EDISON

Miton Worldwide Growth IT

Loving the alien

Investment trusts

Miton Worldwide Growth Investment Trust (MWGT) is a fund of investment trusts that aims to exploit the opportunities inherent in unloved assets trading at anomalously wide discounts. The trust seeks absolute returns of at least 2% ahead of three-month LIBOR, and has achieved this objective in each of the last three years to 28 February and cumulatively over five years. Managed since launch in 2004 by sector specialist Nick Greenwood, MWGT's global portfolio includes significant exposures to property, India and Japan, as well as private equity and an increased focus on out-of-favour natural resources stocks.

12 months ending	Share price (%)	NAV (%)	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	7.9	2.7	17.6	5.6

Note: Twelve-month rolling discrete performance. Note: total return basis.

Investment strategy: Diverse, uncorrelated portfolio

MWGT's investment process is informed by manager Nick Greenwood's immersion in the investment trust sector, and focuses on identifying unloved funds with re-rating potential. Frequent meetings with brokers and trust managers (both holdings and non-holdings) are a source of idea generation, with macro and thematic research feeding into the construction of a diverse portfolio of uncorrelated assets at attractive valuations. The portfolio is global and diversified by asset class, with holdings across listed and private equity, property, fixed income (not held presently) and some more unusual areas such as traded life policies and litigation finance.

Outlook: Cast net wider to mitigate downside risks?

Equity markets in the US and UK are at or close to all-time highs and bond yields in many markets are testing new lows, yet geopolitical risks such as the possibility of a Greek exit from the eurozone, increased aggression from so-called Islamic State, an escalation in the situation in Ukraine and the forthcoming UK general election all point to potential downside risk. While near-term volatility cannot be ruled out, investing in out-of-favour asset classes (such as lower-yielding equities, private equity, natural resources or esoteric assets such as timber or traded life policies) could provide a measure of non-correlated return over the longer term.

Valuation: Discount within long-term 8-12% range

MWGT's discount to NAV has widened slightly over the past year, although it remains within its long-term range of 8-12%. The underlying weighted average portfolio discount (20.0% based on 31 December valuations) is in line with the 19.5% discount at our last note), in spite of narrowing discounts in some large holdings in India and Japan. Applying MWGT's 11.5% discount (at 27 February) to the portfolio discount gives an overall discount to NAV of 29.2%, with scope for further narrowing from currently out-of-favour areas; however, it is important to note that as MWGT specifically targets investment trusts at wide discounts, there is always the risk of discount volatility.

5 March 2015

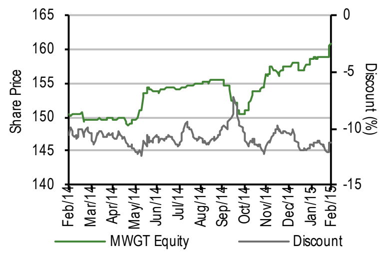
Price	**160.8p**
Market cap	**£40.6m**
AUM	**£48.9m**

NAV*	182.2p
Discount to NAV	11.8%
NAV**	181.6p
Discount to NAV	11.5%
Yield	0%

*Excluding income. ** Including income. Data at 27 February 2015.

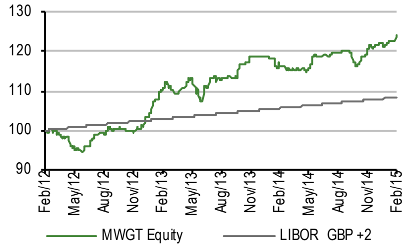
Ordinary shares in issue	25.3m
Code	MWGT
Primary exchange	LSE
AIC sector	Global

Share price/discount performance*



*Including income.

Three-year cumulative perf. graph



52-week high/low	160.8p	148.8p
NAV* high/low	181.1p	163.9p

*Excluding income.

