The People's Trust – a new approach to saving

by Daniel Godfrey

When The People's Trust is launched as a new investment trust on the London Stock Exchange in October, it will be the product of my thirty-five year journey in financial services. It has been a frustrating journey. This is largely because investment has so much potential to improve the lives of investors, the economy and society and yet this potential is largely unfulfilled. It's unfulfilled because the chain of capital that starts with the investor (by which I mean the ultimate beneficiary of the investment) and which leads to its ultimate deployment in the economy (via financial services, investment management and capital markets) is for the most part a dysfunctional chain, burdened by short-termism and conflicts of interest.

The tyranny of the short-term

It's all about time horizons. When it comes to investment, we typically have objectives that are decades over the horizon. At the least, they are several years away. If the need for the cash is less than that, the short-term risks of investment markets are best avoided. And yet the markets obsess about short-term volatility and short-term performance.

I would define the purpose of investment as being "sustainable wealth creation." And yet if we were to examine the aggregate activity and behaviour in the capital markets, it would find that they are not geared to that goal. Instead, one could infer that capital markets exist to extract as much rent as they can from capital as it is transmitted through (and spun round) the chain and that investment management exists to "beat the market" or at least to "beat the competition." This is simply not consistent with an objective to maximise sustainable wealth creation.

It is obviously deficient in that it costs investors far too much of their hard-earned savings, but the bigger cost is the way in which short-termism infects the non-financial economy. Investment managers control a substantial majority of votes at most listed companies. Their influence and the influence of ever-shorter-term analysts at investment banks who want to drive trading in shares brings enormous pressure on Boards and Chief Executives and has been well-documented by McKinsey and others. These short-term pressures rob investors of long-term returns. They deny employees better, more secure jobs. They diminish employment, productivity and GDP growth in the economy. And they constrain the steps that companies will take to protect the environment.

Index-benchmarking; fool's gold

There is no better example than the way in which so many investment funds make their objective to beat an index. It's almost impossible to beat an index every year, but it is very easy to ensure that your fund doesn't fail by too much. The law of averages ensures that you are very likely to beat the index at least one year in three and is a recipe for what I would describe as "sustainable failure."

The way to do it is to build a portfolio that looks quite like the index but taking some small bets around it by being "overweight" in shares that the manager thinks will do well and "underweight" in shares they think will do badly. But for us as investors, why would we want to pay active fund managers to buy any shares for us in companies that they believe are going to do badly? Furthermore, whilst we want all the shares in our portfolio to do brilliantly, our fund managers now want the shares in which they are underweight to do badly because it improves their relative performance against the index and the competition. There are enough conflicts of interest in investment management without creating more.

The People's Trust

It has been my painful experience that the pressures and incentives in this chain of capital and investment are so strong that it is impossible to reform the chain from the inside. This is despite the fact that the vast majority of practitioners recognise the dysfunction. But individually, they do not have the power to change things.

The biggest changes needed are to realign the chain around the long-term time horizons of investors. If we did, we would invest for sustainable wealth creation to the benefit of investors, the economy and society. That's why I am launching The People's Trust as a new, independent investment trust with no commercial sponsor. It'll be a company, listed on the London Stock Exchange. Since you invest in the fund by buying shares, the customers own the company. It's truly a mutual. As it grows, all the economies of scale belong to you.

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And to protect customers from the risk that employees allow their personal greed to cloud their judgment, The People's Trust will have no bonus schemes whatsoever. Instead, all employees will be paid a significant part of their basic salary in shares and they'll have to hold onto them for at least seven years. Our purpose is to deliver better returns for investors and to have a better impact on society.

Objectives and target

Our objective will be to optimise long-term, cumulative total returns as measured over rolling seven-year periods with a target compound return of 5% p.a. above inflation after costs. We believe that seven-year periods will allow us to invest in companies that we believe can deliver sustainable value creation over the long-term and we are confident that this will usually give our investors better returns without having to take more risk than shorter-term funds.

Our strategy will be to appoint three or four highly-qualified investment management firms to manage parts of our investment portfolio. They will be asked to manage for the long-term with a high-conviction, low- turnover approach that will, by definition, consider failures of responsibility to be the principal risks to capital. In addition, we intend to invest a small proportion of our capital in direct social impact investment. This involves making loans to community interest companies and charities providing services that tackle deprivation in some of the most deprived parts of the UK. This is not philanthropy. We aim to make a modest return, but you'll know that this money is being used for good.

Become a Founder

If you'd like to find out about becoming a Founder and helping us meet our set-up costs, visit our website at www.thepeoplestrust.co.uk. You can become a Founder for £20 (£10 for Under-35s) and it's our intention that Founders will be offered a small discount to the public offer price at the IPO in October.
You can join now and start making investment work better for everyone.

by Daniel Godfrey

Daniel Godfrey has spent over thirty years working in investment management as a communications professional and CEO. Most recently he led the Investment Association, the trade body for the UK's £6 trillion asset management industry. He served on the Board of The Investor Forum, a community interest company he founded whilst at the IA to promote long-termism among asset managers, asset owners and companies. He is an NED of Digital Moneybox, a new fintech app that enables people to round-up their digital spare change into an ISA, and Big Issue Invest Fund Management, the social impact investment arm of the Big Issue. He is a Co-Founder of The People's Trust, a new long-term mutual investment company, which has crowdsourced its start-up costs of £100,000 from over 2,300 members of the general public, who joined him as co-Founders in late 2016. The People's Trust is due to launch in October 2017 with a long-term total return objective and a social impact component.

Daniel was forced out of his influential job as Chief Executive of the Investment Association when a small number of members threatened to resign over his reform agenda.