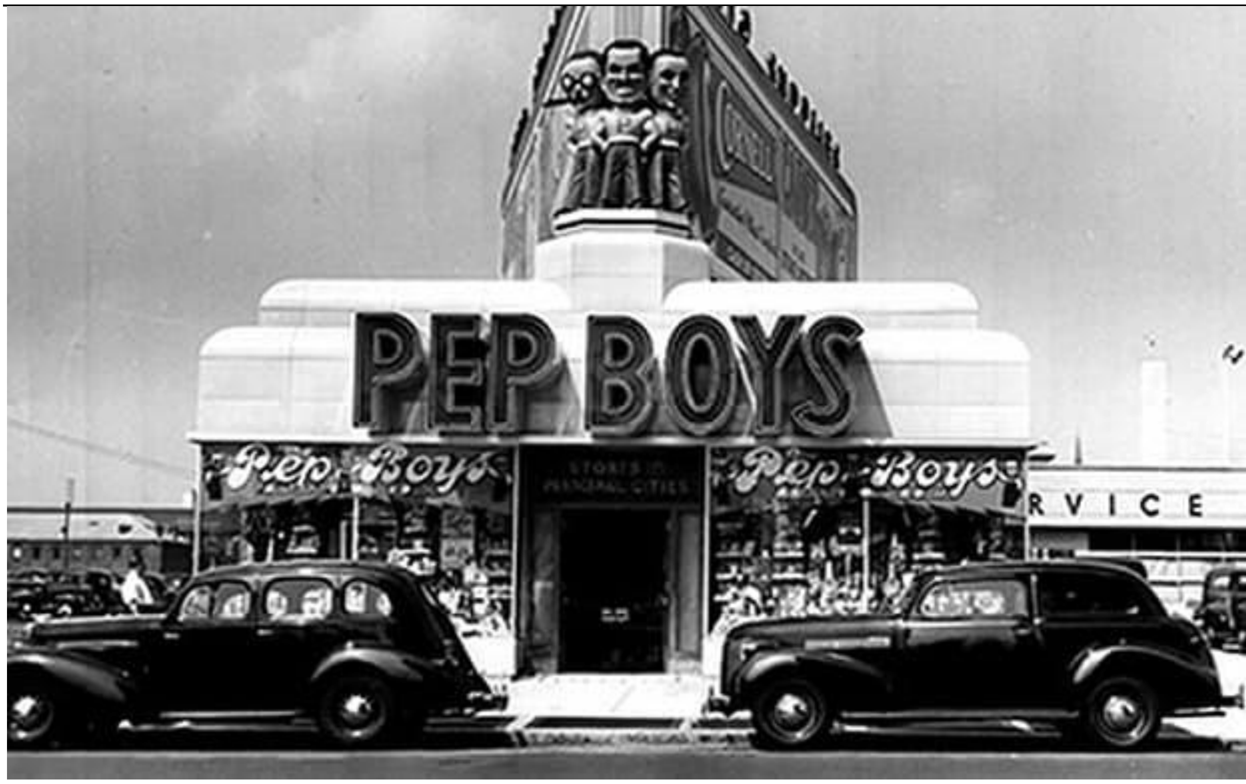
The Telegraph
INVESTOR

Gabelli Value Plus: An investment trust to beat the tough US market?

A recently launched fund offers British investors the services of a US giant - and it's going cheap



Pepped up: Pep Boys, a US auto repairs chain dating back to 1921, proved a shrewd investment after being thrown up by the Gabelli approach

By Ed Monk, Investment Editor
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A much-heralded investment trust that takes stakes in undervalued American firms is currently trading at the largest discount seen since it launched last year.

The Gabelli Value Plus trust raised £100m when it listed a little under a year ago and spent much of 2015 trading at a significant premium, with shares selling for more than 8pc above the value of its assets in May.

Demand faltered in the second half of the year, however, and the shares can now be bought at a 3.1pc discount.

