EDISON

Miton Global Opportunities

Seeking misvaluation in a niche

Investment trusts

Miton Global Opportunities (MIGO) aims to produce returns ahead of an absolute benchmark by exploiting inefficiencies in the pricing of closed-ended funds. This niche strategy differentiates it from peers in the flexible investment sector, while its wide spread of exposures, including Berlin residential property, forestry, second-hand life policies and an Indian equity fund, suggests its performance may also be differentiated from conventional equity funds.

12 months ending	Total share price return (%)	Total NAV return (%)	Libor £ +2% (%)	MSCI World (%)	FTSE All-Share (%)
29/02/12	(8.2)	(5.4)	3.1	0.7	1.5
28/02/13	10.8	8.4	2.9	17.2	14.1
28/02/14	4.9	7.5	2.6	10.8	13.3
28/02/15	6.8	7.8	2.7	17.6	5.6
29/02/16	(3.0)	(3.8)	2.7	(0.7)	(7.3)

Source: Thomson Datastream. Total returns in sterling terms.

Investment strategy: Identifying special situations

Nick Greenwood, the manager of MIGO from its launch in 2004, looks to achieve long-term capital growth by investing in a portfolio of closed-ended funds. Holdings mainly fall into the category of special situations where the manager has assessed that the share price does not reflect the fair value of the assets. Idea generation can be thematic or result from screening and will be followed by fundamental research, portfolio construction and implementation. The manager's approach can often lead to contrarian positions in out-of-favour sectors or unloved trusts where he sees the potential for a normalisation of valuation or corporate action to crystallise fair value.

Market outlook: More volatility and opportunity

Equity markets have generally experienced a weak and volatile start to the current year, with concerns including signs of slowing global growth and renewed worries over the health of the banking sector. This has meant that P/E valuations have retraced closer to long-term average levels and many forecasters still expect major economies to avoid a new recession, so the background is not entirely gloomy for investors. The uncertain outlook and prospect of continued market fluctuations may create opportunities for a fund such as MIGO seeking valuation anomalies, while its exposure to alternative funds may also contribute a welcome element of diversification to portfolios.

Valuation: Habitual discount may narrow

MIGO is trading at a discount of 10.9% to cum-income NAV, modestly above its five-year average. The c 10% habitual level may narrow as the prospect of a realisation opportunity at the time of the 2018 AGM draws closer (see page 6). This gives investors a clear prospect of a chance to realise NAV, while allowing the manager to maintain his investment approach in the meantime. Allowing for the discount of the underlying funds held in the portfolio, we calculate a look-through discount of c 28% pointing to the upside if the manager's opportunistic selections deliver.

9 March 2016

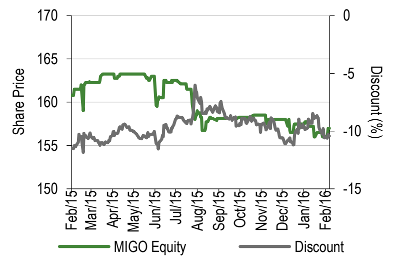
Price	**156.8p**
Market cap	**£39.6m**
AUM	**£49.4m**

NAV*	177.08p
Discount to NAV	11.5%
NAV**	175.91p
Discount to NAV	10.9%

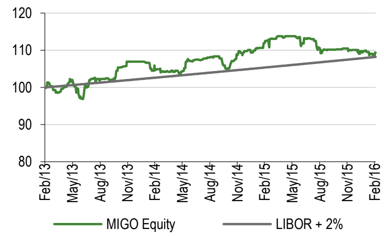
*Excluding income. **Including income. Data at 7 March 2016.

