MIGO Opportunities

MIGO's underlying discounts are currently wide relative to history...

Update
21 April 2022

Overview

MIGO Opportunities Trust (previously named Miton Global Opportunities Trust) is a specialist trust that aims to benefit from special situations and inefficiencies that can exist in the UK listed funds market. The managers actively seek diversification within the portfolio, and invest in trusts they think have strong NAV prospects. However, they also look to invest at an attractive discount to NAV with a medium-term catalyst (18 months or longer) identified for the discount to narrow.

They aim to take a contrarian view in finding ideas and take a longer-term view than the market. This means that they typically own trusts within a number of themes. The portfolio currently constitutes around 40 holdings, of which the top ten represents around half of the assets (47.3% as at 31/03/2022). The current notable themes within the portfolio include uranium, which has been a strong contributor to performance lately. Other themes are UK micro caps, high OCFs (listed private equity) and biotechnology.

Gearing has been selectively deployed over past years, reflecting the number of opportunities that Nick and Charlotte find at any point in time. Cash levels have been increasing until very recently, indicative of the lack of interesting opportunities the team are finding. At the current level of 11.6% (as at 14/04/2022), this still represents a significantly higher level than has historically been the case.

2021 delivered very strong **Performance**, driven by diverse exposures such as private equity, mining, Vietnam and UK Microcap investment trusts. NAV returns were well in excess of world markets, but particularly strong relative to the Flexible Investment trust sector.

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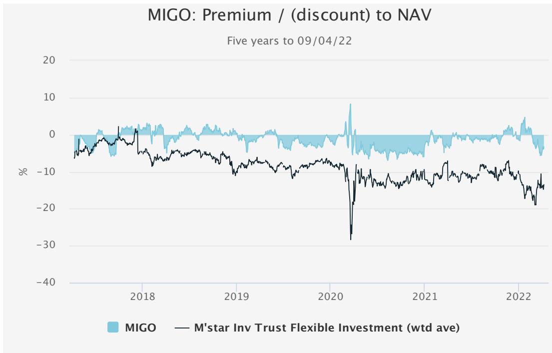
Key Information:

Price (p)	357.5
Discount (%)	-3.5
OCF (%)	1.34
Gearing (%)	-11
Yield (%)	0.0
Ticker	MIGO
Market cap (£)	93,612,290



Kepler View

Nick and Charlotte look to use their time to monitor and analyse trusts and use publicly available information to gain an edge over the market. In their view, many investors routinely overlook important and relevant information. They also aim to benefit from a good understanding of specific shares' supply and demand dynamics, looking to benefit from clumsily executed buy and sell orders in what can sometimes be a relatively illiquid market. In this regard, MIGO's size (net assets of c. £97m) can be seen as an advantage, giving Nick and Charlotte the ability to be nimble.

MIGO's share price has relatively closely tracked the NAV. Indeed, it is the board's policy to be "proactive in managing" the share price premium or discount. MIGO presently trades on a discount of c. 3% (as at 09/04/2022), which compares with the average discount of c. 1.2% over the last five years. Whilst the headline discount is relatively narrow, the underlying holdings in the portfolio trade at a significant discount. When we met up with Nick recently, he commented that with the average discount of the top 12 holdings approaching c. 25%, discounts have rarely been wider (see **Discount section**).

In our view, MIGO will appeal to trust investors who recognise the value the structure offers to specialist managers, but who also want the potential to benefit from the accelerant to share price returns from the discount narrowing. MIGO offers an elegant one-stop-shop, offering a highly distinct exposure to special situations in the UK listed funds market, backed by an investment process which has periodically outperformed wider equity markets.

