# Gabelli Value Plus+ Trust

Update
**18 September 2018**

## Summary

The Gabelli Value Plus+ Trust is a differentiated US equity portfolio with a high active share and a wide-ranging all-cap approach focused on identifying undervalued companies, including those with a strategic value to trade buyers.

The trust was launched in 2015 during a difficult period for a value approach, but over the long run the strategy has performed well, returning 16% a year compared to the 12% of the US market.

The aim is to produce real returns of 10% a year, and the focus is on bottom up analysis with no attention being paid to the indices – the trust's portfolio has an active share of 94% to the S&P500, with a bias to small and mid-size companies where the managers believe they can add more value and which are more often the subject of takeover bids.

The trust also invests a portion of its funds (currently around 10%) into companies that are the subject of takeover offers, which gives it low-risk returns not dependent on market movements.

The trust focuses on total return rather than generating an income, so distributions are not guaranteed.

Thanks to the value style being out of favour the discount has widened this year, although the trust traded on a premium the last time value rallied, following the election of Trump in late 2016.

## Portfolio

Gabelli Value Plus+ invests in US companies across the market spectrum with a highly differentiated value approach honed since it was first implemented in 1977.

The team, headed by Mario and Marc Gabelli, aims to buy companies trading below their value to a private buyer where they see a catalyst for a re-rating: the proprietary 'Private Market Value with a CatalystTM' approach. The objective is to maximise total return and generate a minimum of 10% a year in real terms over the long term.

The team analyses companies from the point of view of a strategic buyer, estimating what it thinks their worth would be in a privately negotiated transaction. It looks for companies that are trading materially below this valuation as this offers a margin of safety, in line with the classic Graham & Dodd value investing ethos the strategy derives from. Ideally, the team wants at least a 30% gap between its valuation and what the market is paying. It then looks for identifiable catalysts for a re-rating, which could be company-specific or macro-orientated, that are diversified across event time horizons.

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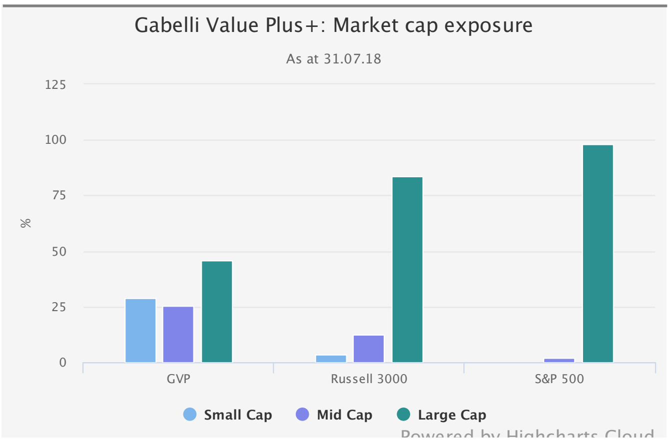
The first step of this process is based on a rigorous analysis of the balance sheets and cash flows of the businesses, but the identification of assets with a strategic value is of central importance and differentiates the approach from peers'. The objective is to find quality businesses that are trading below their strategic value, rather than simply to buy cheap stocks irrespective of the quality of the company.

This approach has led the strategy into many stocks which have been later taken over, earning the trust a substantial premium over the cost of investment. Although the team does not specifically try to identify M&A targets, almost 10% of the fund by value has been subject to M&A activity each year. The managers believe that the US market is seeing a fifth wave of M&A activity as a consequence of the globalisation of markets and industries, so this trend should continue to support the fund over the coming years.

The average weighted market cap is just $21bn, compared to over $100bn for the S&P 500. The managers believe they can add more value down the market cap scale as there is less coverage from Wall Street for small and mid-sized firms. Furthermore, these smaller firms are more likely to be subject to takeover bids. This focus also makes the trust's portfolio highly differentiated from the typical US equity holding – the active share versus the S&P 500 is 94%.

### Fig.1: Market Cap

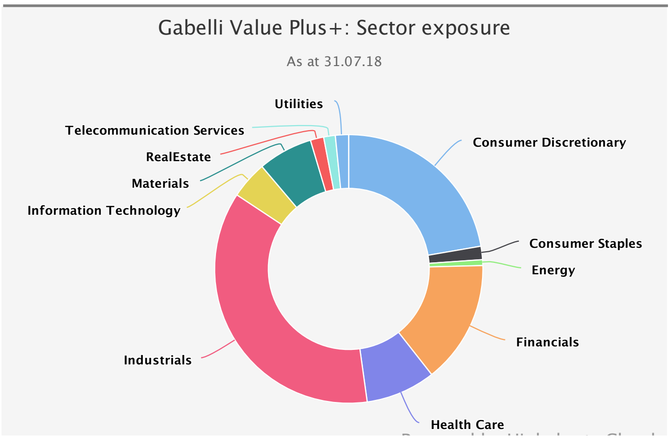



Source: Gabelli

The value approach means the trust has been light on technology and healthcare names, which have been expensive in the US market in recent years. The trust is biased towards industrials, consumer discretionary and financials.