Gearing

Gross	6.6%
Net	1.7%

Analysts

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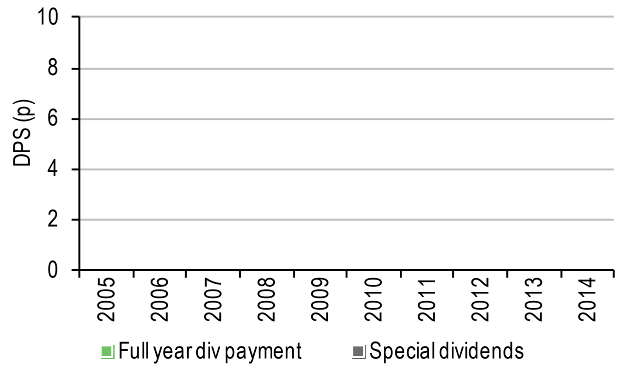
Miton Worldwide Growth Investment Trust is a research client of Edison Investment Research Limited

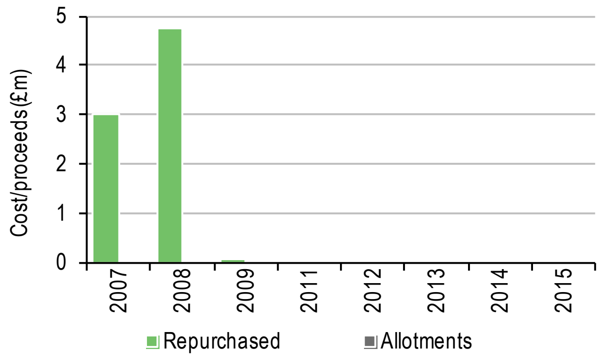
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
MWGT's objective is 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 and MSCI World Index (£) for comparison.	11 December 2014: Half-year results for the six months ended 31 October. NAV total return 1.4% compared with Libor +2% at 1.3% and FTSE All-Share Index at -1.6%. 22 July 2014: PSigma Unit Trust Managers (a Miton Group company) appointed as Alternative Investment Fund Manager (AIFM). PUTM was renamed Miton Trust Managers in September 2014.

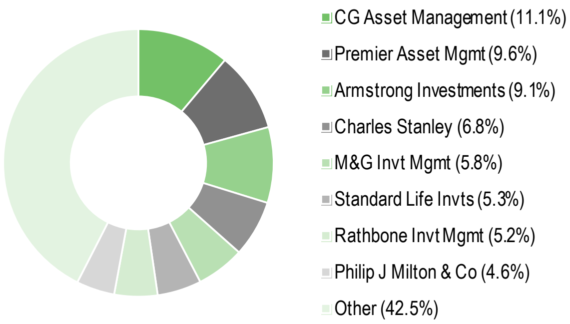
Forthcoming		Capital structure and fees		Fund details	
AGM	September 2015	Ongoing charges	1.17%	Group	Miton Group
Annual results	July 2015	Net gearing	1.7%	Manager	Nick Greenwood
Year end	30 April	Annual mgmt fee	0.5% of market cap	Address	51 Moorgate, London, EC2R 6BH
Dividend paid	N/A	Performance fee	See page 7		
Launch date	6 April 2004	Trust life	Indefinite, subject to vote	Phone	+44 (0) 118 338 4033
Continuation vote	2015 AGM, and every 3 years	Loan facilities	£7m	Website	www.mitongroup.com

Dividend policy and history	Share buyback policy and history
The company has not paid dividends, providing the manager with flexibility in achieving MWGT's investment objective (see dividend policy page 7).	MWGT is authorised both to repurchase up to 14.99% of its ordinary shares and to allot shares up to approximately 5% of the issued share capital. These powers have not been exercised in recent periods.