Yield	0.0%
Ordinary shares in issue	25.3m
Code	MIGO
Primary exchange	LSE
AIC sector	Flexible investment

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	163.2p	156.0p
NAV** high/low	183.8p	168.1p

**Including income.

Gearing

Gross*	11.3%
Net*	7.3%

*As at 31 January 2016

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Edison profile page

Miton Global Opportunities is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

MIGO (formerly MWGT) seeks to outperform three-month Libor plus 2% over the longer term, mainly through exploiting inefficiencies in the pricing of closed-ended funds. The fund aims to provide a better return over the long term than shareholders would receive by placing money on deposit. The benchmark is only a target and is not a point of reference for the manager in selecting the portfolio. In its publications the trust also shows performance of the FTSE All-Share index and MSCI World (£) for comparison.

Recent developments

- 7 January 2016: Half year results for the six months to 31 October. NAV TR -4.4% versus +1.3% for sterling three-month Libor +2% and -5.7% for FTSE All-Share.
- 5 January 2016: Change of name to Miton Global Opportunities (formerly Miton Worldwide Growth Trust) to better reflect investment mandate.
- 9 September 2015: Shareholders vote in favour of continuation and back a proposal to allow full or partial realisation of holdings (via a realisation share class) at three-yearly intervals from September 2018.

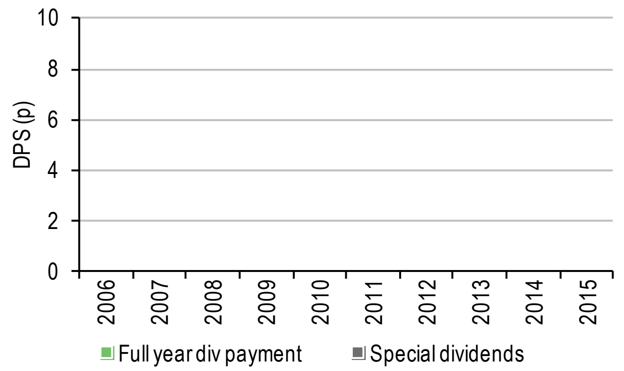
Forthcoming		Capital structure		Fund details	
AGM	September 2016	Ongoing charges	1.32%	Group	Miton Group
Annual results	July 2016	Gearing (net)	9.5%	Manager	Nick Greenwood
Year end	30 April	Annual mgmt fee	0.65% on market cap	Address	Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB
Dividend paid	N/A	Performance fee	No (see page 7)		
Launch date	6 April 2004	Trust life	Indefinite	Phone	020 3714 1525
Continuation vote	No – see page 6	Loan facilities	£7m	Website	www.mitongroup.com/migo

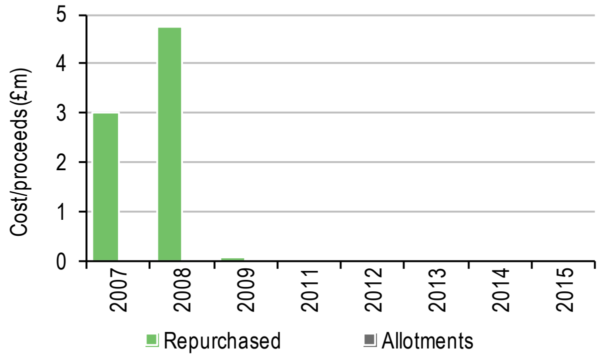
Dividend policy and history

The company has not historically paid dividends, providing the manager with flexibility in achieving MIGO's investment objective (see dividend policy, page 7).

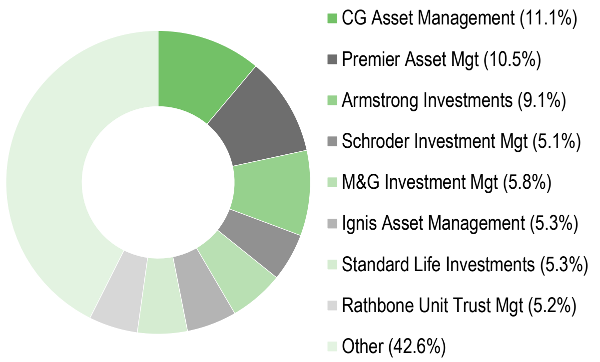
Share buyback policy and history

MIGO is authorised to repurchase up to 14.99% of its ordinary shares and allot up to 5% of the issued share capital. These powers have not been exercised in recent periods.

