# Q&A With Our Portfolio Managers


NICK GREENWOOD & CHARLOTTE CUTHBERTSON AT AVI

It has been 20 years since Nick Greenwood launched MIGO Opportunities Trust plc ("MIGO"). Much can happen over two decades but the constant has been the search for the best opportunities in the investment trust sector. The biggest change this year will have been the move to Asset Value Investors. As MIGO celebrates its 20th anniversary, we chat to Fund Managers, Nick and Charlotte, about the journey the Company has been on in those two decades, the challenges faced and how things have changed.

## Nick Greenwood

**Q. What an exciting milestone to be celebrating. Take me back to the beginning of the MIGO story – where did it all begin?**

**A.** Two decades ago, the fund management world was a very different place. Straying too far from a benchmark was deemed a serious career risk, and tracking error was a metric closely monitored. This created a dysfunctional environment detached from the real world. In the early noughties if you had asked a range of UK fund managers which FTSE stock they liked the least, the majority would correctly respond with Vodafone which had recently bought Mannesmann in a blockbuster deal. They would reflect their bearishness by taking an underweight position perhaps 10% in comparison to Vodafone's 14% in the index, meaning that it remained a significant investment. Just imagine thanking a client for being entrusted with their life savings and then telling them that the first thing you had was to put a tenth of that sum into the shares that you think are going to fall the furthest. It was clear that common sense needed to be introduced into portfolio management, buying only investments that would make actual money. MIGO was our response and explains our use of a cash benchmark.

**Q. 20 years is a long time – what are some of the biggest challenges that MIGO has had to face in that time?**

**A.** Given that MIGO was launched post the splits crisis, the greatest challenges are those that the trust world is facing today. Firstly, the rapid consolidation of the wealth management industry into a handful of extraordinarily large companies. The assets under management are such that it makes it very difficult for them to use investment trusts at all as they just can't buy enough shares to move the needle. Greater damage is being caused by flawed regulation concerning cost disclosures. Whilst this problem will eventually be resolved it is impossible to quantify how much damage will be inflicted in the meantime. The positive side is that these challenges have meant discounts are at their widest since the Great Financial Crisis in 2008. A fantastic opportunity to build a portfolio of trusts trading far below their intrinsic value. Either we will see buying returning to trusts or if the stock market cannot value an asset properly then eventually the real world will buy the underlying portfolio eliminating the discount and providing a profitable exit for shareholders. MIGO is well positioned to benefit from this phenomenon.

# Charlotte Cuthbertson


**What do you think potential investors are attracted to about MIGO?**

**A.** MIGO's flexible approach which allows it to go anywhere, meaning that it is lowly correlated with mainstream indices and can exploit an inefficient market. We can invest in any geography or asset class as long as it is held in a closed-end structure. Many of our Investors understand the market opportunity but rather than pick individual trusts effectively sub-contract selection by owning shares in MIGO.

"During the most challenging times, the best opportunities arise"

**Q. You have employed gearing this year, why is that?**

**A.** Discounts have become extremely wide as the result of the challenges discussed earlier; corporate activity will increase making it a profitable time to own trusts. We would expect that our gearing could become higher going forward within the limits of our investment policy and our loan facility.

**Q. Which sectors do you find particularly interesting now and why?**

**A.** Interesting sectors include; UK Microcaps, biotech and more recently growth private equity. Microcaps suffer from the same problem as investment trusts in that they are too small for many institutions to own and will be acquired by the real world at a premium. Biotech has been treated harshly as it has been lumped in with other pre profitable sectors. Big pharmaceutical companies will need to replace products which are reaching patent expiry. This will be achieved through acquiring biotech companies at a time when the FDA is approving a record number of new drugs. Growth private equity is a classic arbitrage between perception and reality. A trust like Seraphim Space seems an exotic asset class at first glance but in practice the industry is maturing. Communications systems have long employed satellite, furthermore the industry is heavily exposed to defence where budgets are only going one way

**Q. Have there been any synergies with the move to Asset Value Investors?**

**A.** Asset Value Investors has a long history of owning and running investment trusts which makes it a perfect home for MIGO. Although we have very few common holdings with AVI Global, we have a similar patient, value approach and have been able to discuss ideas and themes with the wider team.

**Q. Looking to the future, where do you think MIGO might be in another 20 years?**

**A.** We think the important point is that the investment trust movement has constantly evolved as the environment has changed. We expect this to continue into the future and MIGO will evolve with it. Although the sector has had a particularly tough period we are optimistic for the future.

AVI
Asset Value Investors

info@assetvalueinvestors.com
2 Cavendish Square
London W1G 0PU