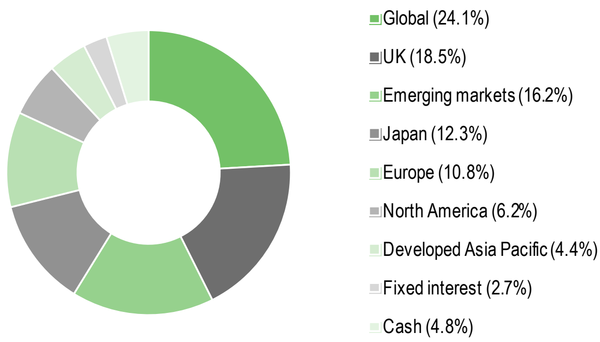




Shareholder base (as at 27 February 2015)



Geographical exposures (as at 31 January 2015)



Top 10 holdings (as at 31 January 2015)

		Portfolio weight (%)	
Company	**Sector**	**31 January 2015**	**31 July 2014**
India Capital Growth Fund	India equity	5.5	4.1
Taliesin Property Fund	Property (Berlin)	5.2	4.3
Establishment Investment Trust	Global equity	4.7	4.1
Real Estate Investors	Property (UK)	4.7	4.1
Alternative Asset Opportunities	Traded life policies	4.4	2.7
Macau Property Opportunities	Property (China)	4.4	4.4
JPMorgan Japan Sml Cos IT	Japan smaller cos	3.9	N/A
Aurora Investment Trust	UK equity & bond	3.1	2.9
Phaunos Timber Fund	Forestry	3.0	N/A
Martin Currie Pacific Trust	Asia Pacific ex Japan	3.0	N/A
Top 10 (% of portfolio)		**41.9**	**35.2**

Source: Miton Worldwide Investment Trust, Edison Investment Research, Morningstar, Bloomberg. Note: N/A where not in the top 10 at 31 July.

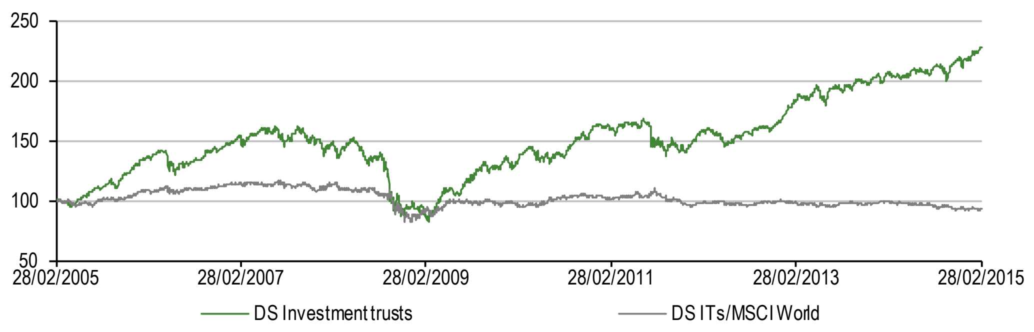
Market outlook: Opportunities in unloved sectors?

World equity and bond markets have largely recovered from the uncertainty of the financial crisis, with some areas such as the UK and US approaching or surpassing all-time highs. The investment trust universe has participated in the rising trend, although it has very marginally underperformed the MSCI World index (Exhibit 2), perhaps because of the relatively small number of trusts fully exposed to the US equity market in an environment in which North America has dominated.

Latest figures from the Association of Investment Companies (AIC; data to 18 February) show that 49% of UK investment companies yield more than 3%, with half of these trading at a premium to net asset value. (Some high-yielding trusts in less favoured areas such as emerging markets, private equity and natural resources are, however, trading at sometimes substantial discounts.) At 31 January, the average discount to NAV for all the AIC sectors was 5.8%, although individual sector average valuations ranged from discounts of 11.6% and 11.4% (Commodity & Natural Resources and UK Smaller Companies) to premiums of 1.0% and 1.1% (Global Equity Income and UK Equity & Bond Income). Discounts and premiums on individual trusts vary even more widely.

While a discount or premium in isolation should not form the basis for an investment decision, deeply discounted assets tend to be those in out-of-favour areas, while those at premiums may indicate areas that are fully valued. It is this discrepancy that MWGT seeks to exploit.

