Miton Global Opportunities

MIGO's managers report that market conditions continue to offer them attractive discount opportunities...

Update
10 August 2021

Summary

Miton Global Opportunities (MIGO) offers exposure to a diversified pool of closed-ended investment companies. These often operate in highly specialised areas and are trading on substantial discounts to their intrinsic value, which MIGO's managers believe there is a catalyst to close. Formally aiming to beat cash (three-month SONIA plus 2%), the trust is relatively unconstrained in asset allocation.

With MIGO having generated the strongest NAV total returns in the AIC Flexible Investment sector over the 12 months to 12/07/2021, the rotation in market leadership seen in 2020 seems to have benefitted the contrarian stance MIGO's managers typically adopt. As we discuss under **Performance**, periods of rotation of equity market leadership have tended to coincide with stronger absolute returns for MIGO.

MIGO's managers adopt an approach to investment where the output leads them to contrarian positions, seeking out unappreciated assets with strong intrinsic value unrecognised by the wider market. This approach also incorporates broader thematic considerations around industry trends, looking to identify where this may create valuation opportunities (as discussed under **Portfolio**).

As we discuss under **Performance**, returns have in recent years been strong, yet have also typically displayed relatively low correlation to wider equity markets. MIGO's shares trade on a discount to NAV of c. 1.1% (as at 12/07/2021), but this does not include any discount on the underlying holdings.

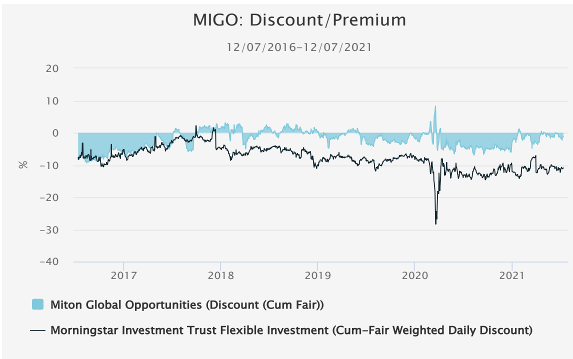
Having enjoyed gains from long-standing positions in UK small- and micro-cap equities as market sentiment has improved, MIGO's managers have reduced exposure to this area as discounts have narrowed. This has reduced the effective **gearing** rate.

Analysts:

Callum Stokeld
+ 44 (0) 203 795 9719

Key Information:

Price (p)	362.5
Discount (%)	-1.2
OCF (%)	1.34
Gearing (%)	-10
Yield (%)	0.0
Ticker	MIGO
Market cap (£)	97,439,946



Kepler View

The world is an endlessly complex and evolving landscape, but buying £1 for 80p seems likely to us to be an approach with a basic rationale likely to appeal to many investors, whatever the environment. That said, a more volatile environment seems quite likely to continue in the near term, given the disparate and changing market views on the likely structure of inflation dynamics going forward. Such a volatile market, with rotation between stylistic leadership, should play into the hands of contrarian managers such as those in charge of MIGO. This is borne out by historical returns, as we discuss in the **Performance section**.

Furthermore, increased investor crowding via tacit or explicit indexing strategies should, in our view, offer closed-ended capital structures such as MIGO attractive entry points into structurally necessary businesses. A fixed capital base enables MIGO's managers to look through short-termism for attractive total return opportunities. We suspect the low demonstrated correlation to both broader equity markets and a 60/40 equity/bond portfolio is a reflection of this contrarian approach and a reminder that diversification is not about the number of holdings, but about holding different assets which perform well in different environments.

BULL

- Returns have been lowly correlated to wider equity markets in ordinary market conditions
- Any rise in inflationary pressures could prove a tailwind
- Exposure to an array of otherwise hard-to-access, relatively illiquid opportunities

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
- Will not suit investors who want to control their asset allocation

Portfolio

Miton Global Opportunities (MIGO) is a trust of trusts specialising in deep value opportunities and special situations. The management team of Nick Greenwood and Charlotte Cuthbertson seek to identify pricing inefficiencies within the investment trust market, as well as thematic drivers for discount convergence to the share price. In practice, this often means buying trusts on deep discounts where there is a catalyst for a significant narrowing of the discount and/or a cyclical or structural change in operating environment.

