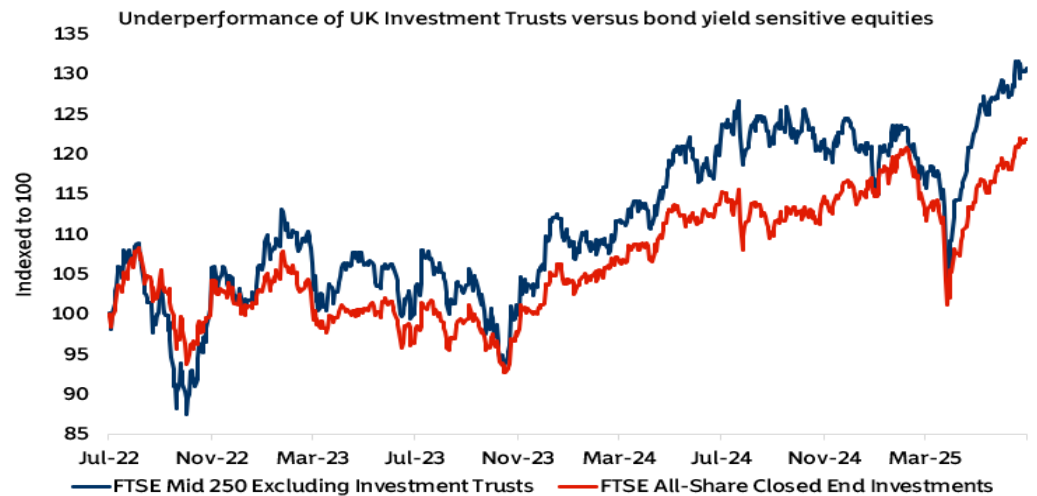


Underperformance of UK Investment Trusts vs. equities

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.



Global Matters Weekly

14 July 2025

For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Limited
研富投資服務有限公司
9th Floor, Centre Mark II
305-313 Queen's Road Central
Sheung Wan, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
belvest@bis.hk
www.bis.hk

Important notes

This communication is issued by Belvest Investment Services Limited and/or Belvest related companies (collectively, and individually Belvest) solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of Belvest. Opinions or views of any Belvest company expressed in this communication may differ from those of other departments or companies within Belvest, including any opinions or views expressed in any research issued by Belvest. Belvest may deal as Distributor or Agent, or have interests, in any financial product referred to in this email. Belvest has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advise to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by Belvest.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or return (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by Belvest are not the only ones that might reasonably have been selected and therefor Belvest does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of Belvest, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses. Belvest therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communication carried within the Belvest system may be monitored.