Exhibit 2: Performance of investment trusts index – absolute and relative to world equities



Source: Datastream, Edison Investment Research. Note: Rebased to 100.

Fund profile: Absolute return, multi-asset approach

Launched in April 2004 as iimia Investment Trust and managed since then by Nick Greenwood, Miton Worldwide Growth Investment Trust took on its current name in 2010. It aims to exceed returns on cash (measured by three-month LIBOR plus 2%) by exploiting inefficiencies in the pricing of closed-ended funds. The trust invests globally across a broad range of assets. Greenwood's approach has four main focuses: macro views on a country or asset class; backing talented fund managers; funds where the NAV calculation methodology understates the true value of the assets (for example in property or private equity, where underlying holdings are valued infrequently and often with a significant lag); and identifying deeply discounted assets where there is a catalyst for change.

The fund manager: Nick Greenwood

The manager's view: No end to monetary easing until 2016

Greenwood sees the current market environment as one in which there is significant risk but limited reward – a situation he likens to "picking up pennies in front of a steamroller". The deployment of quantitative easing and similar measures in Europe, Japan and now elsewhere in Asia will continue to drive asset prices higher, and Greenwood says this could present a particular risk for high-income investment trusts in areas such as infrastructure. Low yields on traditional assets have driven these alternative sources of income to trade at a premium, but Greenwood cautions that any normalisation of interest rates could see demand evaporate and premiums reverse. However, he believes it may take until after the US presidential elections in 2016 for the atmosphere of artificial stimulus to come to an end. Because of the general contraction in discounts on mainstream investment trusts (see Outlook section, above), Greenwood has allocated more to special situations outside traditional equity and bond areas, as these are less influenced by market direction. He says the focus on low-volatility growth situations, which has dominated portfolio construction in recent years and is likely to persist until monetary conditions normalise, has made MWGT "a genuinely non-correlated holding for people's portfolios that is doing something different".

Greenwood thinks thematically in terms of portfolio construction, and current themes for MWGT include Japan and India, property, private equity and the mining cycle (see Current portfolio positioning, below). A further theme is trusts 'orphaned' by consolidation in the UK wealth manager sector, with the use of centralised buy lists meaning wealth managers are less likely to support smaller trusts, because of the difficulty in executing very large buy and sell orders. From a universe of c 600 closed-ended funds (including those based in the Channel Islands and Isle of Man), Greenwood says only about the 60 largest (market capitalisations broadly above £400m) and the 60 highest yielding enjoy robust support from wealth managers, which leaves him with a universe of more than 400 investment companies and trusts that may trade at attractive discounts.

Asset allocation

Investment process: 'Infinite loop' informed by long experience

Manager Nick Greenwood has more than 35 years' City experience and has spent the past two decades specialising in investment trusts, initially at Christows and then at iimia, which merged with Miton in 2007. He has managed MWGT since its launch (as iimia Investment Trust) in 2004.

The investment process is described as an 'infinite loop'. Idea generation is informed by detailed macro and thematic research and the identification of unloved asset classes and funds. Greenwood spends time meeting companies and uses a proprietary database to identify anomalies. He aims to anticipate corporate activity and to understand if news is already priced in, before undertaking fundamental analysis (including an assessment of fair value relative to share price) on the universe of potential investments. The portfolio is built opportunistically with little reference to market indices, and Greenwood aims to construct a diversified group of holdings displaying uncorrelated themes. Before inclusion in the portfolio the manager will consider each investment's liquidity, upside and downside potential, whether it competes with existing ideas, his level of conviction in the stock and the size of position to take. Monthly investment meetings include consideration of supply and demand factors, and act as a source of further idea generation. Greenwood is mindful of discount risk and may sell or trim positions where discounts have narrowed substantially, particularly in more mainstream trusts, to reinvest in more attractive opportunities; however, the manager says realisations are the most common reason for exits within the portfolio.

