J.P.Morgan CAZENOVE

Investment Companies Daily

RCP/BRWM Final results, BSIF Interim results

- **Bluefield Solar Income Fund (BSIF) – Interim results** – The NAV per share at 31/12/17 was 112.4pps, which is 2.7% ahead of our own estimate at the same date and represents an NAV TR of 4.4% for the six months to 31/12/17. The main drivers of the NAV movement over the period were an 8% reduction to long term power price assumptions, a negative contribution from several plants passing final acceptance testing which led to an update to their performance ratios (PRs), offset by a 0.25% pts reduction in the WACC discount rate from 6.15% to 5.90% and recognition of additional tax shielding from internal debt, in accordance with the BEPS legislation. The portfolio outperformed operational expectations by 2.7% on a performance ratio basis although energy generation was 1.8% below budget, driven by irradiation 4.4% below expectations. Generally there were few outages or issues in the portfolio. £0.3m (1.4% of revenue in the period) was received in liquidated damages payments to cover underperformance, revenue losses and the rectification of minor equipment defects. At 31/12/17 BSIF had a portfolio of 83 operational solar PV plants. The total net energy generating capacity of the portfolio is 446.5MWp. The portfolio is entirely UK based.

- BSIF's earnings per share were 4.24pps, overall in line with the investment adviser's expectations. As the company has previously said, if the combination of higher RPI inflation and low electricity prices continues, this will put pressure on earnings. BSIF has also begun a strategy of paying back higher amounts of its amortising debt (1.97pps in the six months reported). BSIF states it expects to meet its full year target dividend of 7.43pps, reflecting the annualised RPI increase of 3.5% as at July 2017, from earnings and undistributed reserves. Undistributed reserves at 31/12/17 were 0.47pps. Based on the current share price a full year dividend distribution of 7.43pps for 2017/18 would reflect a dividend yield of 6.5%. BSIF had overall leverage of 32% of GAV at 31/12/17. BSIF has annualised ongoing charges of 1.10%.

- The main NAV sensitivities (expressed as a % of NAV change) are as follows: WACC ±0.5% pts (5.9% base) -5.7%/+5.4%; Energy Yield (10 year P90/P10 from P50) -11.0%/+10.9%; Long-term inflation ±0.25% pts (base 2.75% p.a.) -2.9%/+3.0%; Power prices ±10% move in curve -6.7%/+6.6%; Operational costs ±10% -2.8%/+2.7%. Additionally BSIF state that if it were to implement the full 30% of EBITDA tax shield (as permitted under BEPS) vs their current 18.5%, this would add £11.4m to the portfolio valuation, though this would first require such debt to be put in place.

- **J.P. Morgan View**: Despite being in a 'steady state' there are still a lot of moving parts in this NAV. A further significant negative revision of power price forecasts is commensurate with what we have seen from other funds reporting recently and so is the fairly significant cut to the discount rate. It is interesting to see that BSIF has recognised an additional tax shield from intercompany debt, although has not been as aggressive as it could have been in its use of intercompany debt as it could take obtain tax relief up to a full 30% of EBITDA rather than the 18.5% in its figures if it introduced more such internal debt. BSIF

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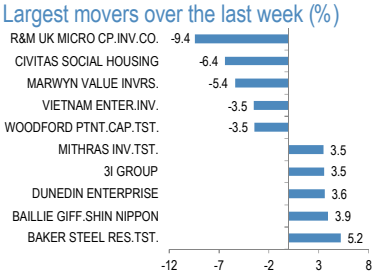
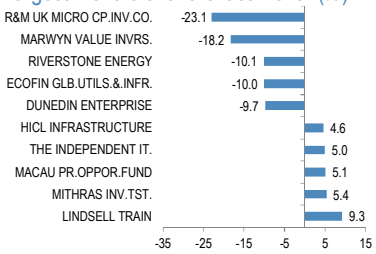
Largest movers over the last week (%)



Source Thomson Reuters Datastream

Largest movers over the last month (%)



Source: Thomson Reuters Datastream

See page 18 for analyst certification and important disclosures, including non-US analyst disclosures.

is now the only company in its peer group with a focus exclusively on UK solar assets which helps differentiate it and the dividend policy is the other key differentiating feature in our view, with a full payout policy and a continued commitment to increase dividends in line with RPI. But there are clear risks to this, as set out in the Chairman's statement. Recently there has been a significant mismatch between RPI growth and long term power price movements. If this continues BSIF may need to use reserves to meet its FY17/18 full year dividend target and given the full payout policy, these reserves are very small. BSIF also has stepped up its repayment of its long term amortising debt putting further pressure on income. Some of BSIF's peers have moved to progressive, rather than RPI linked, dividend policies and in our view it is possible that BSIF may need to also do this if RPI and power price growth continue to diverge. After updating our NAV model to reconcile to the 31/12/17 figures, our live NAV (which to be clear is ex the 1.8pps dividend declared in January 2018) increases from 108.5pps to 111.6pps. Reflecting principally the lower WACC discount rate our steady state return estimate falls from 5.9% to 5.6%. We remain **Neutral**.

- **RIT Capital Partners (RCP) – Finals** - RCP has today announced its finals for the year to 31/12/17. The NAV at 31/12/17 was 1839pps (£2,858m), giving an NAV TR for the year of 8.2% and a TSR of 5.8% vs the MSCI ACWI (50% £/50% $), up 16.5% and RPI +3% of 7.1%. The NAV was in line with that reported earlier on 31/1/18. That this was behind the MSCI is no great surprise given the team's cautious view manifesting itself in an average net quoted equity exposure of 44%. In terms of the key drivers of performance, the long only and equity hedge funds had a good year, performing broadly in line with markets despite the hedge funds having around 60% market exposure. The in-house portfolio also performance strongly, while there were good uplifts from the direct private investments. Absolute return, which includes credit, provided stable returns. The main negative was currency, with the sterling increase of 10% vs the dollar taking its toll, although this was mitigated by the managers having reduced the previous high dollar exposure. Over the five years to 26/02/18 it has outperformed its AIC peers by around 13.0% and delivered an NAV alpha of 4.4% pa due to a lower beta of 0.4 and a standard deviation of 8.7%, which is lower than the 9.9% from the MSCI ACWI.

- The quoted equity portfolio, 55.6% of NAV at 31/12/17, is split 31% into Hedge Funds, 28% into direct stocks and 41% into long only funds. Over the year it contributed 9.1%. Within this portfolio the managers increased their exposure to EMs, focussed towards Asia, adding four new managers, including India and China specialists. The overall allocation to the US was reduced with the remaining US assets focused on sectors that will benefit from a late cycle environment and rising rates, such as financials. The team remains overweight Europe and Japan. The Private Investments portfolio was 22% of NAV at 31/12/17, with funds comprising 13% (mostly valued at 30/9/17) and directs at 9%. The portfolio contributed 2.6%. The directs benefitted from a number of positive revaluations, including Acorn (coffee business) and CSL (alarm signalling). Exits included Rockefeller, the US asset manager, and GVQ, the UK small cap manager, both at uplifts to carrying value. Towards the end of the year, EDRRIT was sold for 2x money and an IRR of 18%. Helios Towers and Dropbox are expected to IPO this year. The fund performance was 'more modest'.