With MIGO having a closed-ended capital structure, the managers are better able to take high-conviction positions in what are often relatively illiquid underlying holdings. They note that this often affords them the ability to build contrarian positions in unfavoured assets where improvements in sentiment offer potential asymmetric upside benefits. Nick and Charlotte note that their search for discounted opportunities has a somewhat inherently contrarian nature to it, and we note that environments with stylistic rotations (and implied adjustments to market-level outlook) have tended to prove beneficial to MIGO's return profile (see **Performance**).

Whilst MIGO typically holds a tail of smaller positions, the managers seek to express conviction in their holdings, and currently (as at 30/06/2021) hold c. 48.2% of the total portfolio in the top ten holdings. The 'tail' of smaller positions will include positions which are in the latter stages of wind-up, or exploratory positions which Nick and Charlotte will initiate as they build conviction. In other instances, smaller positions may be reflective of the limited liquidity in the underlying holding and/or the significant volatility likely to be incurred. For example, this can be seen in the exposure to the trust Geiger Counter (GCL), a dedicated uranium mining and nuclear energy trust with limited free float but which has demonstrated high upside convexity to even mildly positive news flow around the extension or expansion of nuclear energy capacity.

Top Ten Holdings

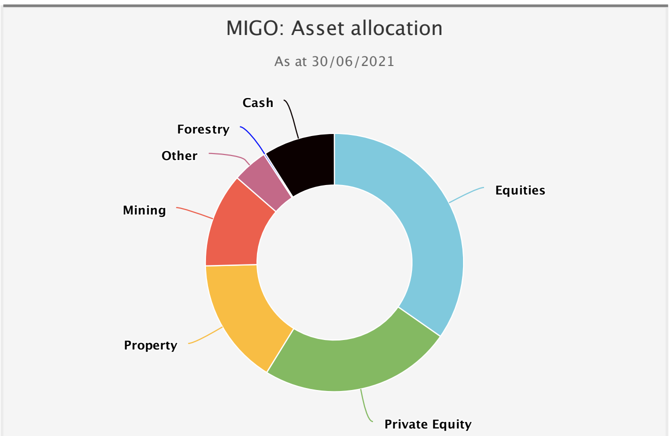
HOLDING	%
Baker Steel Resources Trust	7.0
EPE Special Opportunities Ltd	6.3
VinaCapital Vietnam Opportunity Fund	5.5
Alpha Real Trust	5.0
Dunedin Enterprise Investment Trust	5.0
Phoenix Spree Deutschland Ltd	4.4
Third Point Investors Ltd	4.2
Oakley Capital Investments Ltd	3.8
India Capital Growth Fund	3.6
New Star Investment Trust	3.4
TOTAL	**48.2**

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

The managers primarily introduce opportunities they have identified as attractive through bottom-up analysis, but will incorporate thematic ideas throughout the portfolio too. These presently include allocations to specific opportunities based on what they view as attractive asset classes, but also themes relating to industry construction within the broader investment trust universe. This has for instance included a broad exposure to UK small and micro caps across several trusts, with Nick and Charlotte observing that industry consolidation within the wealth management sector has combined with generally poor sentiment towards the UK market to create significant discount opportunities in trusts focussed on small- and micro-cap UK stocks.