Current portfolio positioning

Compared with our last note on MWGT, at 31 January 2015 the trust had a slightly shorter stock list (60 holdings compared with 64) with larger positions in the top 10 stocks (41.9% of the portfolio versus 37.5% in April last year and 35.2% at 31 July). Almost half the holdings by number (28 out of 60) were in the process of realisation at 31 January or have a fixed wind-up date. Greenwood says that at their peak these holdings would have accounted for c 50% of assets, but currently represent less than a quarter of the portfolio. Assets bought at a deep discount to net asset value tend to re-rate as redemption approaches, and this has been supportive of performance in recent months.

Current themes in the portfolio include Japan and India. The Indian exposure began as a bottom-up view on India Capital Growth Fund (ICG), which had performed poorly and remained out of favour as the market judged the vehicle on its track record rather than the quality of its new manager. The landslide election victory of Narendra Modi's market-friendly BJP has seen the Indian market re-rate substantially, and ICG's share price has more than doubled since Greenwood's initial investment. The India position has now broadened into more of a macro view, with the Modi government reforms buoyed by the falling oil price, which has allowed for the relatively pain-free removal of costly fuel subsidies. Strong performance and a narrowing discount have meant frequent top-slicing of the ICG position, with proceeds recycled into New India IT.

Exhibit 3: Asset allocation

	31 January 2015 (%)	31 July 2014 (%)	% change
Equity	47.1	64.9	-17.8
Property	22.3	19.3	3.0
Private equity	13.0	1.5	11.5
Multi-asset	5.7	0.0	5.7
Fixed income	2.2	6.3	-4.1
Convertible bond	0.4	0.0	0.4
Global	0.2	0.0	0.2
Fund of funds	0.1	0.0	0.1
Other	4.1	0.0	4.1
Cash	4.9	8.0	-3.1
Total	**100.0**	**100.0**	

Source: Miton Worldwide Growth Investment Trust, Edison Investment Research

In Japan reform is going on more at corporate than government level, with slow but steady progress towards a more Anglo-Saxon shareholder culture. Greenwood has stakes in mainstream Japan trusts like Aberdeen Japan IT (AJIT; reconstructed in late 2013 from a pan-Asian mandate) and JPMorgan Japan Smaller Companies, but is also exposed to property – on which he is bullish – via Japan Residential Investment Company (JRIC) and Prospect Japan. The latter is taking an activist approach to persuading investee companies to divest surplus property assets. AJIT has also been trimmed as the discount has narrowed; proceeds have been deployed in JRIC and Prospect Japan.

Private equity exposure has increased markedly over the past six months. Like property, private equity fits into the theme of trusts where the valuation methodology understates the true asset value. Greenwood likes relatively mature portfolios, given the current favourable market for realisations, and is focusing on F&C Private Equity and Pantheon International Participations, having recently sold positions in Graphite Enterprise and Dunedin Enterprise. Pantheon exposure is mainly through the trust's redeemable shares, which Greenwood says trade at an unjustifiably high discount to the ordinary shares, particularly given Pantheon can choose to redeem them at NAV.

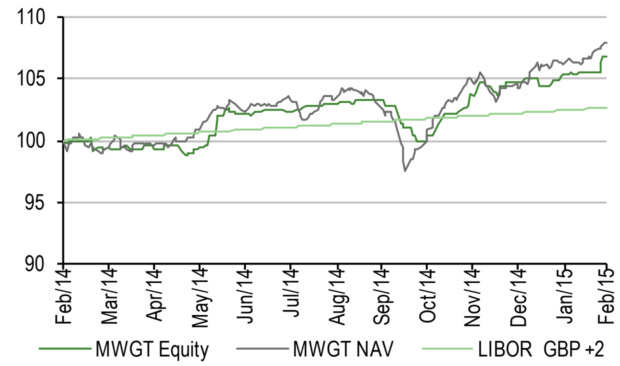
Another recent move is into resource stocks, including specialist plays such as Phaunos Timber (now under a new board and manager after problems associated with overstating the value of its timber assets) and Geiger Counter, a uranium specialist. Greenwood has taken positions in junior mining names like Praetorian Resources and Global Resources IT (GRIT). With resource prices low, big mining companies are not investing in new production; trusts like Praetorian and GRIT specialise in smaller players needing finance to operate; while these are high-risk and many mines may never reach production, the assets are so lowly valued that even if only one in 10 mines succeeds, Greenwood says there is significant return potential, though it may take time to crystallise.