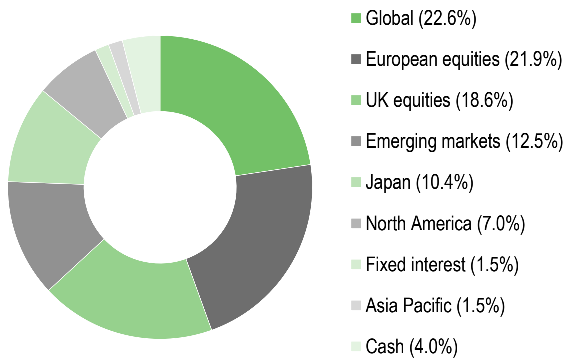




Shareholder base (as at 7 March 2016)



Geographical exposures (as at 31 January 2016)



Top 10 holdings (as at 31 January 2016)

			Portfolio weight %	
Company	**Share class**	**Sector**	**31 January 2016**	**31 January 2015***
Taliesin Property Fund	Ordinary shares	Property (Berlin)	6.9	5.2
India Capital Growth Fund	Ordinary shares	India equity	5.8	5.5
Establishment Investment Trust	Ordinary shares	Global equity	4.8	4.7
Alternative Asset Opportunities	Preference shares	Traded life policies	4.7	4.4
JPMorgan Japan Smaller Cos IT	Ordinary shares	Japan smaller cos	4.6	3.9
Pantheon International	Redeemable shares	Private equity	4.5	N/A
Alpha Real Trust	Ordinary shares	Property (global)	4.0	N/A
Phoenix Spree Deutschland	Ordinary shares	Property (Germany)	3.6	N/A
Prospect Japan Fund	Ordinary shares	Japan equity	3.5	N/A
Real Estate Investors	Ordinary shares	Property (UK)	3.4	4.7
Top 10 (% of portfolio)			**45.8**	**41.9**

Source: Miton Global Opportunities, Edison Investment Research, Morningstar, Bloomberg. Note: *N/A where not in January 2015 top 10.

Market outlook: Challenges create opportunities

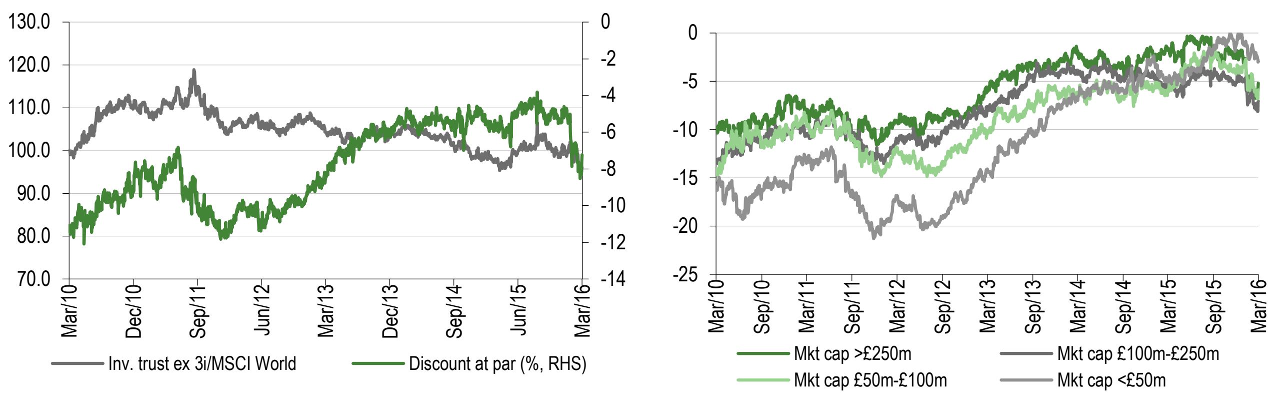
Rising concern over the pace of global economic growth, and developments in China in particular, have contributed to a volatile start to 2016 for world equity markets, which has left the MSCI World Index down nearly 7% year to date. As a result P/E valuations are lower and closer to long-term averages (the prospective P/E for the Datastream world index is 7% above and 10% below its 10- and 20-year averages respectively). Equity valuations therefore seem more reasonable than previously but do not appear to give a clear signal and market caution could be validated if earnings estimates come under increasing pressure. This suggests a challenging outlook for equity investors in the near term, although it should be remembered that global growth is continuing at a lower level and the central view of forecasters such as the IMF still steers clear of a renewed recession.