With a more consolidated wealth management industry less able or willing to take on liquidity risk in smaller trusts, key investors have fallen away from many of these trusts, which MIGO's managers nonetheless observe retain significant NAV potential (as demonstrated in many instances in recent months). However, the managers noted that the depth of the value opportunity meant that they anticipated alternative investors turning to these opportunities and the UK small- and micro-cap market, even if wealth managers continued to eschew it. This has indeed been seen through a significant acceleration in acquisition activity in the UK in recent months, including significant private equity flows. Having enjoyed significant returns in many of their UK holdings as a result, we understand that Nick and Charlotte have been gently trimming some of these positions, such as in **Henderson Opportunities Trust (HOT)**, where they reduced their position as the discount significantly narrowed to close to par. However, they note that there remains significant value in the UK market and retain exposure for the long term.

Fig.1: Asset Allocation Breakdown



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

In our view, the closed-ended nature of MIGO typically affords Nick and Charlotte a great degree of flexibility in awaiting the materialisation of value recognition in investments. It also allows them to take substantive positions in companies in wind-up, such as their significant holding in **Dunedin Enterprise (DNE)**. With DNE looking to divest itself of its underlying assets, MIGO's managers note patience is required to realise their investment. However, they anticipate gradually winding down this position as capital is returned over the coming couple of years prior to a complete exit, and anticipate achieving attractive rates of return on this exit. In expectation of the latter, they note the generally strong operational performance of the underlying businesses (though the disappointing returns from a holding in an accountancy business have proved a headwind to value realisation).

MIGO continues to be weighted according to a balanced qualitative perception of return potential and likely risk and variability in the potential returns. For instance, whilst Geiger Counter is likely to offer superior upside in a uranium bull market, Nick and Charlotte have tended to prefer to build exposure to specialist uranium company Yellow Cake. With Yellow Cake the same fundamental drivers remain, but liquidity is superior and potential downside is expected to be more limited (Yellow Cake being a corporate holder of physical uranium, whereas Geiger Counter invests in uranium mining companies).

Exposure to uranium and nuclear has been a long-standing position within MIGO, enhancing the trust's ESG credentials in our view. The closed-ended nature of MIGO has allowed Nick and Charlotte to build exposure to a niche area of the market where structural imbalances have gradually been building between supply and demand, into what they view as undervalued assets with high and asymmetric upside potential in even mildly positive industry outcomes.

With the ability and inclination to look into areas with long-term potential which other investors eschew, Nick and Charlotte remain interested in areas such as listed private equity, noting that nominally high OCFs have deterred many investors who fail to account for net returns. Structurally, they note that they believe the environment remains favourable to them as regards identifying such opportunities, as the consolidation of many wealth management businesses has removed many value-discerning investors from the market and replaced them with OCF-sensitive allocators.

We would anticipate rising inflationary expectations to typically represent a tailwind to strategies such as MIGO which have a focus on inherent and more immediate sources of value. Whilst such a top-down structural environment would in our view be likely to prove beneficial to MIGO, Nick and Charlotte seek to identify idiosyncratic sources of value realisation. Whilst the recent decision from Germany's highest court about striking down rent controls in Berlin arguably represents a removal of an inflationary price pressure inhibitor, such an outcome was long anticipated as a matter of law (not economics) by MIGO's managers as part of their investment thesis for their holding in Phoenix Spree Deutschland (PSDL). The court's ruling has proven to be a tailwind to PSDL's share price, though Nick and Charlotte remain engaged with PSDL's board in the interests of utilising the excess cash flow generation resulting from the ruling to fund increased buyback activity.

Whilst such bottom-up opportunities remain MIGO's 'bread and butter', Nick and Charlotte continue to anticipate a sustained higher inflationary environment (as we have **previously discussed**). Noting the increased propensity of governments to resort to fiscal injections, they anticipate inflation to be sustained at a higher structural rate while companies are increasingly compelled to pursue capital expenditure to offset wage inflation as labour supply becomes marginally more constrained.

Gearing

MIGO reported gearing of c. 2.8% in place (as at 31/05/2021). However, against this must be set a cash position, which at 31/05/2021 was c. 9.8%.

The present position of holding significant cash is partially a reflection of current market opportunities, but more generally reflective of a desire to run the portfolio in an efficient manner and realise capital from successful positions as they approach NAV par.

