Investment Trusts - a Primer Part 3

by Roy Colbran and George Miller

In the final part of the series on Investment Trusts we are, as promised, providing a few brief notes on individual investment trusts with which we are familiar. These are just a few ideas for ones that you might like to look at if you are thinking of beginning a portfolio of investment trusts. They are, of course, not in any way investment recommendations and there is no particular significance in the inclusion or exclusion of any trust. They are just an attempt to give you a selection of various types. We have split them into general trusts which we would expect you to look at as a starting point and specialist trusts.
Portfolio distribution figures are at the last year, or half year end, whichever is the later. Although comments on performance are included, do remember that past performance should not be taken as a guide to the future.

A. GENERAL TRUSTS

Foreign and Colonial

We are starting with the oldest and first-ever of all the investment trusts, founded in 1868 and among the really large ones. It's a global trust and had only 6.6% of its portfolio in the UK. It has performed steadily over the years almost but not quite matching the MSCI World index and well ahead of the All Share. The management fee is only 0.365% of asset value (although this gave rise to a charge of £9 million in 2015). Despite this ongoing charges were 0.80% largely because of the cost of managing the private equity portfolio which is 9% of the total. Despite strenuous buying back of shares it still trades at a significant discount.

City of London

In contrast this large trust had only 13% in shares listed on overseas exchanges and concentrates on FTSE 100 shares although biased towards international companies. It prides itself on low charges with an ongoing charge of only 0.42% - one of the lowest now available. Although ahead of key UK indices, performance has been nothing like that of Foreign and Colonial yet it regularly trades at a small premium. This is possibly because it's a good safe fund to have in one's portfolio and cheaply run.

Bankers Trust

Another global trust with just 27.5% of its assets in UK shares and one that keeps costs low with an ongoing charge of 0.52%. In the last financial year it expanded somewhat as another trust run by Hendersons was liquidated and one of the options that shareholders were given was to move into Bankers Trust. Performance has been distinctly better than City of London if not quite as good as Foreign and Colonial. It tends to trade at a small discount.

Alliance Trust

Readers can hardly have failed to notice all the activity surrounding this Trust in the last few years. Performance on a self-managed basis had been somewhat lacklustre and the fund traded at a large discount. Activist investors Elliott Advisers bought a large slice and pressed for substantial changes which at first were resisted but in the event resulted in the departure of the Chief Executive and Chairman and a new board. A new policy is now being instigated whereby Willis Towers Watson take overall control, under the board, with a multi-manager approach, starting with eight managers all given a relatively free hand. A deal has been set up whereby the Elliott shareholding will be bought back thus removing that outside pressure. Great things are promised from the new approach and ongoing charges will be kept down to 0.65%. The market appears to believe in it since the discount has now dropped dramatically although some of this will be due to some fairly aggressive buying back of its shares.

Scottish Mortgage

This is now the largest of all the trusts with assets at almost £5 billion. Despite its size, it has consistently achieved an outstanding performance. North America makes up 49.6% of the portfolio with only 4.3% in the UK. At the top of the table of investments are a few companies where the individual holding is a significant part of the total. Thus Amazon represents 10.8% and Illumina 7.6% of the portfolio. It would seem to follow that the performance is vulnerable to something going wrong in just a few companies. Ongoing charges are also low at 0.45%. Not surprisingly in the light of its record it regularly trades at a premium. It's one we are very glad to have in our portfolios.

Witan

This is another large old-established global trust founded in 1909. After a period of poor performance it changed, exceptionally, to a multi-manager approach. A Chief Executive was employed to choose the managers and allocate money among them. The idea is that the managers are specialists in particular areas rather than having one manager handling everything. At the end of the last half year they had 10 managers plus about 10% of the portfolio held directly. Witan shares stood at a big discount for a long time and it has been the most active of all the trusts in buying back its shares. The number of shares in issue is now less than half of what it was when they started the process some 12 or 13 years ago. The discount has reduced although we suspect this is because the market came to believe in the multi-manager approach rather than because of the buying-back process. The multi-manager approach does not lend itself to low fees and the ongoing charges figure for 2015 was 0.99% including performance fees.