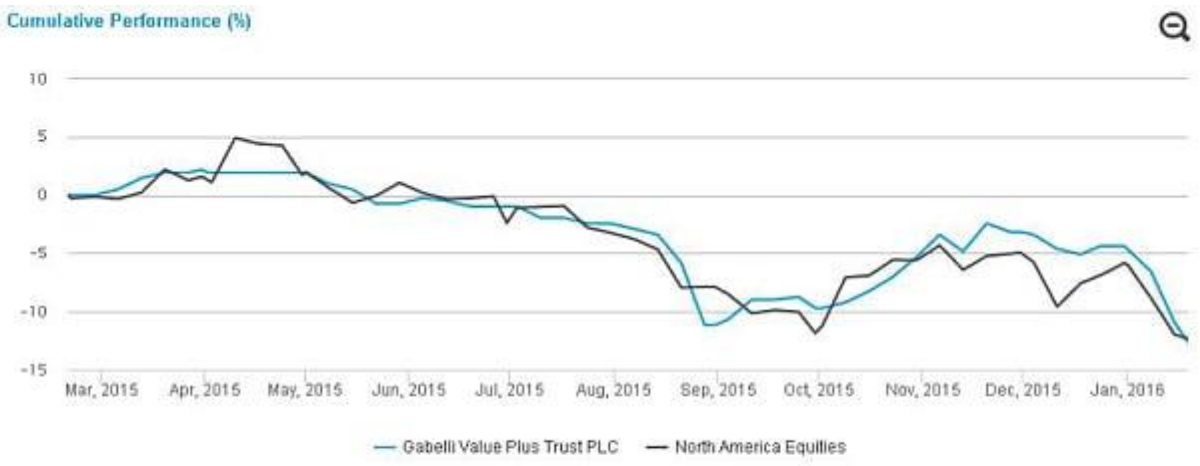
Gabelli Value Plus attracted attention thanks to the famous US investor whose name it bears, although he is little known in the UK. Mario Gabelli founded the stockbroker Gabelli & Co in 1976 and later expanded into fund management. Gabelli Asset Management now has $40bn under management.

The London-listed trust is a small addition to that but it still counts Mr Gabelli among its management team along with his son, Marc, Caesar Bryan and Bob Leininger.

Their firm's well-established US fund, which provided the blueprint for Gabelli Value Plus, produced an annualised return after fees of 11pc in the 20 years up to 2015, compared with 8.1pc for the S&P 500.

The Gabelli Value Plus trust follows the same process. It seeks out companies poised to benefit from a “catalyst” that could bring about a jump in the value of their shares, when those shares are currently trading at a discount to their “private market value”. Private market value is discerned from examining fundamentals such as earnings, assets and cashflow, but also includes the premium that a private buyer would pay for the company.

“We don’t have to identify a potential buyer for the company, but more what value a theoretical private buyer would put on it,” Mr Leininger, a co-manager of the fund, told *Telegraph Money*. “We look at other deals that have taken place to understand what a buyer could pay.”



Performance & Risk

	1m	3m	6m	YTD	1yr	3yrs	5yrs	Since launch
Fund	-7.93	-4.76	-10.89	-8.63	-	-	-	-12.62
Sector	-5.13	-5.24	-11.50	-6.76	-13.57	6.46	27.01	301.96

Value alone, however, is not enough. In order to buy shares in a company, Gabelli must also identify a “catalyst” that can trigger a rise. A takeover is only one such catalyst.

Mr Leininger said: "It could be something company-specific, like a share buy-back, a new product line or new management. Or it could be a macroeconomic issue, such as a sector that is undergoing consolidation - anything that could change the market's view of a company."

Gabelli argues that seeking out these catalysts helps it avoid "value traps" – those stocks that look cheap but that have little prospect of returning to their former valuation.

The process has often led the Gabelli team to companies with a franchise model, where there is a high level of cashflow, and away from commodity and IT firms.

Mr Leininger gave the example of Pep Boys, a motor repair and parts chain with hundreds of locations across the US. The catalyst came about when Pep Boys was eventually bought by Icahn Enterprises and brought under the oversight of the renowned investor Carl Icahn. The Pep Boys share price has more than doubled since the deal.

The Gabelli process has often resulted in it investing in companies embroiled in shareholder activism – where large shareholders use legal and other routes to bring about change that they believe to be in shareholders' interests. Despite that, Mr Leininger said Gabelli tended not to agitate for change in this way. "Other people's activism may be the catalyst that we are looking for," he said.

The Gabelli Value Trust uses one more tool to help returns, a process referred to as "merger arbitrage". This means buying into companies after they have become takeover targets in the knowledge that the shares will be worth more if the deal is struck.

The aim is to identify "conservative" takeover prospects, typically cash sales, that have a high chance of success. The gains made from these situations, which are completed within a few months, are uncorrelated to the wider stock markets, thereby lowering the volatility of the fund.

Performance in its first year has been muted and the trust marginally trails the wider US market. The value of its assets has fallen by 3pc since launch, against a 2pc rise in the S&P 500.
US stocks are widely regarded as being expensive at the moment, despite this week's sell-off. Those who invest in Gabelli Value Plus are doing so for its potential to outperform the well developed and researched US market, where active fund managers often fail to find value that the rest of the market cannot.

Backers believe Gabelli's name and scale, with a team of 40 analysts at its disposal to put its methodology into action, give it a chance to do that.

Investors pay a 1pc annual fee. No level of yield is targeted but it is expected to range between 1pc and 3pc.

Source: http://www.telegraph.co.uk/finance/investor/investing-news/12114928/Gabelli-Value-Plus-An-investment-trust-to-beat-the-tough-US-market.html