Gearing is applied tactically, and short-term borrowing facilities of up to £9m are available on a revolving credit facility until 31/01/2022. This facility equates to c. 9.1% of current net assets (as at 30/06/2021). Any credit drawn upon bears interest of 1.1% above LIBOR, whilst any undrawn balance bears interest of 0.55% over LIBOR. The loan agreement includes the covenant that net borrowings should not exceed 25% of the adjusted net asset value at any one time.

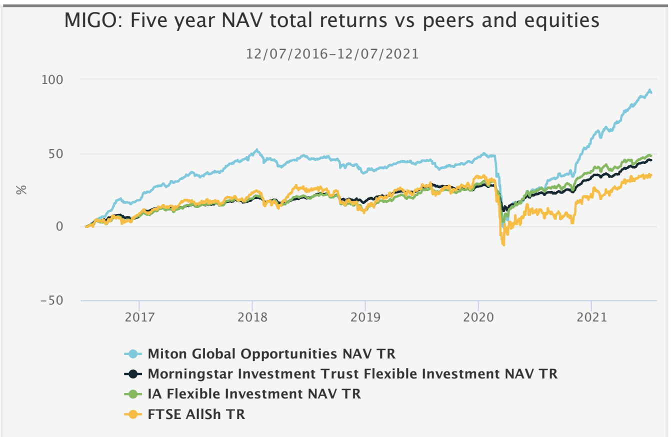
Gearing has been selectively deployed in recent years, but consistent returns of capital from underlying positions through dividends or the distribution of wind-up proceedings have meant that MIGO has often had small net cash balances.

Performance

MIGO has generated NAV and share price returns of c. 91% and c. 106.9% respectively over the five years to 12/07/2021.

MIGO is run very much with an eye on absolute levels of return, as opposed to targeting relative returns. Accordingly, the trust is benchmarked against cash plus (a three-month SONIA plus 2% lending rate), and aims to have idiosyncratic and diverse drivers of returns. The wide disparity of investment aims and policies amongst the eclectic group of strategies that comprise the peer group (the Morningstar Flexible Investment sector) also renders the peer group a poor comparator, in our opinion. That said, MIGO's NAV and share price returns compare favourably to the peer group average, which has seen NAV and share price returns of c. 45.2% and c. 56.1% respectively over the past five years. MIGO also compares very favourably to the broader UK equity market, where the FTSE All-Share (as represented by the SPDR FTSE All-Share ETF) has returned c. 35.1% over the same period.

Fig.2: Five-Year Returns Versus Index And Peers



Source: Morningstar

Past performance is not a reliable guide of future returns

The inherently contrarian standpoint adopted by the managers when hunting for discount opportunities means they often run against general market trends, and periods of rotation might be expected to offer greater opportunity. Whilst MIGO is not a solely or even necessarily majority equity-focussed trust, we can see some evidence of an equity focus when we look at MIGO's NAV returns in periods where market leadership has switched between value and growth.

In the table below can be seen MIGO's NAV returns when the rolling 12-month performance of the MSCI ACWI Growth and Value indices relative to one another has stayed the same month to month (i.e. when growth outperformed over the previous year on consecutive months, or value did). Also shown is when leadership has changed (i.e. when growth outperformed over the previous year in the first month, but value outperformed over the previous year the next month, or vice versa).

MIGO's NAV returns have tended to be stronger in periods where leadership has rotated (this is true of the FTSE All-Share Index too, but to a lesser degree of disparity). More generally, periods of value outperformance have perhaps unsurprisingly proven a tailwind to MIGO. This has seemingly been because value has generally been unfavoured by the market over this period, creating more opportunities for this investment approach.

