since I prefer to do my own stock selection here in both large and small companies. I have slowly put some money back into the market and will write again on my favourite picks for 2023.