Good things come to those who wait

There's still value on offer.

Update
17 August 2026

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It was the poet Geoffrey Chaucer who is credited with coining the phrase 'all good things must come to an end', albeit in Middle English almost 650 years ago and after recent news, one could be forgiven for thinking investment trusts are the latest to fit that description.

The number of UK investors that own at least one investment trust fell to c. 9% (from 12%), according to a survey by Boring Money. That's the lowest number since the financial research firm started tracking the data in 2021. It should be noted that open-ended fund ownership also declined from 23% to 19%.

It will be no surprise that it's been exchange traded funds (ETFs) that have been taking up the slack. ETF ownership rose to 20% in the most recent report, up from around 5% just six years ago.

There was a definite chink of light, though. While investment trust ownership among 35-to-44-year-old investors fell five percentage points to 7%, investors under the age of 35 increased their ownership of investment trusts by two percentage points to 9%.

That's encouraging as this generation is proving to be one of the savviest when it comes consistently to setting money aside to invest. We have, after all, been in a near-two-decade-long bull market for most, if not all, of their adult life.

Movements such as FIRE (financially independent, retire early), have caught on quickly and are predicated on investing a high proportion of your disposable income. There's also an increasing onus on individuals to save for their pension if they want to escape the rat race. The sheer scale of information on long-term stock market returns has helped, too.

The resulting frugal habits have had an impact on how the young invest, with more of a focus on low fees being the order of the day, both in terms of the vehicle (hence, the explosion of interest in ETFs) as well as platform (a conservative 99% of the finfluencer content Instagram feeds me mentions Trading212).

The investment trust industry will undoubtedly survive and will probably eventually come out the other side in a stronger position, especially if it can continue to show its benefits to younger investors.

Widespread opportunities

There remains a wealth of opportunities for growth-oriented investors to jump on the investment trust bandwagon. A couple of significant themes that crop up both on my Instagram feed and in the monthly check-in of most-bought shares, as well as our sister website's run-through of the most popular ETFs, are space and chips.

Young investors are rushing to the next big things in innovation and the opportunity within the investment trust landscape is widespread. The obvious starting place is with **Seraphim Space (SSIT)**, a pure play on the inter-galactic theme investing mainly in privately owned firms.

Venture capital specialist Seraphim's co-founder and CIO James Bruegger told us earlier in the year that the opportunity in SpaceTech could be bigger than in artificial intelligence and with its focus on small and micro sized companies, SSIT is well placed in our view to deliver the stellar returns demanded these days.

While the ordinary shares are on a premium rating (albeit down from a chunky 54% to around 7.2% today), the C shares that were issued in May trade at a c. 16% discount. That might not last as the team deploys the £137m it raised, which it started doing last week.

SSIT doesn't invest in Elon Musk's SpaceX, arguably the company that put the SpaceTech industry on the map. Fortunately, there are plenty of options for those wanting exposure to the satellite and AI firm but in a more diversified vehicle.

Scottish Mortgage (SMT) remains the flagbearer for the investment trust sector, offering a really interesting and differentiated exposure than a pure Nasdaq 100 ETF might, given not only its c. 18% position in SpaceX, but also top holdings including the Taiwanese chipmaker TSMC, China's TikTok owner ByteDance and MercadoLibre, known as the Amazon of Latin American.

The c. 7% discount on which SMT is trading offers compelling value in our view, particularly when allied with the fact that many of its underlying holdings are arguably very highly valued.

Deep value

The two technology trusts, run by **Allianz Technology Trust (ATT)** and **Polar Capital Technology (PCT)**, which also have big positions in the chipmakers should also appeal to the younger cohort. Both are simultaneously riding the AI boom and trading on discounts of c. 7%.

We think that although these discounts are narrower than they were in 2023, they remain counterintuitively wide when you factor in the clamour for the types of stocks in which they collectively invest, proving that there still looks to be deep value in the investment trust arena.

The same can be said for emerging markets, the merits of which are starting to chime with younger investors who recognise Asia's role in the AI supply chain. Two trusts using the investment trust wrapper to its fullest are benefitting from this shift.

Fidelity Emerging Markets (FEML) can go long areas it sees having strong growth prospects and short those industries in decline, while **Ashoka WhiteOak Emerging Markets (AWEM)** balances punchy exposure to the largest EM firms with a clear bias to the under-researched small- and mid-cap segment.

For those younger investors searching for a more defensive but still aggressive port in the AI-bubble-not-bubble storm, the UK provides just what they're looking for. Impressive returns have been provided by **Temple Bar (TMPL)** in the large-cap part of the market, and **Fidelity Special Values (FSV)** as a go-anywhere mandate.

We see **Rockwood Strategic (RKW)** as another trust using the wrapper to the fullest. It has generated strong returns by investing in an almost private equity-like manner into the smallest market cap segment in the UK. Manager Richard Staveley and the team work closely with their high-conviction portfolio to proactively improve their ratings, rather than sitting back and hoping things magically improve overnight.

While some will no doubt point to the growth of ETFs as proof that investment trusts have, over the course of 158 years, had too much of a good thing and that the run has to come to an end eventually, we'd prefer to look at things through the lens of another oft-quoted saying: good things come to those who wait.

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