Average 12-Month Nav Returns In Periods Where Style Outperformance Is Trending Versus Rotating

AVERAGE NAV RETURNS	MIGO	FTSE ALL-SHARE
Style trending	8.7	6.1
Style rotating	19.7	15.2
Excess when style leadership rotating	**11.0**	**9.2**
Growth trending	4.5	2.6
Value trending	19.9	16.2
Growth rotating to value	21.4	15
Value rotating to growth	17.6	14.7

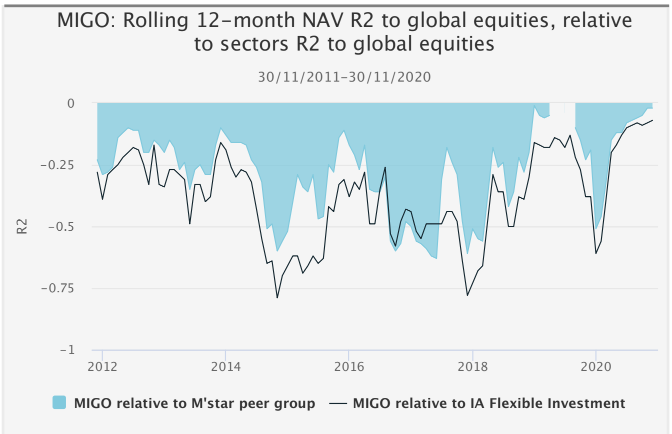
Source: Morningstar, Kepler calculation. 01/07/2012 - 30/06/2021

Past performance is not a reliable guide to future returns

The sharp rotational activity within financial markets has therefore perhaps been beneficial to recent returns. MIGO has generated the strongest NAV total returns within its sector over the 12 months to 12/07/2021, with NAV and share price returns of c. 52.5% and 57.4% respectively. Over the same period, the FTSE All-Share gained 24.2%, whilst the Morningstar Flexible Investment peer group saw NAV gains of c. 18.9% and share price gains of c. 31.3%. We note that narrowing discounts and rebounding NAVs in several equity trust holdings have helped returns in recent months, with UK equity holdings proving beneficial to returns (as has the judicious lightening of exposure to UK equity trusts as they neared par to NAV).

Whilst MIGO has exposure to equity markets, the managers are also keen to ensure the trust offers diversification benefits to investors and a less correlated returns stream.

Fig.3: Rolling 12-Month Nav R^2 To Global Equities, Relative To Peer Group Average R^2 To Global Equities



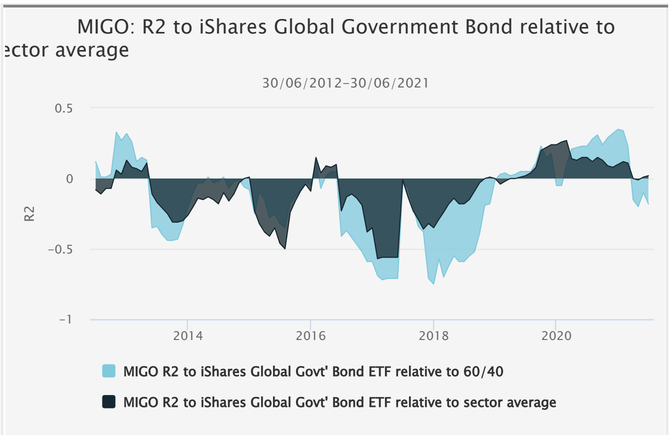
Source: Morningstar

Past performance is not a reliable guide of future returns

Over the longer term MIGO has consistently displayed a lower correlation to the broader global equity universe than its peer group, as we can see in the graph below. This shows the rolling 12-month R^2 of MIGO's monthly NAV returns to the MSCI ACWI, relative to the R^2 of the peer group weighted average to the MSCI ACWI. When the orange line is below zero, MIGO has displayed lower correlation than the sector.

Over this period MIGO has also typically displayed a lower R^2 to a global government bond ETF than the sector or a typical 60/40 portfolio.