BULL
Diverse exposure to an array of otherwise hard-to-access, relatively illiquid opportunities
Expert management in a specialist field
Look through discount of portfolio at lower of the historic range

BEAR
Illiquid nature of many closed-ended holdings makes discounts vulnerable to market reversals
Trust-of-trusts structure does involve a double layer of fees
Opaque nature of some alternative asset trusts may mean that discounts persist

Portfolio

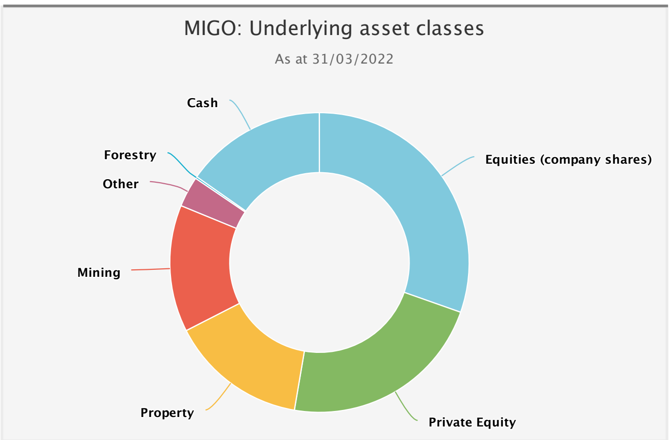
MIGO Opportunities Trust (previously named Miton Global Opportunities Trust) is a specialist trust that aims to benefit from special situations and inefficiencies that can exist in the UK listed funds market. Manager Nick Greenwood has over 40 years' experience as an investment trust buyer, and with co-manager Charlotte Cuthbertson, they aim to deliver strong and steady returns over the long term, over and above their benchmark of three-month SONIA + 2%. The trust is in the AIC Flexible Investment sector, reflecting its multi-asset exposure through its holdings and its total return benchmark, but the commonalities with other trusts in this sector are limited in our view. The managers actively seek diversification within the portfolio and invest in trusts they think have strong NAV prospects, but also look to invest at an attractive discount to NAV with a medium-term catalyst (18 months or longer) identified for the discount to narrow.

A result of the investment process, but also the evolving nature of closed-end funds listed in London, means that MIGO is increasingly invested in a wide range of alternative assets, many of which might be considered 'real assets'. Nick and Charlotte look to use their time to monitor and analyse trusts and use publicly available information to gain an edge over the market. In their view, many investors routinely overlook important and relevant information. They also aim to benefit from a good understanding of specific shares' supply and demand dynamics, looking to benefit from clumsily executed buy and sell orders in what can sometimes be a relatively illiquid market. In this regard, MIGO's size (net assets of c. £97m) can be seen as an advantage, giving Nick and Charlotte the ability to be nimble. A recent example of this came when a large institutional seller decided to sell all of their investment trust holdings, which enabled MIGO's managers to take advantage of some favoured trusts being offered in the market at significant discounts to the price they were trading on at the time. In this way, the team recently added to Baker Steel Resources, Hansa and Biotech Growth, all of which were already trading on what Nick and Charlotte saw as attractive discounts.

As we show below, a relatively small proportion of the underlying portfolio has traditional, equity market characteristics, which Nick believes will typically be between 35-40% over time.

Nick and Charlotte's investment process is not just about identifying trusts on big discounts. They must also have a strong view that the asset class in question is also likely to perform well. This means that they typically own trusts within a number of themes. Their view is that every asset class and trust has its time being "unloved". They aim to take a contrarian view in finding ideas and take a longer-term view than the market (which they believe is anything longer than around 18 months into the future). The portfolio constitutes around 40 holdings, of which the top ten holdings represents around half of the assets (47.3% as at 31/03/2022).

Fig.1: Asset Allocation Breakdown



Source: Premier Miton, as at 30/06/2021

The current notable themes within the portfolio include uranium, which has been a strong contributor to performance lately. Nick and Charlotte have held the view that nuclear energy is a critical part of the drive to net-zero. Supply of uranium has been diminished over the years, with the spot price following Fukushima being too low to stimulate investments in new mines. As a result, with planned closures of nuclear power stations being postponed, and new plants being built, they took the view that it was only a matter of time before demand will force the uranium price higher. With Uranium prices up by nearly 200% since early 2020, their investments in Geiger Counter and Yellow Cake have performed strongly. In Nick's view, there is still more room for the price to rise, given most existing mines' 'break even' costs are still above the current price ($63/lb at the time of writing). As well as strong NAV performances, both listed trusts have seen their discounts narrow, which is the accelerant to share prices that the team look for in successful investments.

