



Our readers' questions answered

We asked our readers for their questions on any topics related to the investment trust sector.

Update
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Our appeal for questions from readers saw a huge response, and unfortunately we can't answer every single one. In particular, some of the questions veered a little too close to requests for advice, but fair play to those asking for a diversified, twenty-stock portfolio – you miss 100% of the shots you don't take! There are a few questions we have held back that are likely to appear as strategy articles in the coming months, as they require more than we can do justice to here. The cheekiest, and our favourite, question came in at the last moment, asking us to pick the colleague we'd most like to manage our own portfolios. I think if our team was to answer that one completely honestly, every single analyst would choose themselves! We haven't answered that one below, but we have covered a number of topics from general questions on discounts and board composition through to ones about specific trusts.

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What can you tell when you see specialist investors such as 1607 Capital, Allspring and City of London on a trust's investment register?

Whereas the casual view of these investors is that they are 'activists' I think it's important to know that all three have long-term mandates to invest in the investment trust sector. This contrasts with an activist like Saba, which has invested heavily, but isn't obligated to do so and could move on if better opportunities present themselves. Put it another way, if the investment trust sector disappeared then all three would likely have to hand money back to their underlying investors, whereas Saba would just move on to investing in something else. So, while they all have slightly different approaches, and arguably City of London is more activist than the other two, all of them have some skin in the game and benefit from a healthy investment trust sector. To be strictly accurate, all three run similar strategies in the US closed-end fund market and so it's probably not right to imply that the disappearance of the UK investment trust sector would be an existential crisis for them, but the UK is a meaningful part of their investments.

As a generalisation, the three invest using an approach that combines asset allocation with discounts to net asset value, and an ideal investment would be to identify an out of favour trust suffering from a wide discount at just the right moment that performance improves and the discount narrows naturally. If that happens, then alpha is generated by asset allocation, by the active management of the trust and by the narrowing discount.

One very good example of how these three can acquire stakes in investment trusts comes from the ongoing consolidation of the UK's wealth management industry, a traditional investor in the sector. The latest phase of this has seen further sales of investment trusts, as organisations become 'too big' and rationalise their holdings in investment trusts and funds to a more manageable list of only the largest. This helps explain many of the discounts in the sector in the last few years and, alongside share buybacks, our three investors have been one of the main buyers of investment trusts no longer wanted by these big investors. The same process has been one of the reasons the activist Saba has been able to swiftly acquire large stakes in many mainstream investment trusts.

A further contrast with Saba is that these investors are long-only, and so while they do seek to make profits from narrowing discounts, they also need their investments to perform well for their own funds to perform well. Saba is likely using hedging strategies for some of its exposure, which means it makes more money from discounts and is less concerned about market direction.

As a result, one cannot assume that the presence of these investors signals that an investment trust is failing from an investment perspective. It may be struggling to find other buyers, perhaps for the reasons above or perhaps more generally



its investment style is out of favour. In a final contrast with Saba, these investors tend to support or encourage mechanisms, like tender offers, capital dividends or share buybacks, that help preserve trusts that may not currently have many buyers, rather than Saba's initial approach of trying to sack managers and take over the contract themselves.

All of that said, it certainly can be the case that shares are purchased in ailing trusts with a more activist approach in mind, but far more often than not these investors own investment trusts for the underlying exposure to markets, the active management and the discount. In many cases, they may be among the longest-term shareholders on a trust's register.

Why are so many trust boards made up of directors of other trust boards? Surely, it might be better if there were a few more historians, politicians, entrepreneurs, scientists in the pool of potential trust NEDs.

I'll start by agreeing that yes, the investment trust industry is as susceptible as any other long-running industry to the 'that's the way it's always been' approach, and non-executives who come from different walks of life can help to break out of that. I'll also say that one of the appeals of the investment trust sector is that there is space for the unique and unusual accompanied by a board with a different mindset and role to the average. My answer isn't really aimed at those situations, but at the majority of investment trusts with a straightforward non-executive board overseeing an external fund manager.