Law Debenture

This is an exception to the general pattern in having a professional trustee business running alongside the investment trust activity. The business makes a distinct contribution to income and it often seems that the share price does not fully reflect the value which it adds. Although it calls itself a global trust, 71.4% of its assets were in the UK at the last half-year end. This is another one priding itself on low cost with an ongoing charge of 0.46%. It has continuity of management in that James Henderson has managed the trust for many years. Long-term performance has been good but it has slipped a bit in more recent years.

B. SPECIALIST TRUSTS

Here we have a small selection to give just some idea of the range available. There are also, for example, single country trusts including China, Russia, Brazil and many more. Generally expenses tend to be higher than for general trusts, possibly to allow for higher research costs.

Caledonia Investments

This £1.7 billion self-managed trust is controlled by the Cayzer family and they directly or indirectly own just short of 50% of the shares. In contrast to mainstream trusts, they operate through five investment 'pools' where the largest is in the unquoted sector. They also have an exposure to hedge funds. They are quite prepared to take a large equity stake in a private company if they know the operators and be a supportive and long term investor. This has brought them some unusual investments. For instance at their year end on 31 March 2016 their biggest investment was in a privately held caravan park operator. Ongoing charges are relatively high at just over 1%. The shares usually stand at a substantial discount possibly because performance has not been outstanding.

European

This is a medium-sized trust investing entirely in continental Europe which could make it an interesting part of a portfolio in the light of Brexit. For a specialist trust it is economically run with an ongoing charge of only 0.6%. The years 2006 to 2011 produced poor performance with the NAV dropping considerably. Since the Brexit vote performance in sterling terms has been helped by the exchange rate movements. Apart from that, it has not been brilliant since the managers' value-based approach has not been favoured in the market. The shares trade at a considerable discount.

Herald

Another medium-sized trust concentrating on technology and media companies of which 56% are invested in the UK. Katie Potts, who is a graduate in Engineering Science, has been managing the fund since it was launched in 1994 and is Managing Director of Herald Investment Management Ltd which was established to manage the fund. The ongoing charge rate is 1.08% which is not unexpected for a specialist trust. As one might expect with such a specialist vehicle, performance has been a bit more erratic than with some of the general trusts but overall quite satisfactory. As we write the shares stand at a discount of 18.0%.

RIT Capital Partners

This is a large investment trust (£2.5 billion) run by the Rothschild family. Lord Rothschild and his family trusts own about 20% and it has had an excellent record over the years. It is run as an absolute return fund, that is it seeks to return a profit come what may. On the whole it has done that by investing in funds from around the world, each with very different characteristics, and often unquoted on the main stockmarkets. These would be difficult for the private investor to gain access to on his own and we assume the Rothschild name has helped. The usual generalist trust will normally stock pick from the main indices in the quoted sector.

Part of the appeal of this trust is low volatility as a result of its wide spread of investments. It generates very little income and in recent years has paid most of its modest dividend from realized capital profits, as investment trusts have been allowed to do for some time. Ongoing charges are 0.68% and the shares usually stand at a premium.

TR Property

Here we have a trust investing in shares and property companies with a small amount in direct property. While one might think one could just as well invest directly in property companies, the fact that they have 65% in Continental Europe means that it would be very hard to reproduce anything like the portfolio as a private individual. The latest ongoing charge is 1.06% including the performance fee although it was 1.64% in the previous year. The performance fee element gives a substantial payment to the managers if they do well which is held to be justified because there is a basic fee fixed in money terms and a very small ad valorem element. Performance has been erratic although with very good returns over the last three and five year periods. The shares trade at a material discount.

Roy Colbran and George Miller