Longer-standing themes expressed though the top 10 holdings include property in Berlin (Taliesin Property Fund), China (Macau Property Opportunities) and secondary cities in the UK (Real Estate Investors); certain specific assets in realisation phases (Aurora IT and Alternative Asset Opportunities) and selective increases in exposure to Asia (Establishment IT, itself a special situation owing to a large family shareholding; and Martin Currie Pacific, which has recently changed from a pan-Asian to an Asia ex-Japan portfolio and adopted an absolute return approach). While Greenwood does not usually hedge currency, he feels the fiscal and political uncertainty in the UK could cause the pound to weaken, and has trimmed UK smaller companies exposure as a result.

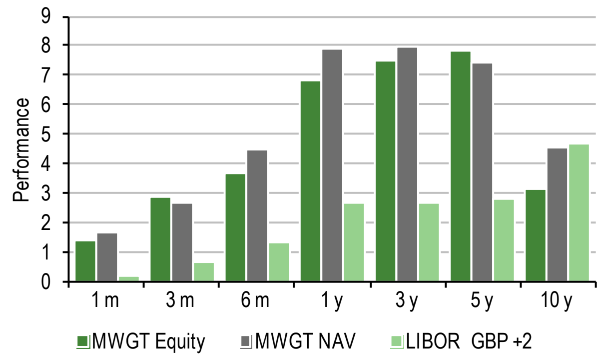
Performance: Positive returns in line with objective

Exhibit 4: Investment trust performance to 28 February 2015

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three-year, five-year and 10-year figures are annualised.

Exhibit 5: Share price and NAV total return relative performance (geometric calculation)

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to LIBOR GBP +2	1.2	2.2	2.4	4.0	14.6	26.9	(13.5)
NAV relative to LIBOR GBP +2	1.5	2.0	3.1	5.1	16.2	24.5	(1.2)
Price relative to MSCI World	(1.5)	(0.8)	(5.7)	(9.2)	(18.7)	(17.2)	(43.8)
NAV relative to MSCI World	(1.2)	(1.0)	(5.0)	(8.2)	(17.6)	(18.7)	(35.9)
Price relative to FTSE All Share	(2.2)	(1.8)	(0.4)	1.2	(9.0)	(10.0)	(35.6)
NAV relative to FTSE All Share	(2.0)	(1.9)	0.4	2.2	(7.7)	(11.7)	(26.5)

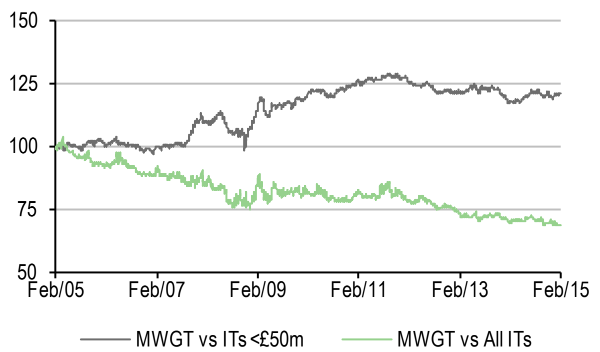
Source: Thomson Datastream, Edison Investment Research. Note: Data to end-February 2015 and indices £ adjusted.