- Absolute Return and Credit represented 25% of NAV at 31/12/17 and contributed 1.6%. Included within this category are distressed credit, relative

value credit, multi-strategy funds, macro, and credit co-investments. Real Assets represented 3.5% of NAV at 31/12/17, but economic exposure was 12% includes derivatives, of which 9% was gold, which was increased on a timely basis towards the end of last year. This contributed 0.9% to returns. The investment properties were revalued in line with the prior year. Many of the assets are denominated in dollars, but during the year the managers increased their exposure to sterling from 24% to 47%, with the exposure to dollars falling from 62% to 30%. The Euro exposure rose from 4% to 12%. The RIT team remains relatively cautious and are happy with net quoted equity exposure in the 40%-50% range.

- RCP paid two interim dividends of 16p each, a total payout of 32p. For 2018, RCP intends to pay a dividend of 33p, + 3.1% yoy increase. At the current price, the dividend yield is 1.7%. Accounting for cash and cash equivalents of £123m, gearing was 13.0% at the year end. During 2017, RCP utilised currency options to hedge against Sterling strengthening and also shorted a biotech index future to hedge part of the exposure to the sector. Similarly, RCP's negative stance on bonds was represented by a mixture of interest rate options and futures. The premium averaged 6.7% over the year, compared to 4.5% for 2016. Over the year no shares were issued or repurchased. The shares are currently trading at a estimated premium of 4.1% compared with the peer group weighted average discount of 7.3%. RCP is self-managed and directly incurred charges were 0.66% of average net assets during 2017. The managers estimate that additional annual management fees on their third party fund investments increase this by 1.23%, excluding performance fees, thus implying look through fees of 1.89% before performance fees. RIT itself has an annual incentive scheme and an LTIP for its own employees, who number 55.

- **J.P. Morgan View:** RIT remains the ultimate quoted family office in our view, and places huge importance on capital preservation which is why it has not kept pace with equity markets during the recent bull run. But since listing in 1988, it has participated in 75% of the market upside but only 39% of the downside and the NAV has compounded at 11.4% pa. The family connections means that RIT has access to managers and asset classes not available to many, although this does come at a cost, with look through management fees approaching 2% before performance fees. RIT remains fairy cautious in its outlook, and thus has no plans to increase equity exposure, although it can be nimble in the short term to take advantage of any market dislocation. The core model of a strong in house team, augmented by specialist asset managers elsewhere, is attractive in our view. There should be a little bit more upside to come from the revaluation of the PE funds (13% of NAV) and perhaps the IPOs of Helios and Dropbox. But on a premium of around 4%, we believe the shares are fairly priced and remain **Neutral**.

- **BlackRock World Mining Trust – Finals -** Over the year to 31/12/17, BRWM has delivered an NAV TR and TSR of 24% and 24.2% respectively. This compares to a TR of 20.8% from the Euromoney Global Mining Index. Over the past two years, BRWM has increased exposure to small and mid cap companies and exposure to cash-generative well-financed majors and companies involved in the extraction of the material required for battery manufacture aided performance. We show BRWM's NAV performance over the five years to 26/02/18. Over the time period, it has underperformed its benchmark and AIC peers by 10% and 1% respectively. Over the same time period, it has delivered an NAV alpha of -2.1% pa with a beta of 1.02.

- The main sector themes revolve around resource replenishment; deleveraging; value; capital discipline; asset quality and growth. Outside the main commodity themes, BRWM has built exposures to companies that supply raw materials into the rapidly growing battery market.. BRWM has exposure to lithium via Albemarle and Galaxy Resources. BRWM currently has one unquoted investment, the Avanco Royalty, representing 2.1% of the portfolio as at the year end. At 31/12/17, 7.5% of the portfolio was allocated towards fixed income securities which is a carry trade over the cost of gearing. At 31/01/18, the top ten holdings were 60% of the total, and the largest holding was Glencore (9.2%).

- Since making the first payment to Avanco in July 2014, BRWM has paid out a total of $12m and received royalty payments totalling $5.7m in the last two years. Exposure to the royalty combined with the holding of shares in Avanco was 3.4% at year end. During 2017, income generated from options was £6.1m net of contracts repurchased. Given the positive momentum of the sector, the majority of contracts written were put options that expired worthless. At year end, BRWM had 0.1% of NA exposed to derivatives. The Board has increased the frequency of dividend payments from twice to four times a year. They have has paid three quarterly dividends of 3.0p each and now recommended a final dividend of 6.6p, for a total payout of 15.0p, +20% yoy. Revenue return per share was 15.92p, +20.7% yoy. This implies dividend cover of 1.06x and at the current price, the dividend yield is 3.8%. BRMW does not have a formal DCM and over the year, no shares were brought back. At the current price, the shares are trading at a discount of around 11.7% which compares to the peer average of ~15.5%. At 31/12/17, BRWM had net borrowing and an overdraft amounting to £98.m, representing gearing of 12.2% of NA. BRMW has a management fee of 0.8% of NA, which are charged 75%/25% to capital/revenue. Ongoing charges for the year were 1.0% (2016: 1.1%). The managers expect commodity prices to remain at levels that allow producers to generate strong margins, even as costs are also expected to increase with an increasing inflation. Overall, the managers are excited about the potential for share price growth over the next year.

- **J.P. Morgan View**: Like 2016, 2017 was another stellar year for the mining sector and BRWM has capitalised on this trend and delivered a respectable NAV outperformance over the year under review. Managers Evy Hambro and Olivia Markham have always adopted a longer term investment approach and have consciously diversified the portfolio away from just commodity beta. These measures are reflected in the performance over the year, with the battery market suppliers contributing strongly to performance over the year. BRWM is, in our view, a high-quality and differentiated company that makes good use of the investment trust structure through its investment in unquoted securities. Although these have caused problems in the past, the Avanco royalty is a notable success and there is a 20% of portfolio cap on unquoteds overall, which we think is sensible. We think that the high FCF yields the managers forecast for the large diversified mining companies look attractive and believe that the sector could attract more generalist investment managers if the improvement in capital discipline continues. An improvement in capital discipline and supply discipline are both factors highlighted by our mining equity research colleagues in their 2018 outlook (available here). The managers believe the mining sector remains a significant underweight for most generalist investors and, from our perspective, we continue to see low allocations to the sector from a number of managers of conventional equity investment trusts. Besides this, BRWM has an above average dividend yield, lower than average costs and at a discount of 11.7%

continues to be attractively priced. We are **Overweight** and BRWM is also a part of our model portfolio.

