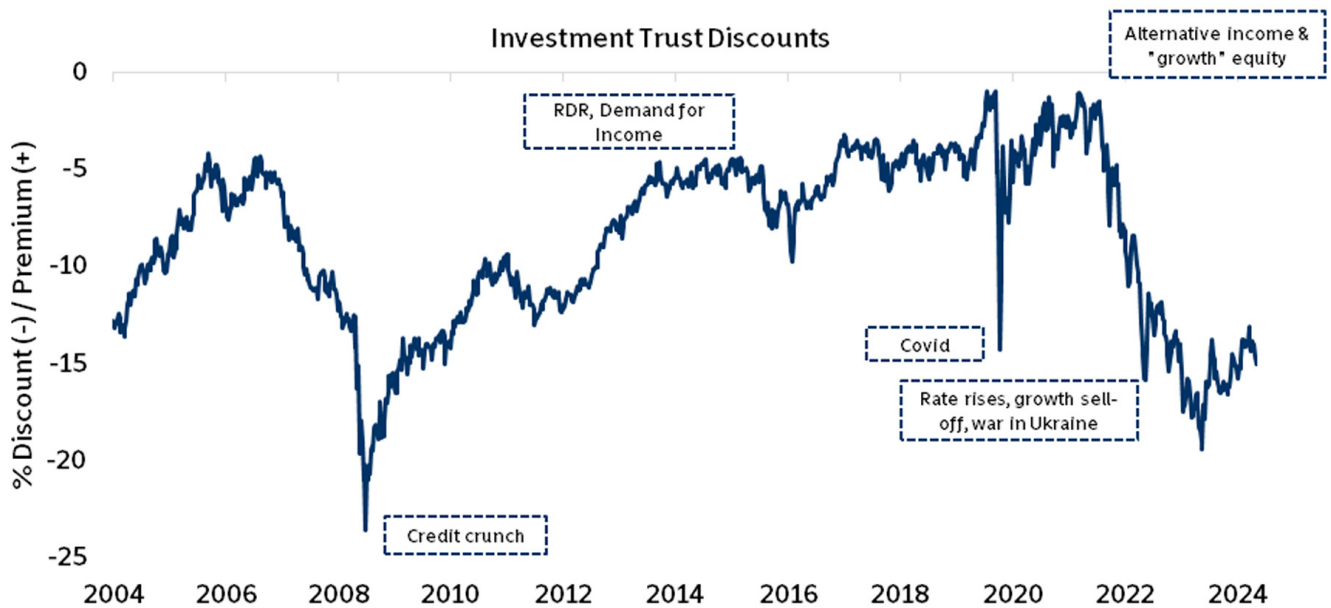


# Chart of the Week 21 October 2024



Source: Deutsche Numis as at 15 October 2024.



## Investment trust discounts

Richard Parfect  
Fund Manager

### What this chart shows

This shows how the UK investment trust market (excluding 3i) has moved to varying degrees of discount over the last 20 years. By the term 'discount' we are referring to where the share prices are in relation to their underlying Net Asset Value (NAV). Clearly, certain economic and geopolitical events have had a significant influence on the sector's valuation by the market.

Share price discounts are inherently cyclical, however what we can see is that the periods of significant widening of discount tend to be relatively short, followed by a longer-term grind upwards with discounts narrowing closer to 'Par'. However, the current period of widening the sector has experienced has been somewhat more protracted.

### Why this is important

The factors that drove the sector in to the current de-rating were:

- » higher interest rates causing investors to worry about large falls in Net Asset Values as NAVs are partially pegged to bond yields especially in the 'real assets' spaces such as property and infrastructure.
- » the UK equity market being significantly out of favour with investors selling their exposure via index Exchange Traded Funds. As investment trusts account for c. 25% of the FTSE-350 index, outflows from the UK market create forced selling regardless of the price of investment trusts.
- » previously applied 'cost disclosure' rules placed upon investment trusts made them look more expensive than they actually were, therefore deterring buyers and creating forced sellers mindful of UK Consumer Duty assessments.

The confluence of those factors created a significant headwind for the sector. However, bond yields are now easing back; the UK equity market, partly due to its very low valuation, is attracting international money and the FCA has communicated forbearance on the 'cost disclosure' rules which will be laid down in law by the UK Treasury in its forthcoming Statutory Instrument on PRIIPs.

In essence therefore, the factors that got us here are now passing into the rear-view mirror. We believe that the road ahead presents a rare means to participate in profitable mean reversion.

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