Other themes which Nick and Charlotte continue to express in the portfolio is that the UK is fundamentally undervalued when compared to other geographic areas. The team have chosen to express this through a basket of small and micro-cap trusts, such as River and Mercantile Micro Cap, Downing Strategic Capital, Strategic Equity Capital, Henderson Opportunities Trust, and Rockwood Realisation. This has been a successful theme, and the team have been reducing exposure from River and Mercantile, which has been a very strong performer for the trust, having originally bought a stake in the fallout from Woodford's illiquidity fuelled implosion.

A theme close to our hearts (Kepler Trust Intelligence) is the team's "high OCF" theme. As we show above, around

20% of the portfolio is exposed to private equity. The team believe that optically high charges (many of which are only high because of a performance fee) have put off wealth managers and IFAs from buying listed private equity (LPE) trusts, and possibly even prompted selling. Private Equity returns have been strong over the past few years, as have the NAVs of many of the LPE trusts. The team believe that this strong performance will continue, and that over time perhaps discounts will narrow. Over the 2021 calendar year, Dunedin Enterprise, NB Private Equity and Oakley Capital Investments were amongst the strongest contributors to returns for the MIGO.

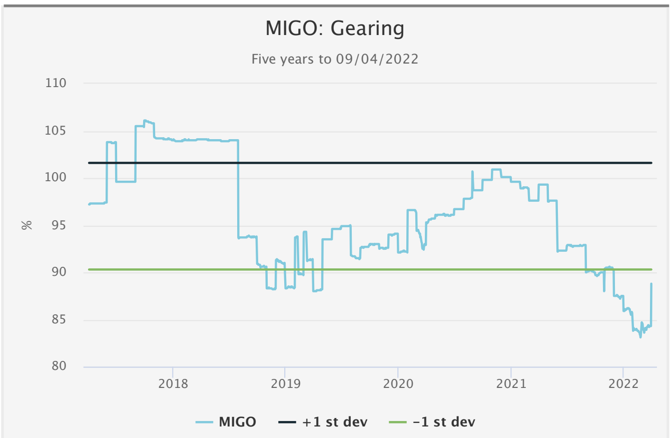
A recent development within the trust has been an increased exposure to the Healthcare and Biotechnology sector, with Nick recently having added to Biotech Growth Trust for its exposure to the "smallest of the smalls". The sector has been in a bear phase for some time as many branches of medicine have seen resources diverted to the fight against COVID. We understand that the managers view valuations as being lower than when Hillary Clinton was attacking the sector in late 2015 or when Obamacare was anticipated. In Nick's view, this is a highly interesting time to consider the space, given valuations , but particularly for those which offer strong growth prospects. Should markets start to appreciate these sorts of companies once again, the NAV should deliver a strong performance, and discounts narrow once again.

This is a classic contrarian approach, where taking positions in unfavoured assets can offer potentially asymmetric upside through improvements in sentiment. MIGO typically holds a tail of smaller positions, which include positions which are in the latter stages of wind-up, or exploratory positions which Nick and Charlotte will initiate as they build conviction. The closed-ended nature of MIGO affords Nick and Charlotte a great degree of flexibility in less liquid positions, and enables them to take a long-term view on a catalyst that could lead to value realisation. Nick observes that the average discount of the top 12 holdings is around 24%, very much toward the bottom of the range which tends to sit between 15-25%, which suggests this could be an attractive time to consider the trust.

