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"UK investment trusts might be facing some tough challenges, but we remain advocates of their vital roles in multi-asset portfolios."

# Weathering storms and building trust

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In recent years, the UK investment trust sector has found itself navigating through challenging times. Changes in regulations and the overall economic environment have made things tough. But despite these challenges, it's important to remember why investment trusts are valuable, especially in terms of diversification and accessing long-term investment opportunities ordinarily not available to individual investors.

Back in 2022, the sector started seeing a significant number of institutional and retail investors pulling out, driven by regulatory changes that had widespread implications.

A key issue was the interpretation of EU rules concerning the reporting of 'ongoing costs,' which significantly impacted investment trusts in the UK.

Unlike open-ended funds, where fees are deducted from investors' holdings, investment trusts are set up differently and operate on a closed-ended structure. This means that operational costs are already embedded in the share price, leading to a discrepancy in how ongoing costs are perceived by investors.

Retail investors may be misled into believing they are paying yearly ongoing costs, while institutional investors, like ourselves, face the burden of aggregating costs, making their funds appear more expensive than they truly are.

As a result of these headwinds, UK investment trusts continue to offer significant value, especially with recent governmental actions to attempt to resolve issues surrounding cost disclosure rules as seen in the Autumn Statement, but which proved insufficient to overcome the problem. Their closed-ended structure makes them well-suited for long-term institutional investment in illiquid assets, offering diversification and exposure to a wide range of investment opportunities that may be inaccessible to individual investors.

Furthermore, recent market conditions have presented compelling opportunities for investors. Wider discounts and attractive yields have emerged, providing an entry point for those willing to weather the storm. Despite challenges posed by rising interest and discount rates, indications of stabilisation and potential market shifts suggest a more optimistic outlook for investment trusts.

The average investment company discount is reflective of market sentiment and investor demand. By the end of October 2023, the average discount reached 17%, marking its widest level since the financial crisis, although it has since recovered. [1]Recent research from the Association of Investment Companies (AIC) suggests that investing when the average investment trust discount exceeds 10% could lead to significantly better returns over the subsequent five years. The AIC's analysis of investment trust returns since 2008 shows that when the average discount exceeded 10%, the average investment trust generated a return of 89.3% over the following five years.

Amidst these challenges and opportunities, it is essential to emphasise the importance of true diversification in investment portfolios. Relying on traditional allocations to stocks and bonds just isn't enough anymore. Alternative investments, including property, private equity, infrastructure, and specialist financials, offer non-correlated returns that can enhance portfolio resilience and mitigate risk.

We believe that integrating specialist assets such as real estate investment trusts (REITs), infrastructure, private equity, and specialist financials creates a widely diversified portfolio. While not easily readily accessible to the wider market, having over two decades of expertise enables us to search a wider arena, easing the burden for individual investors. Real assets typically exhibit a moderate-to-low correlation with equities and financial assets, providing strong diversification benefits. Investment trusts offer exposure to these real asset vehicles that often escape traditional avenues due to underlying asset illiquidity. The combination of these assets with traditional investments like equities and bonds holds several attractions for investors. They deliver solid investment returns and tend to operate independently of market fluctuations. However, investing in these areas also comes with risks of their own and our approach emphasises thorough research and expertise.

As the saying goes, "You can lead a horse to water, but you can't make it drink." It means that you can show people the opportunities, but they have to be willing to take them. That's true for investors too. UK investment trusts might be facing some tough challenges, but we remain advocates of their vital roles in multi-asset portfolios.

Source: [1]https://www.theaic.co.uk/aic/news/press-releases/double-digit-investment-trust-discounts-can-mean-higher-returns-over

# Market Review - week ending 5 April 2024

- Global equities fell 1%
- Developed market equities were down on the week
- Brent crude rose 4.2% to $91.17 a barrel
- Gold rose 4.5% to $2329.75 per ounce reaching new highs

## US

- US equities fell 0.9%
- US March Nonfarm payrolls came in at 303k (versus 210k expected)
- Federal Reserve Chief Powell signalled that the Fed needs clearer signs of lower inflation before lowering rates. He added that recent figures didn't "materially change" the overall picture. Board Governor Adriana Kugler sees price pressures easing without a big cost to jobs, setting the stage for "some" cuts
- New York was hit by a 4.8 earthquake early on Friday

## UK

- UK equities fell 0.4%
- UK March Manufacturing PMI was 50.3 (versus 49.9 expected), Construction PMI 50.2 (versus 49.2 expected)
- The Halifax House prices Index year-on-year for March was down 0.3% (versus 1.5% expected)

## Europe

- European equities fell 1.3%
- German March CPI was 0.4% (versus 0.5% expected)
- European March CPI was 2.4% (versus 2.5% expected)

## Rest of the World/Asia

- Global emerging market equities rose 0.3%
- Japanese equities fell 2.4%
- The yen rose to a two-week high after Kazuo Ueda signalled the possibility of a Bank of Japan rate hike in the second half of the year. He told the Asahi newspaper that inflation momentum will strengthen from the summer
- Chinese equities rose 0.7% despite being closed on Thursday and Friday for the Ching Ming Festival
- Janet Yellen and He Lifeng agreed to talks about "balanced growth" to address what the US sees as China's growing industrial overcapacity
- Chinese banks stepped up pressure on the nation's troubled property developers. China Construction Bank filed a winding-up petition against Shimao. Country Garden is also fighting off a winding up petition submitted in February
- Taiwan was hit by its strongest earthquake in 25 years, triggering temporary tsunami warnings along the coast and as far as Japan and China

Past performance is not indicative of future returns. Source: Bloomberg Finance L.P., returns in local currency unless otherwise stated.