Given the sometimes uneasy combination of a portfolio of listed assets and an absolute return benchmark (in this case three-month LIBOR plus 2%), it is encouraging that MWGT has posted positive NAV and share price total returns over all the periods in Exhibit 4 above. Over all periods except 10 years (which includes the financial crisis), returns (annualised over three, five and 10 years) have also been comfortably ahead of benchmark, with NAV returns of 7-8% a year over one, three and five years, although share price returns have been slightly lower over one year as the discount to NAV has widened somewhat. MWGT's investment strategy means it will tend to lag a rising market, and this is reflected in the returns shown relative to mainstream equity indices (Exhibit 5). As shown in Exhibit 6 below, performance has been largely in line with the benchmark over the past two years, showing greater stability than during the crisis period. MWGT has lagged the broad investment trusts universe (Exhibit 7, using Datastream indices) over the longer term, but has tended to do better than the smallest trusts (sub-£50m market cap), a group of which it is a member, and which also accounted for a quarter of the portfolio at 31 October.

Exhibit 6: Performance relative to benchmark (10 yrs)

Source: Datastream, Edison Investment Research. Note: Benchmark is three-month Libor +2%.

Exhibit 7: Performance relative to IT universe (10 yrs)



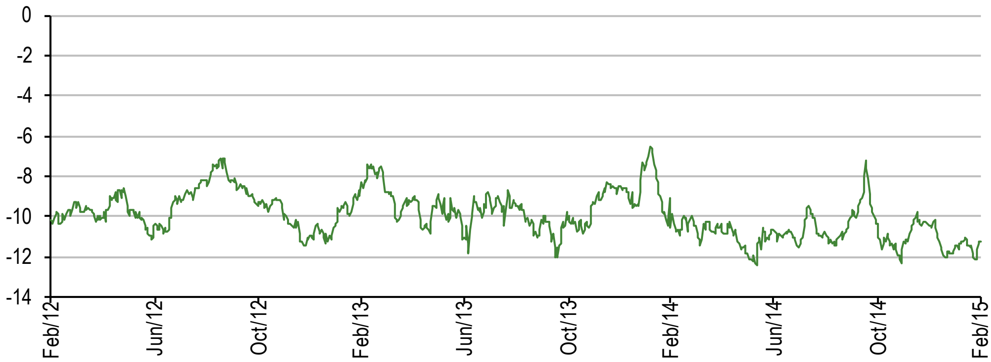
Source: Datastream, Edison Investment Research. Note: IT universe represented by Datastream Investment Trusts index.

Discount: Slightly wider, but within long-term range

MWGT's discount to net asset value has drifted slightly wider over the past year, although it remains broadly within a range of 8-12%. The discount to cum-fair NAV at 27 February was 11.5%, wider than the one-, three- and five-year averages (10.8%, 9.9% and 10.2% respectively), in spite of NAV being at a 12-month high. Given the focus on out-of-favour assets, the share price tends to lag a rising NAV, meaning the discount can widen when NAV performance is strong. While the trust has the authority to buy back shares to manage the discount, it has not done so since April 2009, when the discount was 13.6%.

One of the tenets of MWGT's investment style is to invest in assets that are trading at anomalously wide discounts to NAV. Based on the latest available full portfolio listing (at 31 December), the weighted average discount of the underlying holdings was 20.0%. Applying MWGT's own 11.5% discount to this gives a look-through discount to NAV of 29.2%, meaning each £1 invested at this valuation would buy £1.39 worth of assets.

Exhibit 8: Discount over three years (NAV with debt at fair value, including income)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

Structured as a conventional investment trust, MWGT has 25.3m ordinary shares in issue. It may buy back up to 14.99% of the issued share capital and issue new shares up to 5% of the existing capital. The trust may gear up to 20% of net asset value and has currently drawn £3m of a £7m revolving facility with Royal Bank of Scotland. At 31 January gross gearing stood at 6.6%; however, a 4.9% cash weighting means the net gearing figure is lower, at 1.7%. Miton Asset Management receives an annual management fee of 0.5% of market capitalisation, calculated daily and paid monthly in arrears. A 15% performance fee is payable on outperformance of three-month LIBOR plus 2%, although this is subject to a high-water mark and no performance fee was paid for the year ended 30 April 2014. Ongoing charges (annualised) for the six months ended 31 October 2014 were 1.17%.