Exhibit 2 shows how the Morningstar investment trust (ex-3i) index has performed against the MSCI World Index and how the investment trust index's discount to net asset value has evolved. The investment trust index has tended to lag the world index since mid-2011, probably reflecting a period of relative strength for the US market where investment trusts as a group are likely be underrepresented in comparison to the world index. At the same time, the discount to NAV for the investment trust index has mainly continued a post-crisis narrowing trend, although this has reversed at the beginning of the current year as market volatility has risen (a normal pattern). The right-hand chart demonstrates that discounts can be widely dispersed in the sector, in this case classified by market cap. Looking ahead, continued market volatility could be mirrored by fluctuating discounts and potentially a wider spread of discounts in the closed-ended universe.

This kind of uncertain market background may therefore create greater opportunities for a niche fund such as MIGO with its strategy of identifying valuation anomalies among listed investment companies. Its increasing allocation to companies pursuing less market-sensitive alternative strategies may also tend to increase its differentiation from mainstream equity funds.

Exhibit 2: Investment trust performance and discounts compared

Performance vs. MSCI World index and discount | **Discount by investment trust size**



Source: Thomson Datastream, Edison Investment Research

Fund profile: Closed-ended special situations

Miton Global Opportunities was launched in 2005 as iimia Investment Trust, changing its name in 2010 (to Miton Worldwide Growth Trust) and again in January this year to provide a better reflection of the fund's investment strategy. Nick Greenwood has been lead manager since inception, following an approach that seeks to earn returns above those available on cash by investing to exploit pricing inefficiencies among closed-ended funds. He characterises the portfolio as mainly consisting of special situations where discounts have become too wide, providing a measure of downside protection and significant upside that could be crystallised by a change in market sentiment or corporate actions.

The fund manager: Nick Greenwood

The manager’s view: Still finding opportunities

Nick Greenwood has a cautious view of the outlook for equity markets, citing levels of debt globally, lower liquidity in markets generally and a danger of a rush for the exits in the event of further, more significant corrections.

Partly in response to this and as a result of the opportunities available, he has been adding exposure to companies investing in alternative areas. These include private equity, property, second-hand endowments (Alternative Asset Opportunities), two hedge funds, timber investments, marinas (Camper & Nicholsons) and champerty (Juridica). Taken together these account for over 40% of the portfolio. The manager highlights that of the 421 London-listed funds, 139 are invested in alternatives and 85% of new issues in the last three years have also been in alternatives. Greenwood sees the smaller funds in particular as providing a happy hunting ground for the diligent investor.

The valuation of assets in alternatives can in some cases be less transparent, providing opportunities for a manager to carry out in-depth research to identify potential upside from stated values. An example here would be the longstanding MIGO investment in Taliesin where the company’s extensive portfolio of Berlin residential apartment blocks is valued as rental properties, well below either replacement cost or their potential value as leasehold properties. Greenwood also has a positive view on the prospects for the property market in Berlin, where prices have been rising from a very depressed level and still stand significantly below Munich, for example. Given that Taliesin has the necessary permissions to sell apartments separately, it is well-placed to realise the upside between rental and leasehold valuation over a number of years.

Reflecting the uncertain background Greenwood currently has limited exposure to macro themes, with the exception of Japan, and even here scepticism towards Abenomics and a view that operational gearing in Japanese companies could be a negative factor in a less favourable economic environment has meant that these have been viewed as a source of funds for other investments.

