Cui bono

Investment trusts make great store of tender offers, buybacks and other clever gadgets, but do investors really care?

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In recent months my colleagues David and Jo have been sharing, via our **weekend blog**, their personal adventures as investors in investment trusts, funds, and direct equities and, setting aside the inevitable office banter such as *'You've bought **what**?'*, I've found it very interesting to peer into their very different approaches to investing. Inspired by this, recently I took on the task of putting together a portfolio of investment trusts for myself. For administrative reasons, rather than through any particularly great strategic insight, I was 100% in cash in the first quarter of this year which for someone who freely embraces equity risk, isn't a normal state of affairs. This was, though, a good opportunity to put to the test that advice most investors have been given or doled out themselves at some point. To 'buy when everyone else is selling, and it feels deeply uncomfortable to do so' sounds easy. All I can say is, it feels incredibly unpleasant at the time, but somehow or other I managed to get on with it over the course of the month spanning 'Liberation Day', and after an initial flurry, I've now reduced the frequency which I log in to check what the damage was. Perhaps, with markets higher, that timing looks good, but my feeling is that it is very far from clear that markets will rise for the rest of 2025 and I'm not going to dwell too much on short-term profits. When you get to my age the phrase 'if not now, then when?' starts to take on a less hypothetical quality, so at least I can finally say I've 'caught some falling knives' as the old stock market adage goes.

While I am obviously cognisant in a professional capacity about current affairs in the investment trust sector, the above process put me in touch with recent events in a personal capacity and caused me to reflect on what, as a retail investor myself, I want out of investment trusts. This was brought to life by the documents I received, as a very new shareholder, drawing my attention to a tender offer and a continuation vote. These were public knowledge at the time I bought my shares and so one thing you might deduce is that shock horror, as an investor myself, I care less about discounts than I really should. Announcing a tender offer is, unless there are some very unusual circumstances, always a recipe for a discount to narrow and yet I went ahead and opened a holding anyway. As my old boss used to say, '*Investment trusts often look cheap when they are expensive and expensive when they are cheap.*' If that statement has you scratching your head, then just know that was a common reaction at the time he said it. What he meant was, discounts aren't the whole story, look at the underlying assets. Which of course is right on the money.

On reading the tender documents, my main thought was '*How does this help me*?' Immediately followed by the next thought '*Or anyone else but a few institutional holders?*' As a professional in the industry for many years, I understand and support many of the reasons for continuation votes and tender offers. I don't propose to go through them all here, but in a nutshell, whereas a retail investor can usually find enough liquidity to buy or sell shares on any given day, large shareholders cannot, and to keep them supportive, one has to provide some backstops. Continuation votes and tender offers are the usual techniques, with variations on a theme depending on the individual circumstances.

But as a retail investor, I don't want or need an investment trust to periodically hand back capital on a date that may or may not be convenient to me. The legally required documents cost money, and, unlike a regular share buyback, tenders don't generally enhance net asset value for investors who choose to stay. Continuation votes don't provide me as a retail investor with any particularly strong incentives to buy, or sell, an investment trust either. I'm probably not going to be party to the discussions that often occur before a vote is held as to what concessions it might take for the largest shareholders to support continuation. That isn't to say I don't appreciate the attention and efforts of larger, more influential shareholders. The trouble is, we are entering an era where those larger, influential, and supportive shareholders are slowly parting company with the sector. However, the techniques and structures designed to meet large investors' needs have now become established practice, and there is a risk that the influence of these investors will continue after their money has departed the sector. Thus, the inevitable march to consolidation to create 'scale, liquidity, and broader appeal' may not be all it's cracked up to be, as the investors who really care about scale are quickly outgrowing even the scaled-up investment trust sector, leaving retail investors with fewer choices and advantages that seem mostly academic. One of the greatest success stories of the investment trust sector in recent years, **Rockwood Strategic (RKW)** meets none of the criteria of the large, influential investors that have shaped the sector. But it meets all of the criteria for why I like investment trusts as a retail investor. I think we absolutely do need large, well-managed investment trusts as a backbone to the sector and one of my less popular views is that investment trusts need to be a good commercial proposition for fund managers so that they get the proper attention they deserve. Scale is obviously one way to achieve that and is definitely something retail investors should care about. But as an investor in equity risk, I'm always prepared to accept more discount volatility, less liquidity, more innovation, and greater downside if the rewards might also be higher. That's part of investing and, going back to my two colleagues, something they both seem entirely comfortable with too, almost to the point of not mentioning it. Finally, if we want to go bigger picture than just investment trusts, the UK is turning itself inside out trying to think of ways to revive the flagging fortunes of its equity market. Perhaps a starting point would be a proper education in what equity risks really are and why they are important, something an investor will never learn from the cursed fund KID.

Conclusion

hey say that you should never let people see how the sausages are made, but the brief for this article was 'short, punchy, opinionated, it's a bank holiday week'. So, I've skipped over all the 'yes, buts' and 'it's easy for you to say'. There's a long list of those, but the main point stands: share registers are changing, *have already changed*, and the techniques applied to managing discounts and liquidity developed for a bygone era in many cases no longer apply. So, what's next?

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