In that world, I think we can be a bit quick to dismiss experienced non-executives, who may also sit on more than one board. The normal parameters for a non-executive director of an investment trust don't vary that much from one investment trust to another and experience gained on one board can often be very applicable to others. Most boards meet less than once a month and so experience and decisiveness can be very important, as in their absence a decision can easily drift for months. For example, in the last year or two, having the experience to know the pros and cons of share buybacks, rather than having to learn them from scratch from a paper written by advisors, will, in my opinion, have been far more valuable to shareholders than a non-executive providing geopolitical insights to the fund manager. On that note, it's possible there is some confusion about the non-executive board's role in picking investments, so let's just be clear that this is not usually part of the remit. If that

comes as a surprise to readers, then think about it like this. One of the most important roles of a board, which many will never experience, is the decision to review and possibly replace an underperforming fund manager. If the board has taken part in investment decisions, how can it be seen to be independent in that process? Even when that situation hasn't arisen, all boards are required to periodically reaffirm the competence of their manager and so cannot have a role in picking investments. Experienced non-executives understand that and act accordingly. They may question extreme or unusual investment decisions, and possibly rewrite risk parameters to avoid a recurrence, which is entirely appropriate, but shouldn't be instructing a manager to buy or sell a position on investment grounds in the normal course of business.

So, with much of a board's role centred around overseeing legal, accounting, regulatory and marketing issues, and most importantly knowing who shareholders are and what they want, I think experience is incredibly important and is something that can't quickly be gained in the handful of meetings a year that most boards undertake. I can say with confidence that governance codes have evolved over the years because without them boards haven't always met the highest standards. Having a framework can take some of the guesswork out of things like the length of tenure for a non-executive, and clearer definitions of a board's role and desired composition are all incredibly helpful and have raised the standard considerably over my career. But I think 'experience' is the ultimate skill that a non-executive can bring to the table, and I think it should be at least as highly valued as other attributes.

Share buybacks and discounts – what do investors need to know?

There were several questions about share buybacks. Given that even investors who have followed the sector for a decade may have only recently encountered share buybacks en masse it's not surprising that some of the questions suggested there are some misconceptions, so I'll start with a quick primer on the mathematics.

It's often said that an investment trust that buys its own shares back at a discount is investing in its own portfolio at a lower price. If that's true, then this is the proverbial no-brainer. Before we get into the many caveats to that statement, let's walk through the arithmetic. Some readers may of course already know this, so feel free to skip ahead.

Let's take a hypothetical investment trust with £100m of net assets, 100m shares in issue and therefore a net asset value per share (NAV) of £1.00. I know that normally we would say 100p rather than £1.00 but for the sake of



readability below, everything is in £. For simplicity I'm going to use net assets to refer to the overall size of a trust and NAV to mean the net asset value per share. This is accepted language in general conversation amongst investment trust folk.

In contrast to the NAV, the share price is £0.80 and so the board decides to buy back 10m shares for cancellation:

- 10 million shares will cost ($£0.80 \times 10m$) = £8m
- But the underlying value of those shares is the NAV multiplied by the number of shares, or ($£1.00 \times 10m$) = £10m
- Thus, to fund the buyback, £8m of investments are sold
- The shares are cancelled, and the other £2m of value is now divided across all the remaining shares
- This is why we say that share buybacks are 'accretive' to NAV: the remaining shares in the trust are ascribed the extra £2m that was not used to buy shares back

Let's look at the transaction a different way just to make sure the point is understood.

- The trust has £100m of net assets and 100m shares
- So, the NAV is (net assets £m / number of shares) or ($£100m / 100m$) = £1.00.
- It sells investments worth £8m and uses the resulting cash to buy 10m of its own shares in the market at a price of £0.80
- So now there are ($£100m - £8m$) = £92m of net assets left in the trust
- But because 10m shares were bought back, there are only 90m shares left in issue
- So, the NAV is now (net assets £m / number of shares) or ($£92m / 90m$) = £1.02

For practical purposes investment trusts only ever buy shares back at a discount, so the above maths will always hold true. At this point I'm going to say that in an ideal world the sale of portfolio assets in the example would be done pro rata across the whole portfolio. There is no 'cherry-picking' and so no change to the composition of the portfolio. If that is the case, then we can say that, objectively, shareholders' future returns are not impacted by a share buyback as they own the same portfolio before and after, and they have profited from the fact that other shareholders have chosen to sell at a discount.