Asset allocation

Investment process: Exploiting inefficiencies in niche area

Nick Greenwood has been managing portfolios of closed-ended funds for 20 years and in that time has refined an approach to identifying value that is a continuous process of idea generation, fundamental research, portfolio construction and implementation.

Ideas may be drawn from macro or thematic research and the recognition of unloved asset classes and individual funds. The manager undertakes an intensive programme of company meetings, employs a proprietary database to screen for anomalies and looks for potential corporate actions (such as tender offers, realisations or a change in manager). Once a candidate investment is identified fundamental research is undertaken, enabling an assessment of fair value and, where appropriate, a holding is built over time allowing greater confidence in the investment case to be established. Portfolio construction takes into account the level of conviction, liquidity, diversification and a comparison between investment opportunities. Positions may be trimmed or sold where discounts have narrowed substantially, but realisations remain the most common reason for exits in the portfolio; currently c 25% of the portfolio is in the process of liquidation.

Current portfolio positioning

Looking at the asset allocation shown in Exhibit 3, the main changes over a year at this level were the increase in equity funds held and a decrease in the level of cash. However, as noted earlier, the manager indicates that he has more recently been increasing exposure to alternatives including property and private equity, which together account for c 32% of the portfolio, with other funds investing in alternatives taking the exposure to over 40%.

Within these broad categories there is a wide range of individual investment cases. Two in the private equity area are examples of this: Pantheon and Dunedin Enterprise. In the case of Pantheon, Greenwood sees the relatively mature fund-of-fund portfolio as likely to benefit from NAV uplift on realisations. In addition, MIGO's exposure is through the redeemable share class, which is illiquid and trades at a wide discount that could be compressed in the event of a merger of share classes. Dunedin Enterprise has traded at a very wide discount, which Greenwood saw as too wide, given the potential for realisation of one or more of the leading investments. Recently, Dunedin has announced the sale of its largest investment, CitySprint, and that the board will seek approval for a managed wind-down of the company.

Among relatively recent changes have been the (re)purchase of a holding in Dunedin Enterprise, the addition of Boussard & Gavaudan (hedge fund) on a 20% discount and increases in the holdings of Taliesin and Phoenix Spree (also a Berlin residential property play).

Geographically (see Exhibit 1), MIGO's differentiation from equity benchmarks is clear, with the largest exposures being to Europe, UK and Japan with North America standing at 7%.

Exhibit 3: Asset allocation

	End January 2016 (%)	End January 2015 (%)	Change (% pts)
Equities	49.8	47.1	2.7
Property	21.3	22.3	-1.0
Private equity	10.7	13.0	-2.3
Multi-asset	5.9	5.7	0.2
Other	4.6	4.7	-0.1
Fund of funds	2.2	0.1	2.1
Fixed income	1.5	2.2	-0.7
Cash	4.0	4.9	-0.9
	100.0	**100.0**	**0.0**

Source: Miton Global Opportunities, Edison Investment Research

Performance: Relatively stable positive returns

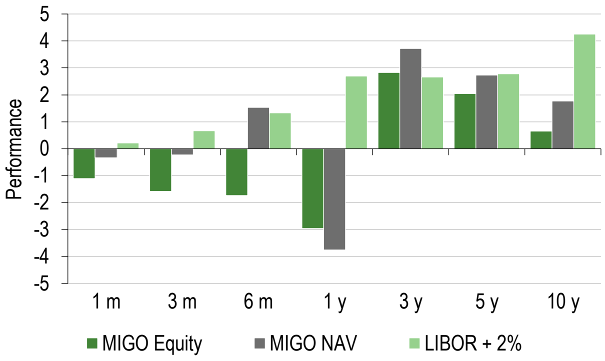
As Exhibits 4 and 5 show, MIGO has delivered positive absolute returns over three, five and 10 years, which put its NAV total returns ahead of the cash return benchmark (Libor +2%) over three years, but behind over one, five and 10 years.

