

## Recent News in Inv.Cos Sector

Companies: WWH, EDIN, BRGE, HICL, TREE

### Pharma/Biotechnology

#### Worldwide Healthcare Trust – Manager positive on outlook

- The company's results highlighted that the year to 31 March was relatively difficult for the healthcare sector, with a return from the benchmark of just 2.5%, compared with 7.9% from the MSCI World in Sterling (the benchmark was switched to the MSCI World Healthcare Index on 1 October 2010 from the Datastream Worldwide Pharma & Biotech Index). Over this period, the NAV rose by 4.0% helped by M&A activity, notably the takeover of Genzyme by Sanofi-Aventis for \$20bn. Positive contributions also came from NPS Pharmaceuticals (encouraging Phase III data) and Illumina (following the commercial launch of its sequencing platform), as well as from the Health Maintenance Organisations (HMOs) that had previously been sold off due to fears over healthcare reform in the US.
- In the past three months, the sector has come back into favour and Worldwide Healthcare Trust's NAV has risen by 8.8%. The managers are positive on the outlook and believe that valuations are now at historically attractive levels, giving the potential for "*strong absolute and relative outperformance*". Reflecting these views, the fund currently has gearing of 17.7% of net assets via a loan facility. They remain cautious on large cap pharmaceutical stocks and are highly selective in this area as several mega-blockbuster drugs are due to lose patent expiry by the end of 2011 (favoured stocks include Novartis, Roche, Pfizer and Johnson & Johnson). However, they see substantial opportunities in the biotechnology sector, with considerable innovation in drug discovery among the small/medium sized companies. In addition they feel that the environment for generic drug manufacturers is positive and they remain bullish on HMOs. In addition, they see opportunities in Emerging Markets such as China and India as a growing proportion of GDP is represented by healthcare. At present, though 63% of the portfolio is invested in the US, 22% in Europe and 15% in Asia/Israel.
- The fund benefits from a well resourced team, headed by Sam Isaly in New York, and since the launch in 1995, the company has achieved an NAV total return of 14.3% p.a., compared with 10.1% p.a. for the blended benchmark. The current share price of 747.5p represents a 7.6% discount and we believe that the downside is protected through an active buyback policy if the discount exceeds 6%. Reflecting strong revenue growth from the portfolio, the dividend has been increased to 15.0p from 8.5p (ex-date 8 June), equivalent to a yield of 2.0% p.a. Worldwide Healthcare Trust is the largest fund in its sector with a market cap of £323m, and we believe it is an attractive vehicle for investors seeking exposure to the pharma/biotech sector.

### Developed Equity

#### Edinburgh IT – To increase overseas equities to 20% of portfolio

- In the annual report, released on Tuesday, the Board proposed to increase the upper limit for overseas exposure from 15% to 20% (the maximum allowed to be classified within the UK Growth & Income sector). The overseas exposure was introduced shortly after Invesco took over as manager, and the fund currently has 14% invested in international equities including Reynolds American 5.9%, Altria 3.6%, Roche 3.5% and Novartis 1.9%. Over recent years, a number of other funds in the UK sector have broadened their mandate

to allow investment overseas and we believe that this is partly a response to the concentration of dividends within the UK market.

- Edinburgh IT's results also highlight that Neil Woodford expects "*anaemic growth through late 2011 and beyond*". He remains focused on defensive companies which he believes have been left behind by the stock market rally of the last two years, when the market was focused on the expectation of economic recovery. Pharma and Telecoms represent significant exposure, but he has substantially reduced his Utilities holdings over the last year due to concerns that regulatory pressure will erode returns. He believes there is a "*once in a decade opportunity*" to invest in high quality businesses at attractive valuations.
- The defensive focus means that the fund has lagged behind in the strong market recovery in 2009, but, the manager has an exceptional long-term track record and performance has improved of late, with the NAV up 28% over the last 12 months versus 20% for the FTSE All Share. The fund (£952m market cap) pays a yield of 4.3% and is trading on a premium of 6.6% to NAV. At this level of premium, we believe that it is worth considering a switch into the equivalent open-ended vehicle.

### **BlackRock Greater Europe IT - Tender offer undersubscribed**

- This continental European equity fund (£203m market cap, 2% discount) offers investors the opportunity to tender up to 20% of the share capital every six months at a 2% discount, subject to directors' discretion. The latest tender was significantly under-subscribed with elections from just 2.3% of the share capital (2.23m shares) and so the tender will be satisfied in full. This follows a similarly low take up of 2.9%, 2.6% and 3.3% in the previous 3 tenders. In our view, this discount control mechanism has been effective for BlackRock Greater Europe as it has a strong long term track record and a diversified retail shareholder base. Most of the peers are currently trading on discounts close to 10%, including Gartmore European (9% discount) which no longer appears to be sticking to the Board's previous policy of protecting its discount at 3.5% through share buybacks.

## **Infrastructure**

### **HICL Infrastructure Company – £4.6m acquisition**

- HICL has acquired a 75% interest in Brentwood Community Hospital PFI project for £4.6m from Kajima Partnerships limited. The company state that the price paid is "*in line with the current valuation of similar UK PFI projects in the group's portfolio*". Discount rates applied to HICL's projects range from 8.4% to 10.0%.
- The project is a 32 year concession to design, build, finance, operate and maintain a community hospital in Brentwood Essex, providing 50 inpatient beds in a 9,000 sq m facility. Following the acquisition, HICL has 41 projects in its portfolio. As at 31 March the fund had a cash balance of £54.7m, of which £47m relates to future investment commitments on three projects. In addition the fund has a £200m debt facility. The shares are trading on a 7% premium to NAV and yield 5.7%.

## **Timber**

### **Cambium Global Timberland - \$11m disposal of Texan land**

- Cambium Global Timberland (£60m market cap) has agreed to sell the remaining 7,270 acres of its land around Corrigan, Texas. The proceeds (net of transaction costs and taxes) of \$10.9m will be used to pay down debt. The sale is 108% of the original purchase price and will add \$0.7m to the NAV valuation, equivalent to 0.5% of net assets. This follows the sale of land around Corrigan in September 2010 for \$18.1m, as well as sales of land in Marlborough, New Zealand in February 2011 for NZ\$7.2m. Following

this transaction the fund's portfolio has 34% in the United States, 35% in Brazil, 10% in Hawaii, 8% in Australia, with 13% in cash reserved for investment and working capital. In April, shareholders agreed to suspend the fund's currency hedge.

## **Numis – Lunch and Conference**

- **Schroder Opus Commodity Fund #** : Schrodgers is currently seeking to launch a new London-listed closed end fund to provide investors with diversified exposure to commodities, If you would like to attend an investor lunch with the management on **3 June** in Edinburgh, please click here: [Register - Edinburgh](#)
- **Numis Investment Cos Conference**: Tuesday 7 June, Grocers' Hall. Click here to view the **conference Schedule** or to register please click here: [Register](#)

Please contact us if you are interested in attending these events as spaces are limited.

*Note: all prices, NAVs and discounts as at close of business at 1 June 2011 unless otherwise stated*

*\* Denotes that this company is a corporate broking client of Numis Securities.*

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**Regards**

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