Gearing

MIGO has a flexible gearing facility, with gearing permitted up to 20% of NAV at the time borrowings are drawn down. That said, gearing has been selectively deployed over past years, reflecting the number of opportunities that Nick and Charlotte find at the time. Currently, Nick comments that the high cash position the trust has been running with is indicative of the lack of interesting opportunities they are finding currently. MIGO went into the pandemic with cash on the balance sheet, and the managers started to buy aggressively into weakness, taking the view that the heroic levels of fiscal and monetary stimulus would drive asset prices higher. That call explains some of the strong NAV performance in 2020 and 2021. Unfortunately, whilst market makers had slashed screen prices they would only sell to MIGO in modest size, so gearing only got up to 4-5%. Cash levels have been increasing until very recently, but at the current level of 11.6% (as at 14/04/2022) still represents a significantly higher level of cash than has historically been the case.

Fig.2: Gearing



Source: Morningstar, Kepler Partners

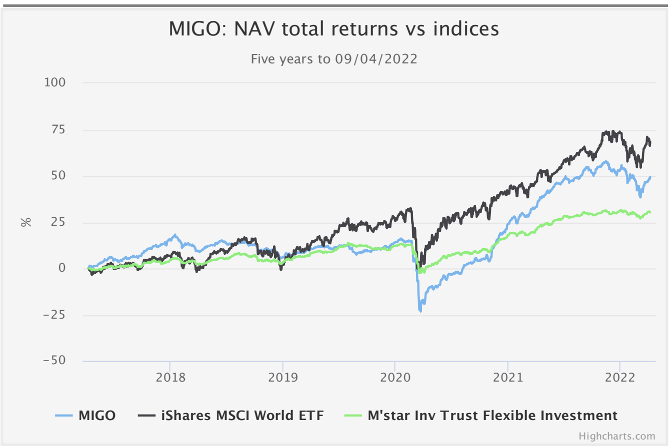
Performance

MIGO sits in the AIC Flexible Investment sector, because its investment remit allows it to invest across a very wide range of assets, many of which are uncorrelated to equity markets, but also because it has a total return benchmark, aiming to generate NAV returns in excess of three-month SONIA +2% over the long term.

Over the past few years, with interest rates at close to zero, it is perhaps unsurprising that MIGO has outperformed the benchmark by a wide margin. Over the past five years, MIGO has delivered NAV and share price returns of c. 49.4% and c. 52.5% respectively to 09/04/2022. This is well ahead of the Flexible Investment Trust peer group, which has delivered NAV and share price returns of 25.6% and 30.3%, but behind the iShares MSCI ACWI ETF return of 68.4%.

Nick aims to invest in opportunities that he believes are capable of generating total returns of 10% per annum or greater. As we discuss in the **Portfolio section**, much of the underlying portfolio is not invested in equities (i.e. companies' shares), but private equity or real assets. The managers aim to maintain a wide disparity of exposures, many with idiosyncratic and diverse drivers of underlying returns. As such the underlying beta may not be close to equity funds, but it is important to remember that as all of the underlying investments are listed, equity market sell-offs can have an impact (through discounts widening) and lead to MIGOs own NAV displaying equity correlation. This gives rise to MIGO's relatively high beta of 1.07 over five years (relative to MSCI ACWI), a figure that is towards the top end of the Flexible investment peer group. This shows up in the graph below, illustrating cumulative NAV performance over the past five years.

Fig.3: Five-Year NAV Returns

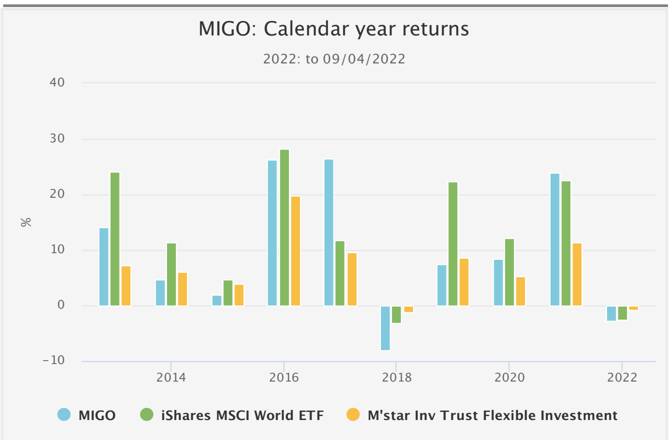


Source: Morningstar

Past performance is not a reliable indicator of future results.