We have included NAV performance relative to equity indices in Exhibit 5 but these figures should be viewed in the context of the relative stability of returns over the same periods. This is illustrated by the markedly lower volatility of returns (as measured by standard deviation) compared with both the MSCI World and FTSE All-Share indices (Exhibit 4).

Our peer group comparison (page 8) shows that MIGO's NAV total returns outperformed the overall group shown over three years and were modestly behind over one and five years.

Exhibit 4: Investment trust performance to 29 February 2016

Price, NAV and benchmark total return performance (%)



Comparing volatility of returns: MIGO NAV and equity indices

Standard deviation (%)	One year	Three years	Five years	10 years
MIGO NAV	6.1	5.5	5.5	8.1
MSCI World	15.6	12.3	13.2	16.0
FTSE All-Share	17.8	13.8	15.2	19.1

Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Standard deviation calculated using daily returns over the periods shown.

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Libor + 2%	(1.3)	(2.2)	(3.0)	(5.5)	0.5	(3.5)	(29.7)
NAV relative to Libor + 2%	(0.5)	(0.9)	0.2	(6.3)	3.1	(0.2)	(21.5)
Price relative to MSCI World	(2.2)	(0.7)	(6.3)	(2.2)	(16.0)	(27.5)	(44.8)
NAV relative to MSCI World	(1.4)	0.6	(3.2)	(3.0)	(13.7)	(25.0)	(38.3)
Price relative to FTSE All-Share	(1.9)	2.0	(0.5)	4.7	(1.9)	(13.8)	(33.8)
NAV relative to FTSE All-Share	(1.1)	3.4	2.8	3.8	0.7	(10.8)	(26.1)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-February 2016. Geometric calculation.

Exhibit 6: NAV performance relative to benchmark over five years

Source: Thomson Datastream, Edison Investment Research

Discount: Habitual level may narrow

At the time of writing (7 March 2016), MIGO shares trade at a discount of 10.9% to cum-income NAV, modestly above the five-year average of 9.8%. As Exhibit 7, shows the discount has been within a 6% and 13% band over the last three years, suggesting the market has on average tended to apply a habitual discount of around 10% to NAV. This discount may now be misplaced given that the historical selling pressure from funds managed by subsidiaries of Miton Group predecessor companies is no longer a factor. The prospect of a three-yearly opportunity to opt for a realisation share class in place of all or part of a holding may tend to limit the discount.

The changes allowing for the realisation opportunity were approved at the AGM in September 2015 and replaced a continuation vote that took place every three years. The first chance to exercise this option will be in 2018 at the time of the AGM. The arrangement means investors have a clear prospect of an opportunity to exit at NAV, but the manager is not forced to compromise his investment approach to provide liquidity more immediately for a tender or buyback. If the take-up of the realisation class means that MIGO's net assets fall below £30m, the company would move to realise all its assets on a timely basis and return proceeds to shareholders.

We calculate a c 28% underlying discount for MIGO using the weighted average discount to NAV of the portfolio constituents (reported at the end of October last year), together with MIGO's own discount. Potential crystallisation of the value identified in the holdings in the next two or three years, together with the approach of the realisation opportunity, could drive a significant narrowing of the combined discounts.

Exhibit 7: Discount over three years (NAV with debt at fair value, including income)

Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

MIGO has one class of shares with 25.3m ordinary shares in issue. The company may buy back up to 14.99% and issue up to 5% of the issued share capital. Gearing of up to 20% of NAV may be used and, as at the end of December 2015, stood at 6.7%. The manager notes that gearing tends to rise following market corrections as he takes opportunities to add attractively valued holdings, but the borrowing is not seen as structural in nature.

Among the changes associated with the adoption of the realisation class option was the removal of a performance fee on the ordinary shares, but an increase in the management charge from 0.5% to 0.65%. If issued, the realisation class would incur a fee of 0.5% and a performance fee of 15% of cash raised subject to a hurdle of Libor +5pp from the date of the relevant AGM.

