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Business

American opportunities give ICG Enterprise Trust scope to be a rewarding play

Questor
Trust Bargains

The private equity vehicle's new owners should give it greater resources to expand its horizons, says *Laura Suter*

PRIVATE equity investment trusts offer investors the ability to buy into unlisted businesses but via an easily traded vehicle. These trusts invest in primarily earlier-stage businesses, or those that for a range of reasons are not themselves listed.

Several investment trusts have built up private equity portfolios, and have tended to trade on large discounts since the financial crisis. At "worst", the sector hit an average discount of 61pc. In other words, the shares in the trusts were changing hands at prices that lagged the estimated value of the underlying holdings by 61pc.

That was at the height of the financial turmoil in 2009. Now discounts are at an average of 13pc – still large enough to be attractive – but with prospects of narrowing further.

Of particular interest is ICG Enterprise Trust. This trust has undergone significant change in the past couple of years, having been run previously by Graphite Capital Management. This was bought out by ICG, a bigger asset manager, and in February 2016 the vehicle was renamed ICG Enterprise Trust.

ICG Enterprise Trust

Buy

A management change and strong performance could cut the discount

The management team were acquired as part of the transaction, meaning there was no change of fund manager. But the greater resources of ICG as a parent company should help boost the trust's fortunes.

Peter Hewitt, manager of F&C Capital and Income Trust, a portfolio that invests only in investment trusts, said the new ownership opens up opportunities in America, because ICG has more resources in that area. The trust invests in privately owned businesses directly and in funds that invest in private equity. Of the third-party funds, around a third are managed by Graphite Capital or by ICG. By using "in-house" funds, the overall cost of the fund is reduced.

This is a key differentiator from some peers, as the cost of running a private equity portfolio, particularly in a fund-of-fund model, is higher. The current ongoing charges are 1.4pc, which is on the higher side but not exceptional in this sector.

ICG Enterprise's full-year results for the year ended Jan 31 are solid. The fund's total return for the period was 28.9pc (although of this 7.1pc was down to foreign exchange movements, following sterling's fall).

The board is planning a minimum dividend of 20p per share for the year, alsmost twice last year's payout, and which at the current share price represents a 2.7pc yield.

The private equity investment trust sector has seen two recent exits: Electra and SVG. Both were large trusts. This means that there is more investor interest among a smaller pool of available trusts, giving a boost to good performers such as ICG.

Mr Hewitt said that while he does not expect the current 17pc discount to narrow to par, he can see it reducing to 10pc, giving investors a fillip on top of the trust's NAV performance.

One potential cloud hanging over the trust, and its discount, is that from February this year a previous deal with F&C has ended, meaning that the trust can no longer be bought within the F&C Savings Plan.

This section of customers accounts for around 40pc of the investor base at the moment, according to broker Winterflood. If there are fewer people buying the trust when this healthy stream is cut off, this could lessen demand and hamper any narrowing of the discount.

Questor says: Buy
Ticker: ICGT

Key numbers

- **Market value: £506m**
- **Discount: 17pc**
- **Average discount over the past 12 months: 22pc**
- **Yield (2016 dividends): 1.5pc**
- **Last full year's dividend: 11p**

Trust update

Another trust that invests in unquoted holdings is Woodford Patient Capital Trust, which released its two-year results last week. Questor tipped the trust as a tentative buy on Jan 12 at a share price of 93p and a discount of 5pc.

The results for the year ended Dec 31 2016 saw the trust's net asset value fall 4.2pc. During 2016 the unquoted portion of the portfolio – which accounts for about 65pc of the fund – rose, while the quoted portion dragged on performance.

Fund manager Neil Woodford has proposed allowing a greater portion of the trust to be held in unquoted companies and a greater portion to be exposed to international markets, outside the UK. These are intended to give more freedom to Mr Woodford in where he invests.

Some solace for investors is that the fee are structured such that he does not get paid until returns breach 10pc a year – so they have not yet paid a fee above the normal trading costs.

Ticker: WPCT