Dividend policy

MWGT has not paid a dividend since launch. Income received from portfolio holdings is minimal (£328,000 in H115) and is mainly used to cover management fees/expenses and interest costs. Under investment trust rules, companies are not permitted to retain more than 15% of their income in an accounting period. For H115, £43,000 or 13% of income was retained.

Peer group comparison

MWGT is a member of the AIC's Global sector, a diverse group of 38 trusts. There are few direct comparators (those with both an absolute return focus and a fund-of-funds structure; Cayenne Trust (which has recently announced it is to wind up when its manager retires next year) is the most similar, while British Empire Securities and World Trust Fund also have a focus on undervalued assets). The table below includes funds of funds and absolute return-type mandates.

Within this group, MWGT's NAV total return performance over one, three and five years is somewhat below average. However, over five years risk-adjusted performance as measured by the Sharpe ratio is slightly above average for the group shown below and in line with the sector as a whole. The discount to NAV is one of the widest in the sector, while gearing is below average. MWGT is one of only four funds in the group of 38 not to pay a dividend.

Exhibit 9: Global investment trust sector – average and selected trusts

Fund name	Market cap £m	TR one year %	TR three years %	TR five years %	Ongoing charge %	Perf. fee	Discount /prem %	Net gearing %	Div yld	Sharpe NAV 1y	Sharpe NAV 5y
Miton Worldwide Growth	**39.8**	**5.7**	**28.5**	**42.0**	**0.8**	**Yes**	**-12.8**	**99.0**	**0.0**	**0.7**	**1.3**
British Empire Securities	726.8	7.7	33.2	42.7	0.9	No	-11.1	100.0	2.1	1.3	1.0
Cayenne	51.4	11.5	41.8	44.3	2.0	Yes	-4.9	111.0	0.8	1.6	1.0
F&C Managed Portfolio Growth	37.5	4.5	52.7	70.6	1.2	Yes	-3.0	97.0	0.0	0.8	1.4
JPMorgan Elect Managed Growth	213.6	5.3	55.9	77.5	0.5	No	-2.2	99.0	1.3	0.9	1.6
Personal Assets	621.5	10.3	12.1	41.8	0.9	No	1.2	77.0	1.6	1.4	0.4
Ruffer Investment Company	338.7	2.8	15.3	33.0	1.2	No	2.1	95.0	1.6	0.2	0.8
World Trust Fund	103.4	15.0	44.5	61.1	1.4	Yes	-12.3	100.0	0.2	0.8	1.2
Peer group average (8 funds)		**7.8**	**27.5**	**45.8**	**1.0**	**0.0**	**-4.3**	**92.6**	**1.6**	**1.1**	**0.8**
Whole sector average (38 fds)		**9.8**	**46.7**	**69.7**	**0.8**	**0.0**	**-5.6**	**106.9**	**1.8**	**1.3**	**1.3**
MWGT rank out of 8	**7**	**5**	**6**	**6**	**7**		**8**	**4**	**7**	**7**	**3**

Source: Morningstar, 12 February 2015. Note: The Sharpe ratio is a measure of risk-adjusted return. The ratios we show 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/cash equivalents as a percentage of shareholders' funds (100 = ungeared). TR= NAV total return. TER= total expense ratio/ongoing charges.

The board

MWGT has four directors. Chairman Anthony Townsend has been a member of the board since launch in 2004, as have James Fox and Michael Phillips. Hugh van Cutsem became a director in 2010. All the directors have extensive experience in the investment trust sector.

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