Another distinctive characteristic of this trust is the merger-arbitrage component. The trust also invests in companies that are the subject of an agreed takeover. These companies typically trade slightly below the takeover price thanks to regulatory risk, shareholder approval risk and a general time effect. The opportunities are typically in the last 60 to 90 days before the deal completes, and the expected rates of return are for a spread of around 200-300bps over LIBOR, which amounts to an annualised 3-5% in current markets.

### Fig.2: Asset Allocation




Source: Gabelli

This bucket has shrunk to 10% as the portfolio has been increasingly invested in potentially more lucrative value opportunities, and is expected to stay around this level. Merger-arbitrage generates returns which are not dependent on the course of the markets and therefore uncorrelated to their direction, reducing the volatility of the overall portfolio.

There are 95 holdings in total, although the core of the portfolio is around 40 to 60 holdings. The top ten holdings typically make up around 30% of the fund and top 20 around 50%. The managers build up positions slowly, which has resulted in a tail of smaller holdings, although this has been reduced in recent months.

## Gearing

The company does not currently use gearing, although the articles of association allow borrowings of up to 40% of NAV. During 2017, the board did investigate options for opening borrowing facilities, but the managers' cautious net cash positioning meant that they did not consider it appropriate to take on the associated costs. The trust would be unlikely to raise gearing above 15% should it decide to borrow.

## Peer Group

The benefits of the margin of safety approach to investing can be seen in the downside characteristics, which are highly favourable compared to the other US-focused trusts.

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### Peer Group

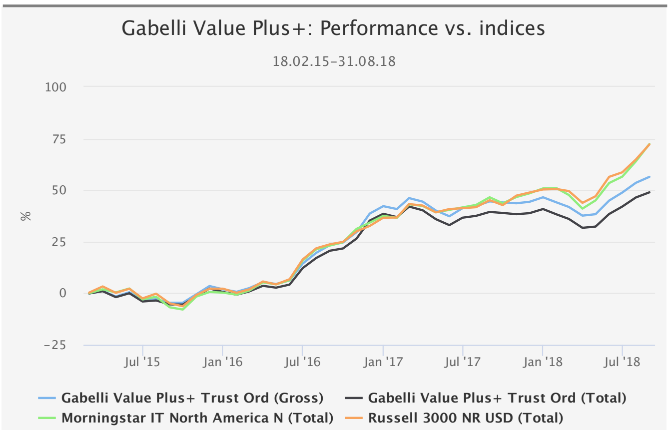
| NAME | DOWNSIDE CAPTURE RATIO 3 YR (MONTH-END) GBP | MAX DRAWDOWN 2015-09-01 TO 2018-08-31 GBP | STD DEV 3 YR (MO-END) GBP |
|---|---|---|---|
| BlackRock North American Ord | 93.99 | -6.58 | 9.70 |
| Gabelli Value Plus+ Trust Ord | 88.79 | -7.24 | 9.18 |
| JPMorgan American Ord | 131.57 | -6.63 | 10.73 |
| North American Income Trust Ord | 82.85 | -7.61 | 10.64 |

Source: Morningstar

## Returns

The value style of Gabelli Value Plus+ has been out of favour since the trust's launch in 2015, meaning that NAV returns have lagged the peer group and the US market. However, the trust performed well during the brief value rally that followed the election of Donald Trump as US president in November 2016.

### Fig.3: Performance

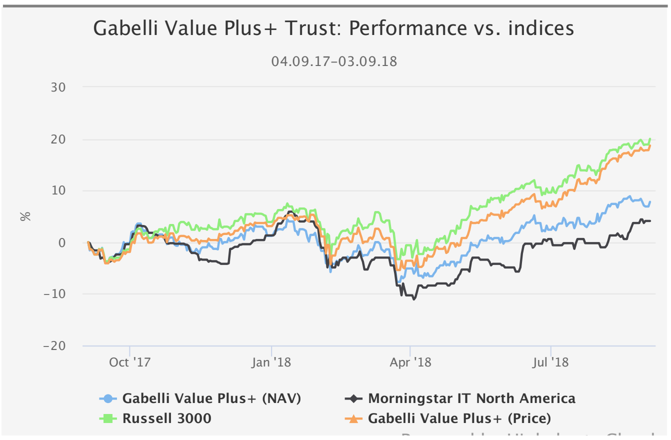



Source: Morningstar

The trust's value approach means it has long-term underweights to the technology and healthcare sectors, which have led the US market for this period.