Dividend policy

The company has not paid dividends since launch, as this allows the manager flexibility in pursuing the trust's objective by investing where there are valuation opportunities without taking into account an income objective. Many holdings do not pay dividends, reflecting the emphasis on special situations in the portfolio. The revenue return for FY15 showed a small surplus (of 0.41p), while there was a small deficit in the first half of FY16 (0.75p).

Peer group comparison

MIGO lacks direct comparators given its profile, fund-of-fund approach and absolute return objective, but in Exhibit 8 we have set it in the context of its AIC peer group, the newly formed Flexible Investment sector and included two, arguably closer peers: British Empire and World Trust

Fund. Previously we identified Cayenne Trust as the closest peer, but this company announced last year that it would wind up following the departure of one of its managers and the prospective retirement of the other. Compared with the Flexible Investment sector average NAV total returns, MIGO lagged slightly over one and five years, but outperformed over three years. MIGO's performance is above the overall average for three years. Otherwise, the table shows that MIGO is among the smaller companies in the sector and has higher gearing compared with the sector average and its closer peers.

Exhibit 8: MIGO compared with AIC Flexible Investment sector and Global sector peers

% unless stated	Market Cap £m	TR 1 year	TR 3 years	TR 5 years	Ongoing Charge	Perf. fee	Discount/ premium	Net gearing	Dividend yield (%)	Sharpe 1y (NAV)	Sharpe 3y (NAV)
Miton Global Opportunities	**39.7**	**(3.1)**	**12.2**	**15.1**	**1.2**	**Yes**	**(10.9)**	**103.0**	**0.0**	**(1.7)**	**0.1**
BACIT	504.9	3.9	17.0		1.3		5.6	100.0	1.6	(0.5)	0.3
BlackRock Income Strategies	337.2	(8.3)	3.6	19.5	0.7		(3.4)	107.0	5.3	(1.4)	(0.1)
Capital Gearing	105.9	4.3	7.6	32.0	1.0		1.6	100.0	0.6	(1.1)	(0.1)
Henderson Alternative Strategies	92.8	(2.7)	(8.2)	(21.2)	0.9		(21.6)	100.0	0.0	(1.2)	(0.6)
Invesco Perp Select Balanced	8.4	(6.3)	3.1		1.2		(1.3)	100.0	0.0	(1.6)	(0.2)
New Star Investment Trust	49.7	2.2	7.5	10.1	0.9	Yes	(40.7)	100.0	0.4	(0.8)	(0.0)
Personal Assets	616.6	4.9	7.6	30.4	0.9		(0.5)	100.0	1.5	(0.7)	(0.1)
RIT Capital Partners	2,530.7	4.3	25.9	36.4	1.2	Yes	3.5	112.0	1.8	(0.5)	0.6
Ruffer Investment Company	314.0	(5.7)	1.8	11.9	1.1		(1.2)	100.0	1.7	(1.7)	(0.2)
Sector simple average	**460.0**	**(0.7)**	**7.8**	**16.7**	**1.0**		**(6.9)**	**102.2**	**1.3**	**(1.1)**	**(0.0)**
British Empire	586.7	(12.1)	(3.7)	8.6	0.9		(14.5)	108.0	2.6	(2.1)	(0.4)
World Trust Fund	97.0	(8.1)	10.7	29.1	1.4	Yes	(15.2)	100.0	1.6	(1.4)	0.1
Overall average	**440.3**	**(2.2)**	**7.1**	**17.2**	**1.1**		**(8.2)**	**102.5**	**1.4**	**(1.2)**	**(0.0)**

Source: Morningstar, Edison Investment Research, at 29 February 2016. Note: TR = NAV total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

The MIGO board has four members, all of whom are non-executive and independent. Chairman Anthony Townsend, James Fox and Michael Phillips all joined the board at the trust's inception in 2004. Hugh van Cutsem was appointed in 2010. Michael Phillips founded iimia Investment Group which eventually became Miton Group, leaving the company in 2008. All directors have significant experience in the investment company sector.

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