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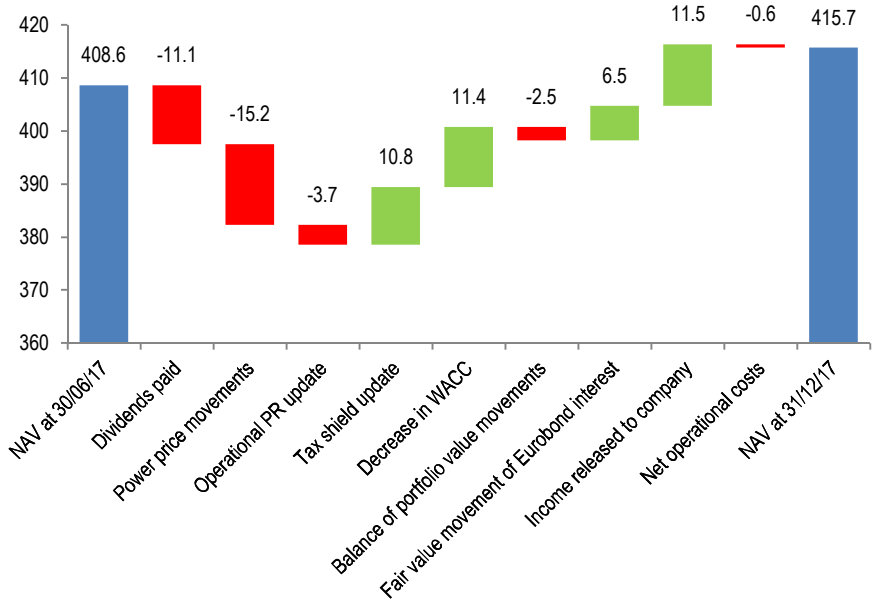
Renewable Energy Infrastructure

Bluefield Solar Income Fund (BSIF) – Interim results

BSIF has this morning announced its interim results for the six months to 31/12/17. The key points are as follows:

- **NAV and valuation movements**: BSIF's NAV per share at 31/12/17 was 112.4pps, which is 2.7% ahead of our own estimate at the same date and represents an NAV TR of 4.4% for the six months to 31/12/17. The main negatives over the period were an 8% reduction to long term power price assumptions, a negative contribution from several plants passing final acceptance testing which led to an update to their performance ratios (PRs), offset by the positives of a 0.25% pts reduction in the WACC discount rate from 6.15% to 5.90% and recognition of additional tax shielding from inter-company debt, permitted under the BEPS legislation. BSIF is valuing its assets on the basis of a 25 year operational life with zero value thereafter. The fall in discount rate is attributed by the investment adviser to the trend in market pricing for recent secondary transactions in the UK solar market. The tax shield recognised is in respect of a subset of the intercompany loans which results in an average EBITDA shield of 18.5% over the life of the portfolio assets, vs the 30% BEPS limit. Previously BSIF was only recognising the tax shield available from external third party debt. The long term power price assumption now assumes a 1.1% *real* increase p.a.

Figure 1: BSIF NAV valuation movements for six months to 31/12/17 (£m basis)



Source: BSIF December 2017 interim results presentation / J.P. Morgan

- **Operational performance**: The portfolio outperformed operational expectations by 2.7% on a performance ratio basis although energy generation was 1.8% below budget, driven by irradiation 4.4% below expectations. Generally there were few outages or issues in the portfolio. £0.3m (1.4% of revenue in the period)

was received in liquidated damages payments to cover underperformance, revenue losses and the rectification of minor equipment defects.

- **Acquisitions**: There was only one acquisition during the six months reported, a £6.3m investment in a 5 MW solar plant in Somerset.
- **Portfolio**: At 31/12/17 BSIF had a portfolio of 83 operational solar PV plants of which 42 are classified by the company as large scale, 40 as micro sites and 1 as a roof top site. The total net energy generating capacity of the portfolio is 446.5MWp. The portfolio is entirely UK-based.
- **Dividend**: BSIF's earnings per share were 4.24pps, overall in line with the investment adviser's expectations. For the next year ahead, 61% of revenues are from subsidies and 39% from PPAs. As the company has previously said, if the combination of higher RPI inflation and low electricity prices continues, this will put pressure on earnings. BSIF has also begun a strategy of paying back higher amounts of its amortising debts (1.97pps in the six months reported). BSIF states it expects to meet its full year target dividend of 7.43pps, reflecting the annualised RPI increase of 3.5% as at July 2017, from earnings and undistributed reserves. Undistributed reserves at 31/12/17 were 0.47pps. Based on the current share price a full year dividend distribution of 7.43pps for 2017/18 would reflect a dividend yield of 6.5%.
- **Gearing:** BSIF had overall leverage of 32% of GAV at 31/12/17.
- **Ongoing charges**: BSIF has annualised ongoing charges of 1.10%.
- **Sensitivities**: The main NAV sensitivities (expressed as a % of NAV change) are as follows: WACC ±0.5% pts (5.9% base assumption) -5.7%/+5.4%; Energy Yield (10 year P90/P10 from P50) -11.0%/+10.9%; Long-term inflation ±0.25% pts (base 2.75% p.a.) -2.9%/+3.0%; Power prices ±10% move in curve -6.7%/+6.6%; Operational costs ±10% -2.8%/+2.7%. Additionally BSIF states that if it was to implement the full 30% of EBITDA tax shield (as permitted under BEPS) vs their current 18.5%, this would add £11.4m to the portfolio valuation (to do so would require the SPVs to restructure their capital).
- **Manager's outlook**: The investment adviser emphasises BSIF is exclusively focused on UK solar plants, i.e. one jurisdiction and one technology. And with one exception, all debt is at the BSIF level. Generally market pricing has increased for UK solar assets and BSIF has not found many sufficiently attractive investment opportunities in the past two years. More generally the investment adviser believes that unsubsidised solar plants will become viable in the UK within as little as 12-36 months. This comes as a result of a combination of falling costs but also more opportunities for longer term (20 year+) PPA agreements and direct deals with major industrial energy users.