Fig.4: Rolling 12-Month Nav R^2 To Ishares Globalgovernment Bond ETF, Relative To Peer Group Average And 60/40 Portfolio; R^2 Toishares Global Government Bond ETF

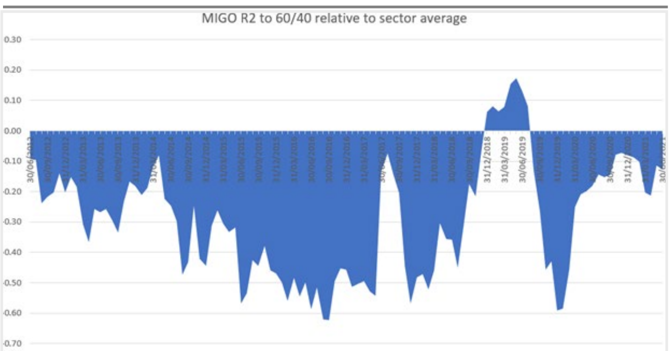


Source: Morningstar, Kepler calculations

Past performance is not a reliable guide of future returns

Furthermore, MIGO has consistently displayed a more differentiated return profile than the wider sector to a standard 60/40 investment model over the last nine years, as we can see below (where a negative reading indicates that MIGO displayed a lower R^2 than the peer group average to the BlackRock 60/40 fund over the 12 months prior).

Fig.5: Rolling R2 To Blackrock 60/40 Relative To Peers

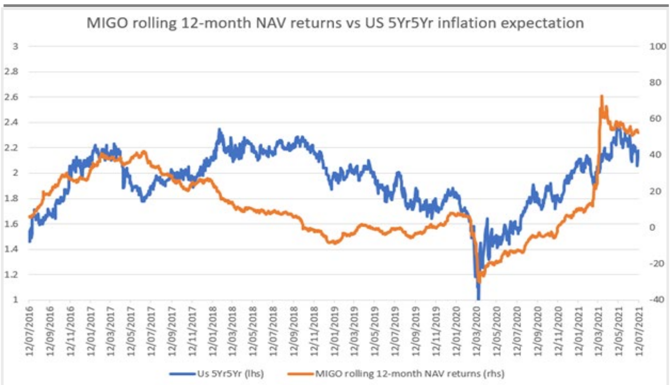


Source: Morningstar, Kepler calculations

Past performance is not a reliable guide of future returns

Whilst many of MIGO's sources of value realisation have proven to be relatively idiosyncratic, at a portfolio level rising inflation expectations (and thus positive reappraisals of more current value) have tended to remain a tailwind to absolute NAV returns. Whilst it is notable that MIGO has generated positive absolute returns in periods where inflation expectations have been falling, we think there is a logical rationale to expect higher inflation rates to help drive stronger absolute levels of NAV returns for MIGO. In fact, as we discuss under **Portfolio**, this correlates with the managers' investment thesis: Nick and Charlotte's base case macroeconomic assumption is ultimately for higher inflation rates to materialise as a result of the extraordinary fiscal and monetary stimulus currently being applied by governments and central banks across the world.

Fig.6: Rolling 12-Month Nav Returns Versus 12-Month Change In Us 5Yr5yr Inflation Expectations



Source: Morningstar, St. Louis Federal Reserve

Past performance is not a reliable guide of future returns

Dividend

MIGO seeks to generate capital growth and does not target dividends. The trust has not paid a dividend in the past 12 months, or indeed in recent years. Whilst dividend streams are generated from the portfolio, the trust is targeting capital growth and the investment management fee is charged directly against the income account (with any shortfall paid out of capital). In the past three reporting years (to 30/04/2020), dividends generated have been sufficient to cover all management costs. Other expenses are also deducted from the income account. Any excess has been used to reduce the deficit in revenue reserves. In the most recently reported financial year (ending 30/04/2020), net income per share was 1.5p per share, whilst revenue reserves were c. 1.3p per share in deficit.

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 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 assistant manager on the trust and OEIC, having joined Miton in 2015 and worked with Nick since 2017. Further idea generation is often stimulated by conversations the team have with Premier Miton colleagues and external brokers.