We show calendar year NAV returns in the graph below. 2016 and 2017 were strong years for MIGO, with good underlying NAV performance complemented by discounts narrowing. This meant MIGO outperformed very strongly in 2017. The period between 2018 and 2019 was marked by a narrow group of mega cap technology stocks leading the market, to which MIGO is not exposed. As such, performance was relatively dull by comparison. 2021 marked a very strong performance, driven by exposure to mining, Vietnam and UK Microcap investment trusts – and NAV returns were well in excess of world markets, but particularly strongly relative to the Flexible Investment

Fig.4: Calendar Year NAV Returns



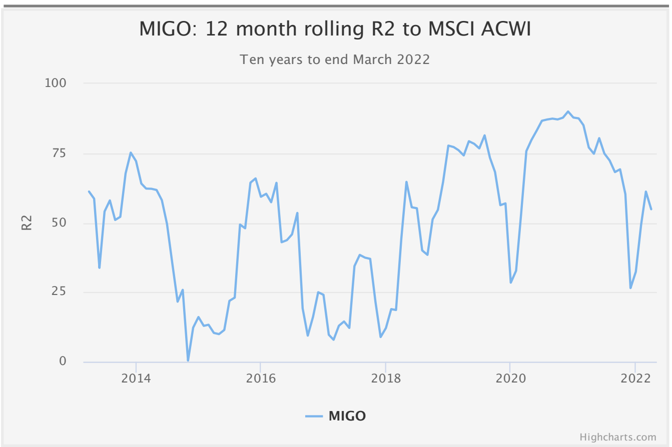
Source: Morningstar

Past performance is not a reliable indicator of future results.

trust sector. Nick has observed that MIGO's NAV trajectory can sometimes be relatively dull, with contrarian investments taking some time to come back into investors' minds, but performance can then sometimes be explosive as these under owned contrarian positions come back into fashion.

With a wide range of underlying assets, not to mention discounts to NAV moving, it is perhaps not surprising that MIGO's R^2, which measures the percentage of returns explainable by an index (in this case, the MSCI ACWI), varies over time. The graph below shows the rolling 12-month R^2 of MIGO's monthly NAV returns to the MSCI ACWI, showing that at times the R2 is very low, which means the trust is delivering strong diversification properties to world equities. However, at others, it has a high R2 meaning that investors need to be aware that MIGO diversifying properties are not constant. The managers observe that their correlation tends to increase during periods of big market moves, and the NAV seems to be moving in lock-step with equities. In their view, this correlation with equities will only be fleeting, and longer-term correlation will be lower.

Fig.5: Rolling NAV R2



Source: Morningstar

Dividend

MIGO does not pay a dividend, given it seeks to generate capital growth and does not target dividends. The board does not expect to pay a dividend in the future, unless the need arises in order to maintain investment trust status. Whilst dividends are generated from the portfolio, MIGO's investment management fee and other expenses are charged against the income account (with any shortfall paid out of capital).

Management

MIGO is managed by Nick Greenwood and Charlotte Cuthbertson. Nick has over 40 years' experience in the investment trust sector and was a founder member of the Christows stockbroking operation in 1991. He joined iimia in 2002, which subsequently became Miton following the merger with Exeter Fund Managers in November 2007. He has managed Miton Global Opportunities for 17 years and also runs the OEIC equivalent – Premier Miton Worldwide Opportunities. Charlotte Cuthbertson works as the co-manager on the trust and OEIC, having joined Miton in 2015 and worked with Nick since 2017.