J.P. Morgan View

- Despite being in a 'steady state' there are still a lot of moving parts in this NAV. A further significant negative revision of power price forecasts is commensurate with what we have seen from other funds reporting recently and so is the fairly significant cut to the discount rate. It is interesting to see that BSIF has recognised an additional tax shield from intercompany debt, although has not been as aggressive as it could have been in its use of intercompany debt as it could take obtain tax relief up to a full 30% of EBITDA rather than the 18.5% in its figures if it introduced more such internal debt. BSIF is now the only company in its peer group with a focus exclusively on UK solar assets which helps differentiate it and the dividend policy is the other key differentiating feature in

our view, with a full payout policy and a continued commitment to increase dividends in line with RPI. But there are clear risks to this, as set out in the Chairman's statement. Recently there has been a significant mismatch between RPI growth and long term power price movements. If this continues BSIF may need to use reserves to meet its FY17/18 full year dividend target and given the full payout policy, these reserves are very small. BSIF also has stepped up its repayment of its long term amortising debt putting further pressure on income. Some of BSIF's peers have moved to progressive, rather than RPI linked, dividend policies and in our view it is possible that BSIF may need to also do this if RPI and power price growth continue to diverge. After updating our NAV model to reconcile to the 31/12/17 figures, our live NAV (which to be clear is ex the 1.8pps dividend declared in January 2018) increases from 108.5pps to 111.6pps. Reflecting principally the lower WACC discount rate our steady state return estimate falls from 5.9% to 5.6%. We remain **Neutral**. (price 114.0p @11:00)

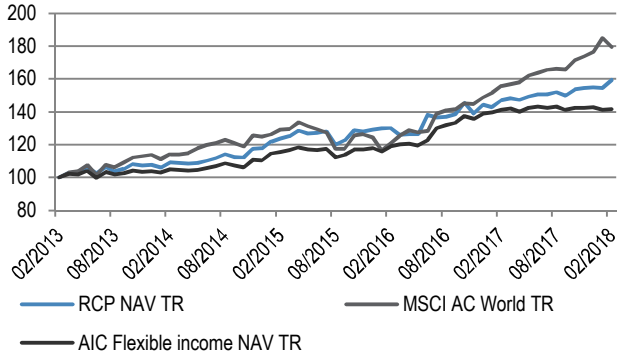
Flexible Investments

RIT Capital Partners – Finals

RIT Capital Partners (RCP) has recently announced its finals for the year to 31/12/17. The key points are as follows:

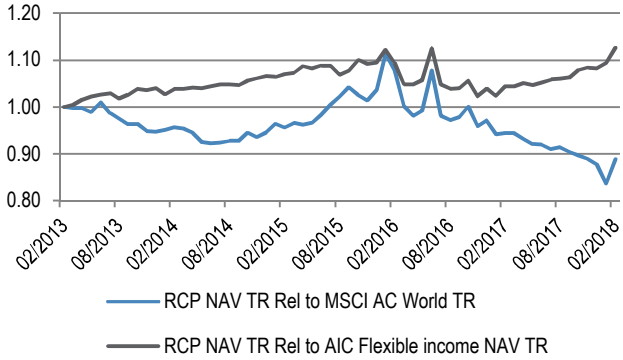
- **Performance:** The NAV at 31/12/17 was 1839pps (£2,858m), giving an NAV TR for the year of 8.2% and a TSR of 5.8% vs the MSCI ACWI (50% £/50% $), up 16.5% and RPI +3% of 7.1%. The NAV was in line with that reported earlier on 31/1/18. That this was behind the MSCI is no great surprise given the team's cautious view manifesting itself in an average net quoted equity exposure of 44%. In terms of the key drivers of performance, the long only and equity hedge funds had a good year, performing broadly in line with markets despite the hedge funds having around 60% market exposure. The in-house portfolio also performance strongly, while there were good uplifts from the direct private investments. Absolute return, which includes credit, provided stable returns. The main negative was currency, with the sterling increase of 10% vs the dollar taking its toll, although this was mitigated by the managers having reduced the previous high dollar exposure. We look at each category in more detail below.
- In Figure 2 and Figure 3, we show RCP's NAV performance over five years to 26/02/18. Over that time, it has outperformed its AIC peers by around 13.0% and delivered an NAV alpha of 4.4% pa due to a lower beta of 0.4 and a standard deviation of 8.7%, which is lower than the 9.9% from the MSCI ACWI.

Figure 2: RCP NAV TR over the five years to 26/02/18



Source: Datastream, JPMorgan

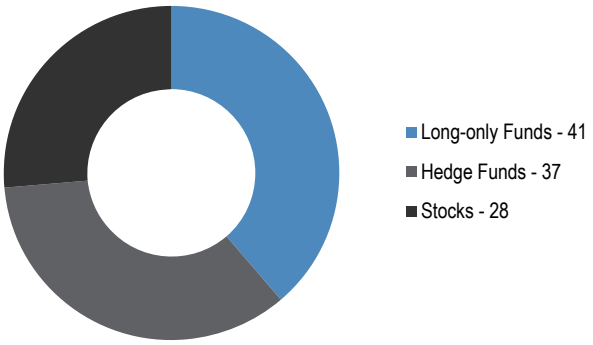
Figure 3: RCP NAV TR relative to its benchmark and AIC peers



Source: Datastream, JPMorgan

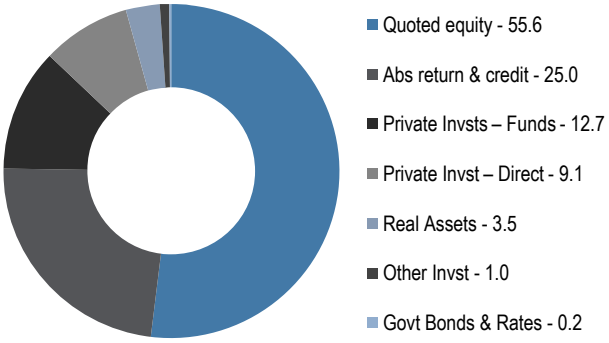
- **Portfolio and currency activity**: The quoted equity portfolio, 55.6% of NAV at 31/12/17, is split 31% into Hedge Funds, 28% into direct stocks and 41% into long only funds. Over the year it contributed 9.1%. Within this portfolio the managers increased their exposure to EMs, focussed towards Asia, adding four new managers, including India and China specialists. The overall allocation to the US was reduced with the remaining US assets focused on sectors that will benefit from a late cycle environment and rising rates, such as financials. The team remains overweight Europe and Japan.
- The Private Investments portfolio was 22% of NAV at 31/12/17, with funds comprising 13% (mostly valued at 30/9/17) and directs at 9%. The portfolio contributed 2.6%. The directs benefitted from a number of positive revaluations, including Acorn (coffee business) and CSL (alarm signalling). Exits included Rockefeller, the US asset manager, and GVQ, the UK small cap manager, both at uplifts to carrying value. Towards the end of the year, EDRRIT was sold for 2x money and an IRR of 18%. Helios Towers and Dropbox are expected to IPO this year. The fund performance was 'more modest'.
- Absolute Return and Credit represented 25% of NAV at 31/12/17 and contributed 1.6%. Included within this category are distressed credit, relative value credit, multi-strategy funds, macro, and credit co-investments. Real Assets represented 3.5% of NAV at 31/12/17, but economic exposure was 12% includes derivatives, of which 9% was gold, which was increased on a timely basis towards the end of last year. This contributed 0.9% to returns. The investment properties were revalued in line with the prior year.
- Many of the assets are denominated in dollars, but during the year the managers increased their exposure to sterling from 24% to 47%, with the exposure to dollars falling from 62% to 30%. The Euro exposure rose from 4% to 12%.