Discount

MIGO presently trades on a discount of c. 1.1% (as at 12/07/2021). This is slightly narrower than what has typically been observed in recent years, with MIGO displaying a median discount level of c. 1.9% 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. Even after having marked down the NAV of several of the holdings to reflect ongoing trading and operational conditions, the managers estimated that the top 12 holdings were trading at a significant weighted average discount to the underlying NAV.

MIGO's board has been active in discount control in recent years, although it has yet to undertake either issuance or buybacks in the current financial year (starting 01/05/2021). Along with greater retail holdings in MIGO, this seems to have improved liquidity in MIGO shares and contributed to a significant narrowing in MIGO's discount in recent years. We believe the board will remain keen to issue further stock to build greater scale within MIGO should the trust trade at a premium, but the board has remained active in buying back shares when MIGO's discount has widened.

This could be seen in FY 2020, when the board repurchased for cancellation a net total of c. 975,000 shares. However, shares were also issued when MIGO traded at a premium in April 2020, and the total breakdown of activity can be seen in the table below.

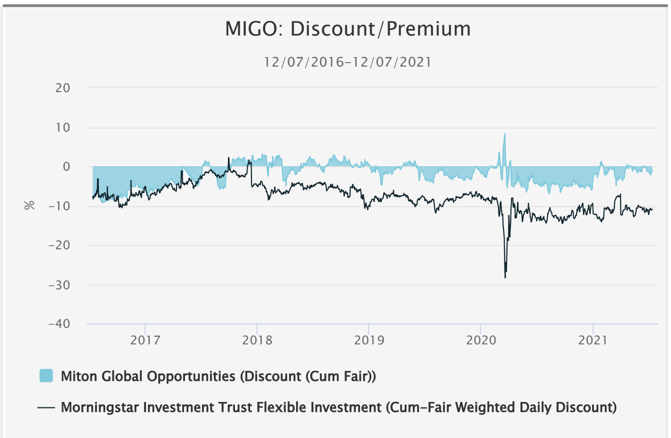
MIGO offers a realisation option to shareholders every three years, with the next opportunity arising later in 2021. Together with increased retail ownership, we would suggest these factors appear to have helped to narrow the discount, which has consistently traded within a narrower range in recent years than was previously the case.

New Issuance And Buybacks In The Previous Financial Year (2020)

ACTIVITY	TOTAL SHARES DEALT	TOTAL CONSIDERATION PAID (-)/ RECIEVED (+)	WEIGHTED AVERAGE PREMIUM/ DISCOUNT
New issuance	+150k	c. +£306.8k	1.0%
Buybacks	-1,125k	c. £-2.9m	-4.2%
Net effect	-925k	c. -£2.6m	

Source: London Stock Exchange

Fig.7: Discount/Premium



Source: Morningstar

Charges

MIGO currently has an OCF of 1.3%, which compares to the AIC Flexible Investment sector's unweighted average of 1.16%. The management fee is charged at 0.65%, based on the market capitalisation. Management fees are taken from income, and this was more than covered over the previous financial year by existing income streams. The Key Information Document Reduction in Yield (KID RIY) figure is 1.54%, which compares favourably with a sector unweighted average of 2.62%, although we caution that calculation methodologies can vary.

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. Engagement with boards is often undertaken with a view to helping realise value or to address potential issues with the trust's governance, with recent conversations with the board of Phoenix Spree Deutschland having encouraging results in helping improve liquidity and reduce the discount in the company's shares.

Through its management company, 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. This has included a move to giving all shareholders the option of receiving all communications electronically to reduce the carbon footprint.

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. We note that MIGO does not currently have a Morningstar Sustainalytics score; this is likely, in our view, because many of the underlying holdings will not themselves have been assigned a score. Even if investors judge there is nothing within MIGO that they would currently be concerned about from an ESG perspective, they should note that this is a snapshot overview and may not apply in the future.

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