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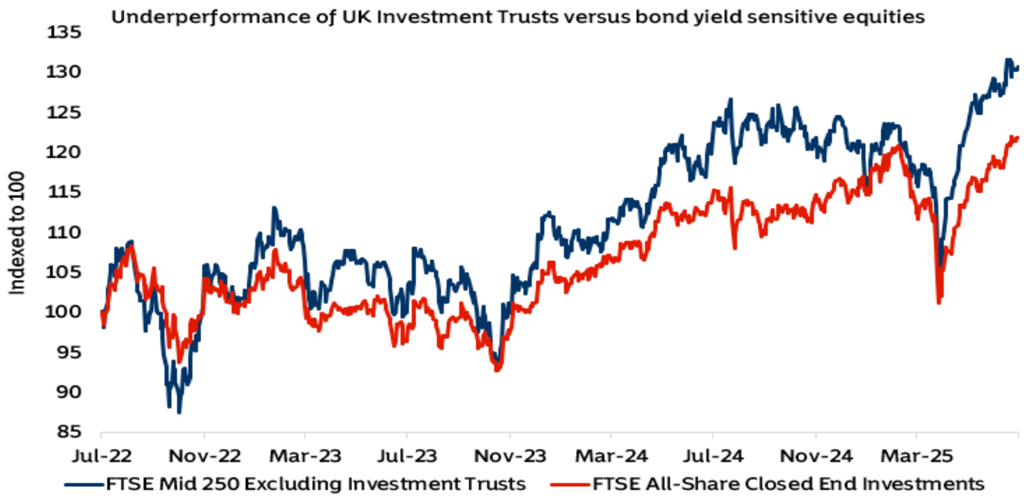
Underperformance of UK Investment Trusts vs. equities

By Richard Parfect



Source: Momentum Global Investment Management, Bloomberg Finance L.P; data 10 July 2025.

What this chart shows

This shows the 3-year performance of UK investment trusts versus the FTSE250 index excluding investment trusts.

As can be seen there is a marked underperformance over the period which closely aligns with some important events. Firstly, bond yields began to "normalise" in response to inflation, this is something that would ordinarily be expected to impact both equities, especially domestically focused ones such as UK midcap companies, as well as investment trusts invested in equities and real assets. Secondly, there was a change in the application of EU retained law that effectively made investments trusts appear significantly more expensive in terms of their cost to investors than they actually were. In effect, the internal expenses of running investment trusts, which are no different from the expenses of running a listed operating company, were reported as being additional deductions from investor's investment. However, in reality such expenses had already been factored in and discounted by the share price. This triggered the steady exit of traditional sources of demand for such companies and hindered the ability of many investors to own the shares despite their resultant undervaluation.

Why this is important

Critics of the campaign to remove the mis-application of reported "costs" or more accurately termed "expenses" say that the fall in value of investment trusts are as much a result of other things such as higher bond yields. Such critics are not wrong in saying there are a variety of factors driving valuations and bond yields are one of them. However, higher and lower bond yields sink and raise all boats (respectively) and so we should not expect to see such a wide divergence of performance between the two sets of companies (UK mid cap companies and UK listed investment trusts).

More recently there have been signs of a recovery in investment trusts (from a low base) driven in no small part by increased merger and acquisition activity, some of which has come from opportunistic overseas investors who see assets trading well below fair value. It is very unfortunate that the investment trust sector has found itself in a situation where it has been hamstrung by a factor not of its making; a regulatory impasse, but one which is being worked on by the FCA and engaged members of the industry such as ourselves. This has been playing out whilst also having to contend with other matters such as the normalisation of interest rates and the economic cycle. We are hopeful that a solution can be found to the regulatory situation but in the meantime, compelling value is on offer to investors who can look past such factors. It is also why we launched our Momentum Real Assets Growth & Income Fund in April 2024 which is heavily focussed in this area.

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Important notes