Figure 4: Quoted Equity Portfolio at 31/12/17 (in %)



Source: Company reports

Figure 5: Quoted Equity Portfolio at 31/12/17 (in %)



Source: Company reports

Table 1: RIT Capital Partners Asset Allocation and contribution at 31/12/17

	Value at 31/12/17 £m	Contribution in FY £m	% of NAV
Quoted Equity	193.3		6.8%
Long Only	799.7		28.0%
Hedge Funds	594.3		20.8%
Derivatives	0.7		0.0%
Total Quoted Equity	**1588**	**9.1**	**55.6%**
Private Investments Direct	259.8		9.1%
Private Investments - Funds	363.7		12.7%
Total Private Investments	**623.5**	**2.6**	**21.8%**
Absolute Return & Credit	714.2	1.6	25.0%
Real assets	98.4	0.9	3.4%
Government Bonds and Rates	6.1	(0.2)	0.2%
Currency derivatives	30	(4.3)	1.0%
Total Investments	**3,060.2**	**9.7**	**107.1%**
Liquidity	224		7.8%
Borrowings	-438.2	(-1.5)	-15.3%
Other	12.3		0.4%
NAV	**2858.3**	**8.2**	**100.0%**

Source: Report and accounts

Table 2: Currency Exposure as % of NA (in %)

	31-Dec-17	31-Dec-16
US Dollar	30	62
Sterling	47	24
Euro	12	4
Japanese Yen	0	3
Other	11	7
Total	**100**	**100**

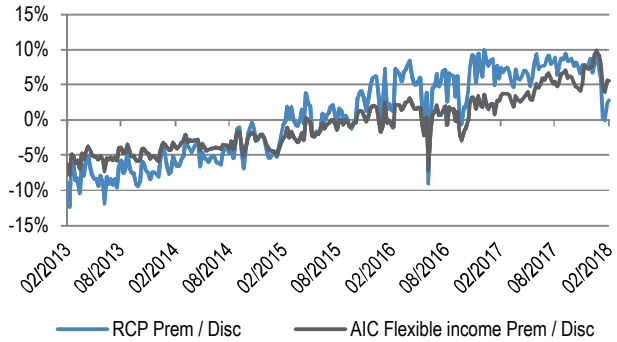
Source: Company reports

- **Dividend**: RCP paid two interim dividends of 16p each, a total payout of 32p. For 2018, RCP intends to pay a dividend of 33p, + 3.1% yoy increase. At the current price, the dividend yield is 1.7%.
- **Gearing**: RCP deployed gearing through a combination of short-term RCF and longer term fixed interest notes. At the year end, they had drawn borrowings of £426m paying an average rate of 2.5%. Accounting for cash and cash equivalents of £123m, gearing was 13.0%. At year end, the fair value of the long-term notes was £163m compared to the par value of £151m.
- **Derivatives**: During 2017, RCP utilised currency options to hedge against Sterling strengthening and also shorted a biotech index future to hedge part of the

exposure to the sector. Similarly, RCP's negative stance on bonds was represented by a mixture of interest rate options and futures.

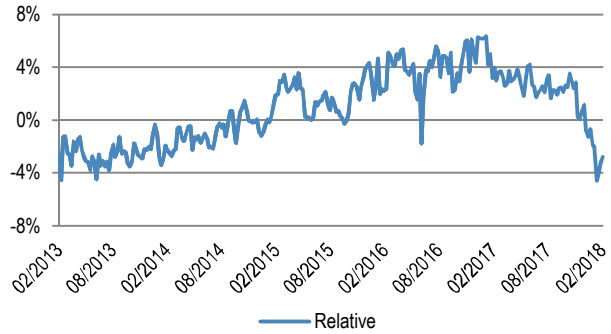
- **Discount / Premium management**: The premium averaged 6.7% over the year, compared to 4.5% for 2016. Over the year no shares were issued or repurchased. The shares are currently trading at a estimated premium of 4.1% compared with the peer group weighted average discount of 7.3%.

Figure 6: RCP prem / disc over the five years to 26/02/18



Source: Datastream, JPMorgan

Figure 7: RCP prem / disc relative to its AIC peers



Source: Datastream, JPMorgan

- **Fees and charges**: RCP is self-managed and directly incurred charges were 0.66% of average net assets during 2017. The managers estimate that additional annual management fees on their third party fund investments increase this by 1.23%, excluding performance fees, thus implying look through fees of 1.89% before performance fees. RIT itself has an annual incentive scheme and an LTIP for its own employees, who number 55.

- **Outlook**: The RIT team remains relatively cautious and are happy with net quoted equity exposure in the 40%-50% range.

J.P. Morgan View

- RIT remains the ultimate quoted family office in our view, and places huge importance on capital preservation which is why it has not kept pace with equity markets during the recent bull run. But since listing in 1988, it has participated in 75% of the market upside but only 39% of the downside and the NAV has compounded at 11.4% pa. The family connections means that RIT has access to managers and asset classes not available to many, although this does come at a cost, with look through management fees approaching 2% before performance fees. RIT remains fairy cautious in its outlook, and thus has no plans to increase equity exposure, although it can be nimble in the short term to take advantage of any market dislocation. The core model of a strong in house team, augmented by specialist asset managers elsewhere, is attractive in our view. There should be a little bit more upside to come from the revaluation of the PE funds (13% of NAV) and perhaps the IPOs of Helios and Dropbox. But on a premium of around 4%, we believe the shares are fairly priced and remain **Neutral**.

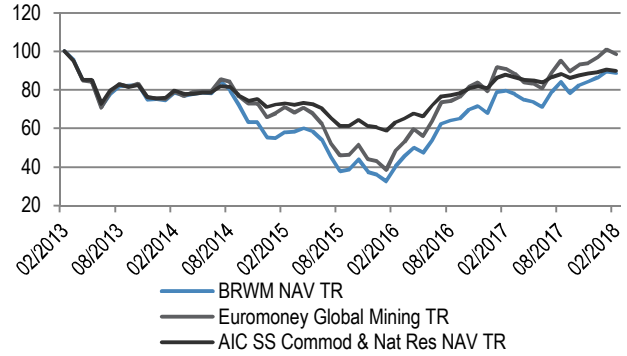
Conventionals

BlackRock World Mining Trust – Finals

BlackRock World Mining Trust (BRWM) has announced its finals for the year to 31/12/17. The key points are as follows:

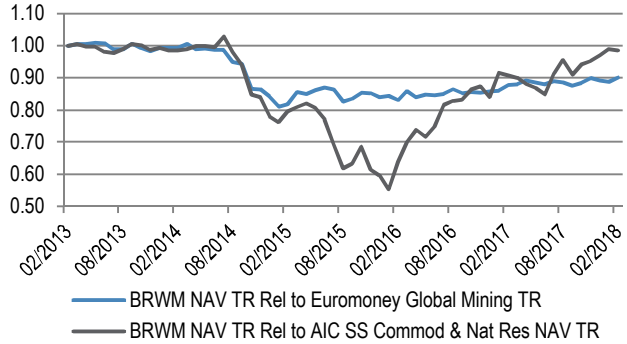
- **Performance:** Over the year to 31/12/17, BRWM has delivered an NAV TR and TSR of 24% and 24.2% respectively. This compares to a TR of 20.8% from the Euromoney Global Mining Index. Over the past two years, BRWM has increased exposure to small and mid cap companies and exposure to cash-generative well-financed majors and companies involved in the extraction of the materials required for battery manufacture aided performance. BRWM's diamond exposure was a disappointment in 2017. At a stock level, names including Katanga Mining, Altura, Galaxy Resources, Trevali Mining and Sheffield Resources have all helped drive performance, while those in TMAC Resources, Runruno, Eldorado Gold, Kisladag and Banro hurt performance. Exposure to copper equities including Avanco Resources and Sociedad Minera Cerro Verde helped relative performance. Returns were negatively impacted by sterling's strength over the year under review. Since the year-end and up until 22/02/18, the NAV has declined by 2.4%, compared to the 1.0% fall in the benchmark.
- In Figure 8 and Figure 9, we show BRWM's NAV performance over the five years to 26/02/18. Over the time period, it has underperformed its benchmark and AIC peers by 10% and 1% respectively. Over the same time period, it has delivered an NAV alpha of -2.1% pa with a beta of 1.02.

Figure 8: BRWM NAV TR over the five years to 26/02/18



Source: Datastream, JPMorgan

Figure 9: Performance relative to its benchmark and AIC peers

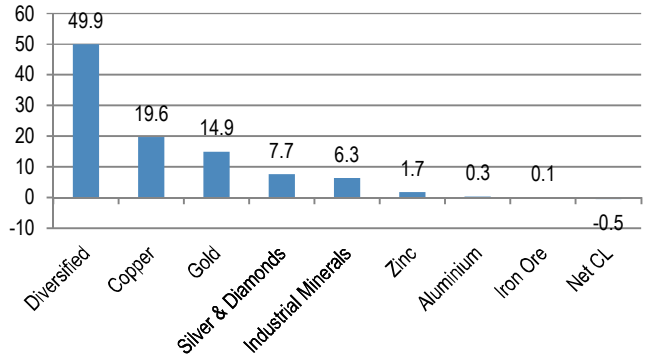


Source: Datastream, JPMorgan

- **Portfolio activity**: Outside the main commodity themes, BRWM has built exposures to companies that supply raw materials into the rapidly growing battery market. The central themes revolve around resource replenishment; deleveraging; value; capital discipline; asset quality and growth. Over the year, BRWM increased its exposure to Zinc via investments in Glencore, Teck Resources, Lundin Mining and Trevali Mining among others. BRWM has exposure to lithium via Albemarle and Galaxy Resources. During the last two years BRWM has built up a concentrated portfolio of exposure to smaller companies that it hopes have significant long-term potential. BRWM currently has one unquoted investment, the Avanco Royalty contract, representing 2.1% of the portfolio as at the year end. At 31/12/17, 7.5% of the portfolio was allocated towards fixed income securities and First Quantum Minerals was the largest exposure to a single issuer at 2.7% of this portfolio. At 31/01/18, the top ten holdings were 60% of the total, and the largest holding was Glencore (9.2%).
- **Avanco royalty**: Since making the first payment to Avanco in July 2014, BRWM has paid out a total of $12m and received royalty payments totalling $5.7m in the last two years. Exposure to the royalty combined with the holding of shares in Avanco was 3.4% at year end. In line with guidance relating to unquoted investments, exposure was reduced during the year.

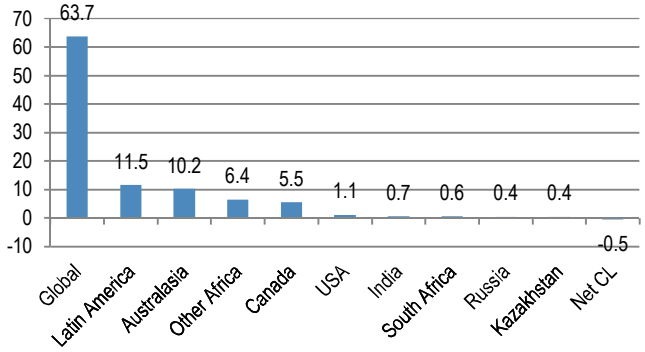
- **Derivatives activity**: During 2017, income generated from options was £6.1m net of contracts repurchased. Given the positive momentum of the sector, the majority of contracts written were put options that expired worthless. At year end, BRWM had 0.1% of NA exposed to derivatives.

Figure 10: Sector allocation at 31/01/18 (in %)



Source: Factsheet

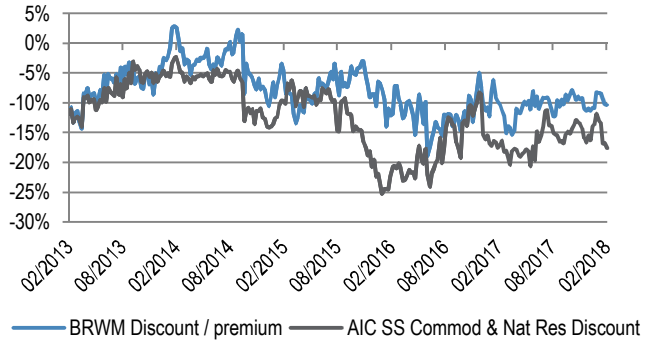
Figure 11: Regional allocation at 31/01/18 (in %)



Source: Factsheet

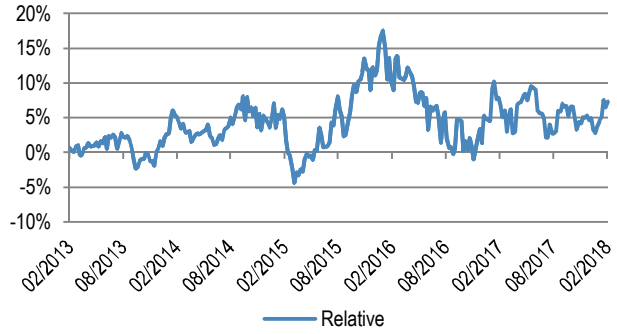
- **Dividend**: The Board increased the frequency of dividend payments from twice to four times a year. They have paid three quarterly dividends of 3.0p each and now recommend a final dividend of 6.6p, for a total payout of 15.0p, +20% yoy. The revenue return per share was 15.92p, +20.7% yoy. This implies dividend cover of 1.06x and at the current price, the dividend yield is ~3.8%.
- **Discount management**: BRMW does not have a formal DCM and over the year, no shares were brought back. At the current price, the shares are trading at a discount of around 11.7% which compares to the peer average of ~15.5%.