# Market Performance - week ending 5 April 2024

| | | Cumulative returns | | | |
|---|---|---|---|---|---|
| Asset Class / Region | Currency | Week ending 5 April | Month to date | YTD 2024 | 12 months |
| **Developed Markets Equities** | | | | | |
| United States | USD | -0.9% | -0.9% | 9.4% | 28.6% |
| United Kingdom | GBP | -0.4% | -0.4% | 3.6% | 7.3% |
| Continental Europe | EUR | -1.3% | -1.3% | 6.9% | 14.8% |
| Japan | JPY | -2.4% | -2.4% | 15.3% | 39.3% |
| Asia Pacific (ex Japan) | USD | 0.0% | 0.0% | 2.1% | 5.3% |
| Australia | AUD | -1.6% | -1.6% | 3.7% | 11.7% |
| Global | USD | -1.0% | -1.0% | 7.8% | 24.1% |
| **Emerging Markets Equities** | | | | | |
| Emerging Europe | USD | 3.4% | 3.4% | 9.3% | 37.2% |
| Emerging Asia | USD | 0.1% | 0.1% | 3.5% | 6.8% |
| Emerging Latin America | USD | -0.2% | -0.2% | -4.1% | 24.0% |
| BRICs | USD | 0.7% | 0.7% | 0.7% | 2.5% |
| China | USD | 0.7% | 0.7% | -1.5% | -15.3% |
| MENA countries | USD | 0.6% | 0.6% | 2.6% | 8.5% |
| South Africa | USD | 2.4% | 2.4% | -4.6% | -2.9% |
| India | USD | 0.9% | 0.9% | 3.7% | 27.6% |
| Global emerging markets | USD | 0.3% | 0.3% | 2.7% | 8.7% |
| **Bonds** | | | | | |
| US Treasuries* | USD | 0.0% | 0.0% | -1.5% | -1.4% |
| US Treasuries (inflation protected) | USD | -0.8% | -0.8% | -0.9% | -1.2% |
| US Corporate (investment grade) | USD | -1.0% | -1.0% | -1.1% | 2.5% |
| US High Yield | USD | -0.5% | -0.5% | 1.0% | 10.5% |
| UK Gilts | GBP | -1.3% | -1.3% | -2.9% | -2.4% |
| UK Corporate (investment grade) | GBP | -0.7% | -0.7% | -0.6% | 5.7% |
| Euro Government Bonds | EUR | -0.7% | -0.7% | -1.3% | 2.2% |
| Euro Corporate (investment grade) | EUR | -0.1% | -0.1% | 0.3% | 5.8% |
| Euro High Yield | EUR | 0.1% | 0.1% | 1.7% | 10.8% |
| Japanese Government* | JPY | 0.0% | 0.0% | -0.7% | -1.8% |
| Australian Government* | AUD | 0.0% | 0.0% | 0.2% | -0.5% |
| Global Government Bonds* | USD | 0.0% | 0.0% | -3.1% | -3.2% |
| Global Bonds | USD | -0.8% | -0.8% | -2.6% | -0.8% |
| Global Convertible Bonds | USD | -0.8% | -0.8% | -0.9% | 5.7% |
| Emerging Market Bonds* | USD | 0.0% | 0.0% | 2.0% | 9.5% |

| | | Cumulative returns | | | |
|---|---|---|---|---|---|
| Asset Class / Region | Currency | Week ending 5 April | Month to date | YTD 2024 | 12 months |
| **Property** | | | | | |
| US Property Securities | USD | -3.0% | -3.0% | -3.6% | 7.5% |
| Australian Property Securities | AUD | -4.0% | -4.0% | 11.4% | 23.0% |
| Asia Property Securities | USD | -1.7% | -1.7% | -4.6% | -7.2% |
| Global Property Securities | USD | -2.5% | -2.5% | -3.0% | 7.2% |
| **Currencies** | | | | | |
| Euro | USD | 0.4% | 0.4% | -2.1% | -0.6% |
| UK Pound Sterling | USD | 0.1% | 0.1% | -1.0% | 1.5% |
| Japanese Yen | USD | -0.2% | -0.2% | -7.1% | -13.5% |
| Australian Dollar | USD | 1.0% | 1.0% | -3.7% | -1.9% |
| South African Rand | USD | 1.2% | 1.2% | -2.2% | -3.3% |
| Swiss Franc | USD | 0.1% | 0.1% | -6.9% | 0.7% |
| Chinese Yuan** | USD | -0.2% | -0.2% | -1.8% | -4.9% |
| **Commodities & Alternatives** | | | | | |
| Commodities | USD | 2.9% | 2.9% | 8.5% | 6.8% |
| Agricultural Commodities | USD | -0.5% | -0.5% | 4.0% | 5.6% |
| Oil | USD | 4.2% | 4.2% | 18.3% | 7.3% |
| Gold | USD | 4.5% | 4.5% | 12.9% | 15.3% |

*Data as at 21 March due to Bank Holidays

**Data as at 3 April due to Bank Holidays

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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