Discount

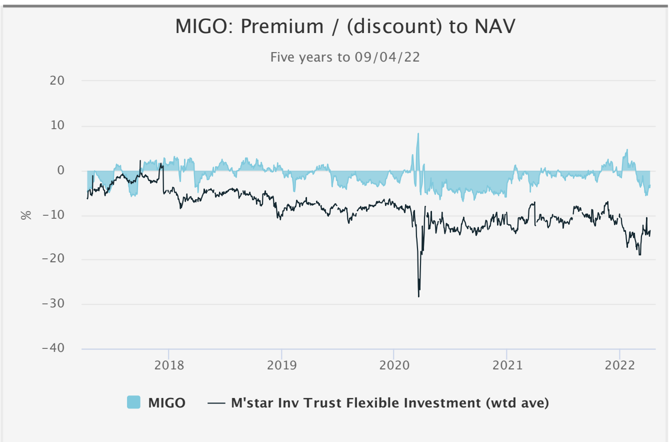
As the graph below shows, MIGO's share price has relatively closely tracked the NAV. Indeed, it is the board's policy to be "proactive in managing" the share price premium or discount. As a backstop, MIGO offers a realisation option to shareholders every three years, with the next opportunity arising in 2024.

The board and managers are in regular contact so as to be able to react swiftly to any selling or buying pressure. A recent example is a large institutional seller who was selling all of their investment trust holdings (as we note in the **Portfolio section**, the managers took advantage of this same activity, adding to Baker Steel Resources, Hansa and Biotech Growth significant discounts than these trusts have been trading). We understand around two-thirds of MIGO shares were placed with other shareholders, and one-third was bought back at a discount of around 6% to NAV, which is accretive to shareholders.

When the shares trade at a premium to NAV, the board is able to issue shares. This activity creates value for existing shareholders and any share issuance also improves the liquidity of the company's shares, and spreads the operating costs of running the trust over a larger capital base, reducing the ongoing charges ratio. MIGO presently trades on a discount of c. 3% (as at 08/04/2022), which compares with the average discount of c. 1.3% over the last five years.

Whilst the headline discount is at a narrower level than that of the wider peer group, the underlying holdings in the portfolio trade at a significant discount to their NAV. The team use the average discount of the top 12 holdings as an indicator of discount levels. When we met up with Nick recently, he commented that with the average discount approaching c. 25%, discounts have rarely been wider.

Fig.6: Discount/Premium



Source: Morningstar

Charges

MIGO's managers charge a fee of 0.65%, based on the market capitalisation of the company. This aligns them with shareholders in that if the shares trade at a discount to NAV, they receive a lower fee than one based on NAV. MIGO currently has an OCF of 1.3%, which compares to the AIC Flexible Investment sector's simple average of 1.02% (Source: JPMorgan Cazenove).

MIGO is a specialist strategy, with many unique qualities which makes relative comparisons with peers in the flexible sector hard. In absolute terms, the fee is relatively high, but with net assets of £97m at the time of writing, is not out of line with similarly sized trusts. Should the trust succeed in growing, then there is clear potential for the OCF to fall significantly.

The Key Information Document Reduction in Yield (KID RIY) figure as at 31/08/2021 is 3.69%, which compares with the simple average for the sector of 2.26%. Given MIGO invests entirely through other closed end funds, many of which are in alternative asset sectors, the RIY figure reflects all of the underlying fees, interest costs and charges. Clearly this is relatively high and a function of the investment philosophy, but we observe that with an average discount to NAV of the top 12 holdings of greater than 20%, any material discount narrowing in any financial year would offset these costs by quite a margin.

ESG

MIGO's managers do not consciously target ESG outcomes in their investment process. However, they do look to engage with the boards of constituent holdings on an ongoing basis to try to ensure good governance practices are being upheld. MIGO aims to encourage adherence within its holdings to best-practice standards with regards to corporate governance, and to conduct itself (as a trust) responsibly and ethically. Engagement with investee boards is often undertaken with a view to helping realise value or to address potential issues with the trust's governance.

More generally, however, the nature of the trust is such that neither the board nor the managers deem it to be in the interests of MIGO shareholders to constrain the range of assets that can be held within the trust.

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