ADVANTAGES OF INVESTMENT TRUSTS

Having been around since the late 1860's, investment trusts are the oldest form of collective investment funds, and despite recent research providing further evidence of what most investment professionals have long understood, i.e. that they offer superior returns and lower costs to typical unit trusts, it is the open ended funds that have continued to dominate the investment industry in recent years.

Of course the main reason for this is that unit trusts and OEICS (open ended investment companies) are established by the marketing teams of large fund management groups who then use a distribution network of financial advisors to sell the funds on a commission basis. Investment trusts on the other hand have a fixed number of shares and once launched can only be bought and sold on the stock exchange like any other listed share and it is this unique fund structure that provides many benefits;

Closed-end structure – with a fixed number of shares, investment trusts are not forced to sell assets to meet sudden outflows for redemptions in a falling market, nor are they under pressure to invest new subscriptions if there are no suitably priced investments available.

Independent boards – With a unit trust it is the fund management group that has complete control of the fund. Investment trusts on the other hand have an independent board of directors who are responsible for ensuring that the trust is run for the benefit of the investors, including the ability to change the manager if necessary and to oversee strategic issues such as the use of gearing.

Costs – Investment trust charges are highly competitive and annual management charges tend to average well below those of comparable unit trusts, which often have the added disadvantage of high initial charges.

Stability – The longevity demonstrated by investment trusts is reassuring in a financial world that has become increasingly concerned with short term issues.

Specialist areas – as well as being a good vehicle for a general equity portfolio, investment trusts are particularly well suited to specialist areas such as property and private equity where liquidity can be an issue. This was again highlighted during the financial crisis on 2008 when many high profile property unit trusts had to suspend dealing when they received a flood of redemptions whilst similar investment trusts were able to continue unaffected by such pressures.

Discount factor – as the price of an investment trust is set by the market, it may differ from the Net Asset Value of the underlying investments. If, as is often the case, the price is below the NAV the trust is said to trade at discount and this may present a good buying opportunity. However, this is a complex area and discounts can widen further, so experience and expertise is required before attempting to benefit from the discount phenomenon.

The combination of these advantages has resulted in investment trusts having a consistently superior performance record when compared to unit trusts as well as pension and life funds which is why astute investment professionals have often described investment trusts as the City's best kept secret.

Overall, although at Heritage we generally prefer to invest directly into shares and bonds rather than other funds, there are times when it is appropriate to make use of specialist fund managers or to seek to benefit from the discount opportunities presented by investment trusts and as it is an area that we have built considerable expertise in over the years, we continue to make use of investment trusts for a number of client portfolios and within our Managed Portfolio Fund.