Figure 12: BRWM discount / premium over the five years to 26/02/18



Source: Datastream, JPMorgan

Figure 13: Discount / premium relative to AIC peers



Source: Datastream, JPMorgan

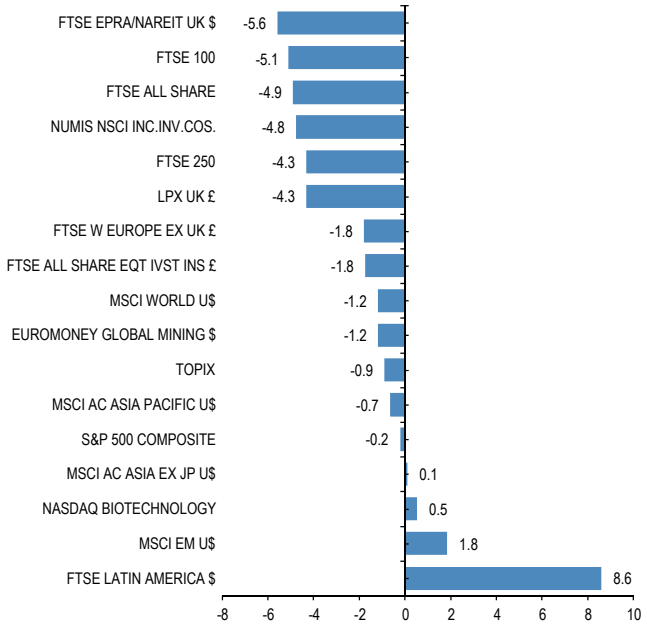
- **Gearing**: At 31/12/17, BRWM had net borrowing and an overdraft amounting to £98.m, representing gearing of 12.2% of NA. Net gearing at 31/01/18 was 12.4%. The gearing is mainly employed in fixed income investments.
- **Fees and charges**: BRMW has a management fee of 0.8% of NA, which is charged 75%/25% to capital/revenue. Ongoing charges for the year were 1.0% (2016: 1.1%).
- **Company Outlook**: The outlook for 2018 is once again promising in the managers' view. They managers expect commodity prices to remain at levels that allow producers to generate strong margins, even as costs are also expected to increase with an increasing inflation.

J.P. Morgan View

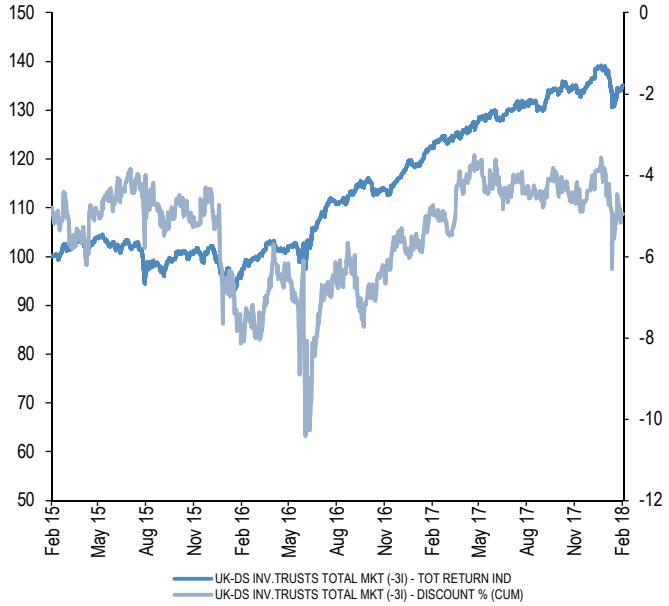
- Like 2016, 2017 was another stellar year for the mining sector and BRWM has capitalised on this trend and delivered a respectable NAV outperformance over the year under review. Managers Evy Hambro and Olivia Markham have always adopted a longer term investment approach and have consciously diversified the portfolio away from just commodity beta. These measures are reflected in the performance over the year, with the battery market suppliers contributing strongly to performance over the year.
- BRWM is, in our view, a high-quality and differentiated company that makes good use of the investment trust structure through its investment in unquoted securities. Although these have caused problems in the past, the Avanco royalty is a notable success and there is a 20% of portfolio cap on unquoteds overall, which we think is sensible. We think that the high FCF yields the managers forecast for the large diversified mining companies look attractive and believe that the sector could attract more generalist investment managers if the improvement in capital discipline continues. An improvement in capital discipline and supply discipline are both factors highlighted by our mining equity research colleagues in their 2018 outlook (available here).
- The managers believe the mining sector remains a significant underweight for most generalist investors and, from our perspective, we continue to see low allocations to the sector from a number of managers of conventional equity investment trusts. Besides this, BRWM has an above average dividend yield, lower than average costs and at a discount of 11.7% continues to be attractively priced. We are **Overweight** and BRWM is also a part of our model portfolio. (Price of 401p @ 12.30).

Sector and market performance

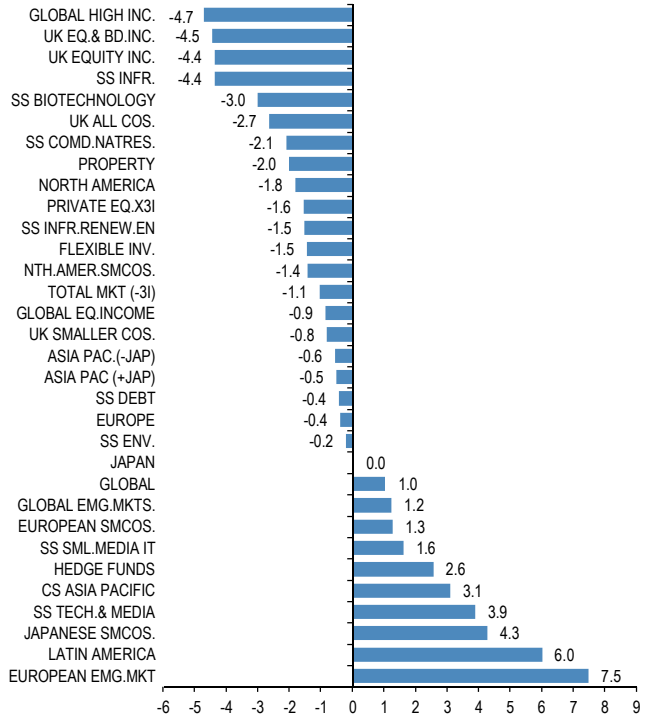
Year to date market performance (£, %)