Over the past year the value bias of the fund means that it has lagged the market, but returns have been superior to those of the peer group. Major contributors included Twenty First Century Fox, Ryman Hospitality Properties and Tredegar Corporation.

### Fig.4: Performance




Source: Morningstar

This has not been a good period for the trust's style, but there is promising evidence in the long-term track record of this strategy. According to GAMCO figures, since the team first implemented the Gabelli All Cap Value strategy in 1977, it has produced a CAGR of 16.2%, well ahead of the 11.7% of the Russell 2000 and 11.8% for the S&P 500.

The strategy has performed exceptionally well in down markets, while keeping pace with up markets on average. In the 44 down quarters, the strategy only lost 12.9%, versus the S&P 500 which lost 23.3%. In the 117 up quarters, the strategy outperformed slightly, returning 30.8% to the 29.6% of the S&P 500.

## Dividend

The trust aims to maximise total return rather than targeting dividends, therefore distributions are likely to vary from year to year and may not be paid at all in some years. The 2018 dividend was 0.6p a share compared to 1.2p in 2017.

## Management

The management team is led by Mario and Marc Gabelli, who are supported by a team of six portfolio managers and over 35 research analysts, between whom there is more than two centuries of professional experience.

GAMCO was founded by Mario Gabelli, who pioneered the "PMV with a Catalyst" approach, in 1976 as an institutional research firm. It is now a publicly-listed company in the US that employs 250 individuals, oversees assets worth c.$40bn and manages around 2,000 separate accounts for institutions and high-net worth individuals. It runs over 30 open-ended funds and 16 closed-ended funds, making it one of the largest closed-ended players in the US, with c.$7.5bn AUM. Outside of the US, it has offices in London, Tokyo and Shanghai.

Jonathan Davie has taken over as Chairman, following Andrew Bell's retirement at the last AGM. The Board is strengthened by the addition of Christopher Mills, founder and CEO of Harwood Capital, as a new independent director. Given this is GAMCO's first major venture into the UK market, we believe having such an experienced pair of hands chairing the trust can only be a positive.

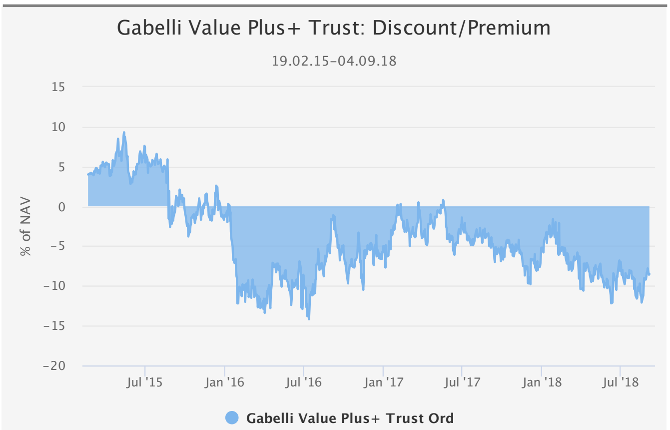
Though not particularly well-known in the UK, Gabelli is in 'household name' territory across the Atlantic. GAMCO Investors, which is the investment manager for the trust, was launched by veteran value investor Mario Gabelli in the mid-1970s and has grown to be one of the leading fund management groups in the US with assets of $40bn under management and more than 200 investment professionals on the rota.

# Discount

The discount on the trust widened in the first half of the year as high growth and momentum stocks rallied and value underperformed. It has since narrowed to its average level. However, the trust traded on a premium the last time that value outperformed, following Trump's election as US president in late 2016.

The board has been active in using its authority to buy back shares in recent weeks, although it does not give a target level. As the discount widened this year, the board effectively utilised its buyback authority. In the medium term the objective of the board is to grow the trust from its £134m market cap, which will necessitate share trading at a premium to NAV.

**Fig.5: Discount**




Source: Morningstar

# Charges

The OCF on the trust is 1.35%, which is the highest in the six-strong peer group owing to a management fee of 1%. When the trust does raise more capital, however, the OCF is expected to decline. The KID RIY figure is 1.47%.