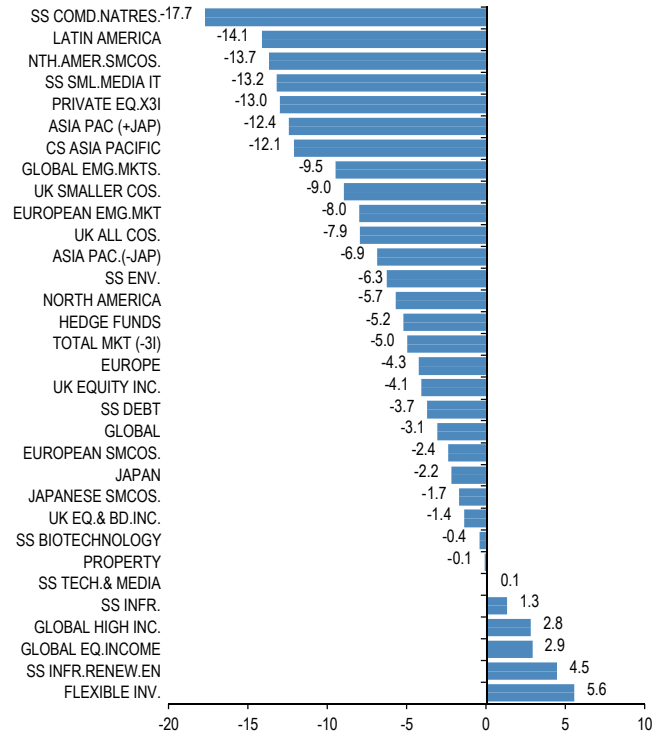
Investment Companies sector performance and discount (RHS)



Investment Companies sector price changes ytd (%)



Investment Companies sector discounts (%)



Source: Thomson Reuters Datastream

Investment Companies Calendar

Company	Date	Details
Chelverton Small Companies Div	28-Feb-18	Continuation resolution
Starwood European Real Estate	28-Feb-18	Continuation resolution
Polar Capital Globl Healthcare	28-Feb-18	Liquidation Resolution
Utilico Emerging Markets	28-Feb-18	Warrant next Exercise
JPMorgan Income & Capital	28-Feb-18	Windup resolution
Utilico Emerging Markets	28-Feb-18	Warrant Expiry
Aberdeen Emerging Markets	1-Mar-18	Dividend Ex Date 5.25 GBX
HICL Infrastructure Company	1-Mar-18	Dividend Ex Date 1.96 GBX
Honeycomb Investment Trust	1-Mar-18	Dividend Ex Date 20.00 GBX
JPMorgan European Growth Pool	1-Mar-18	Dividend Ex Date 2.00 GBX
JPMorgan European Income Pool	1-Mar-18	Dividend Ex Date 2.50 GBX
JPMorgan Global Convert Income	1-Mar-18	Dividend Ex Date 1.13 GBX
JPMorgan Global Growth & Inc	1-Mar-18	Dividend Ex Date 3.04 GBX
Mithras	1-Mar-18	Dividend Ex Date 4.00 GBX
Real Estate Credit Investments	1-Mar-18	Dividend Ex Date 3.00 GBX
Seneca Global Income & Growth	1-Mar-18	Dividend Ex Date 1.58 GBX
SQN Asset Finance Income	1-Mar-18	Dividend Ex Date 0.60 GBX
SQN Secured Income	1-Mar-18	Dividend Ex Date 0.53 GBX
TOC Property Backed Lending	1-Mar-18	Dividend Ex Date 1.75 GBX
Witan	1-Mar-18	Dividend Ex Date 6.75 GBX

Source: Morningstar

Buybacks

Company	Type	Currency	Date	No of shares	Price	Value (£)	No. shares outstanding	(%)
Aberdeen Asian Income	Ord	£	26 Feb	30,000	213.17	63,951	182,737,888	0.02
Alliance Trust	Ord	£	26 Feb	26,000	729.85	189,761	343,794,589	0.01
British Empire Trust	Ord	£	26 Feb	55,000	717.89	394,838	114,849,489	0.05
Edinburgh Dragon	Ord	£	26 Feb	29,000	376.00	109,040	196,420,526	0.01
EP Global Opportunities	Ord	£	26 Feb	25,000	310.00	77,500	43,737,725	0.06
JPMorgan American	Ord	£	26 Feb	25,000	397.00	99,250	228,546,179	0.01
JPMorgan Global Convertibles Income	Ord	£	26 Feb	43,086	96.91	41,755	167,321,726	0.03
Jupiter US Smaller Companies	Ord	£	26 Feb	74,594	844.31	629,805	16,344,957	0.45
Martin Currie Global Portfolio	Ord	£	26 Feb	18,000	238.99	43,017	91,790,141	0.02
Mercantile	Ord	£	26 Feb	20,000	2,115.00	423,000	81,559,039	0.02
NB Global Floating Rate Income GBP	Ord	£	26 Feb	900,020	92.49	832,410	946,454,652	0.10
P2P Global Investments	Ord	£	26 Feb	20,000	800.00	160,000	78,779,406	0.03
Strategic Equity Capital	Ord	£	26 Feb	18,900	229.78	43,428	67,660,841	0.03
Templeton Emerging Markets	Ord	£	26 Feb	52,390	793.76	415,851	273,870,942	0.02

Source: Morningstar

Share issues

Company	Type	Currency	Date	No of shares	Price	Value (£)	No. shares outstanding	(%)	Type
Allianz Technology Trust	Ord	£	26 Feb	40,000	1,245.00	498,000	27,309,427	0.15	Allotment
Aurora	Ord	£	26 Feb	50,000	200.44	100,220	46,545,977	0.11	Allotment
Capital Gearing	Ord	£	26 Feb	6,500	3,865.00	251,225	5,596,169	0.12	Allotment
Edinburgh Worldwide	Ord	£	26 Feb	125,000	778.00	972,500	50,039,319	0.25	Allotment
European Assets	Ord	£	26 Feb	25,000	1,293.00	323,250	35,559,912	0.07	Allotment
JPMorgan Global Growth & Income	Ord	£	26 Feb	50,000	326.60	163,300	127,751,285	0.04	Allotment
JPMorgan Global Growth & Income	Ord	£	26 Feb	100,000	327.70	327,700	127,851,285	0.08	Allotment
Monks	Ord	£	26 Feb	250,000	801.00	2,002,500	214,713,859	0.12	Allotment
Murray International	Ord	£	26 Feb	10,000	1,246.00	124,600	127,805,880	0.01	Allotment
Worldwide Healthcare	Ord	£	26 Feb	10,000	2,503.00	250,300	49,756,278	0.02	Allotment

Source: Morningstar

Companies Discussed in This Report (all prices in this report as of market close on 26 February 2018)
BlackRock World Mining Trust (BRWM.L/400p/Overweight), Bluefield Solar Income (BSIF.L/112p/Neutral), RIT Capital Partners (RCP.L/1926p/Neutral)

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