In investment trusts there are always caveats, and it doesn't take long to think of a long list of reasons why an investment trust might not be able to sell pro rata across its portfolio. Investments may be unlisted or difficult-to-sell smaller companies, they might be large wind farms, hospitals, interests in private equity limited partnerships or leasing contracts with international airlines. The list goes on. Further, many trusts who own those types of

assets are also geared, and in selling assets to buy shares back, must either repay debt or face an increase in gearing (because the net assets are now lower, but the debt is the same amount). That is why the decision to buy back shares is so much more complicated for many investment trusts and why it has taken longer for many to begin the process. You can't sell a hospital infrastructure contract on an electronic order book in a few seconds, and you certainly can't easily sell a pro rata share of 50 different infrastructure contracts. So, a buyback in this case will almost certainly result in a change in the composition of the portfolio, which has to be carefully considered, and may require a complex M&A transaction managed by an investment bank before a trust can buy shares back.

One of the questions we received implied that share buybacks were just a way to prop up ailing trusts and hopefully the above mathematics helps to alleviate that concern, but one could also read the question and answer about what it means when certain activist shareholders own an investment trust, where we touch upon one of the biggest reasons for discounts emerging over recent years. Many investment trusts have experienced discounts recently in part because of cyclical factors (interest rates, inflation...) but also for technical reasons such as the cost disclosure debacle and consolidation in the wealth management industry. Buybacks are just another tool available to boards to help navigate those and should not be seen as a sign of weakness. Similarly, one of the questions asked why share prices don't react to buybacks, and I would say that the effect of buybacks is incremental, and one wouldn't expect a single buyback on a single day to have much of an impact. Over time, the effect can be quite noticeable, and we often chart that in our notes, showing buybacks against the discount over time. And, as the maths above shows, even if a buyback doesn't result in a narrower discount, it can result in an uplift to the NAV for shareholders who choose not to sell.

One final piece of jargon that investors may have seen and find confusing is 'treasury shares' and 'buying back shares to be held in treasury' (as opposed to being cancelled). The wording 'held in treasury' can lead to confusion as it strongly implies that the shares still exist. It isn't necessary to understand the precise details of the differences but just know that the maths above applies in both cases. Treasury shares exist only in a nominal sense, don't receive a dividend, nor have a vote or any net assets ascribed to them, and the main reason to buy shares into treasury rather than for cancellation is that it is very slightly cheaper to reissue shares from treasury than it is to issue new shares, mainly due to charges levied by the FCA and London Stock Exchange on listing new shares. So, they are 'held' in anticipation of a future time when the share price moves to a premium. Shares held in treasury are sometimes perceived as an 'overhang' on the market, but this is illusory. It might convey an ambition to reissue



the shares, but the conditions for reissuing shares from treasury are the same as they are for issuing new shares and I think we can safely say that most investment trusts, treasury shares or not, have a long-term ambition to issue more shares.

To be strictly accurate we should say that in a small number of cases in history investment trusts have reissued treasury shares at a discount, using the argument that if they buy them back at, say, a 10% discount and reissue them at a 5% discount, then the 'round trip' still results in a profit for shareholders. This technique seems to have largely died out and so for practical purposes we can assume there is no difference between cancelling shares and 'holding' them in treasury. Any variance from the normal standards would likely require shareholder approval in any case, so annual reports are always a good place to look for information about a specific trust's approach.

Infrastructure trusts do not account in the same manner as similar operational businesses, which disclose important information such as capex and depreciation. Furthermore, many have long dated, ultra-low cost finance; none show finance costs as they will be as they refinance, and the consequent, look through, dividend cover. Is it unreasonable to ask for fuller disclosure so we can evaluate the fair value of these trusts? How much of the substantial discounts do you think is due to their sub-optimal (if allowable) accounting?

Let's start by saying that infrastructure trusts are more tax efficient than the operational businesses that are referred to in the question. They pay little or no corporation tax and don't face capital gains tax on disposal of assets, whereas UK operational businesses will be exposed to both types of tax. This is a significant advantage, but it does mean that the two use different ways of accounting for their assets.

Investment trusts, including the infrastructure trusts, own shares in companies. No one expects City of London

(CTY) to prepare its accounts as though it were a giant conglomerate of all the businesses it owns. A consolidated set of accounts, where the assets, liabilities, profits and expenses of each company in the portfolio were disclosed as separate items, would be incredibly complicated and it's highly unlikely that the result would be readable or useful. And that's that starting point for the infrastructure trusts. Generally, they don't directly own assets but instead own shares in companies, which themselves are structured for the sole purpose of owning infrastructure contracts. Capex, amortisation and project debt all reside within the underlying companies. By structuring its investments in this way, and conforming to portfolio diversification, they meet the criteria necessary for the favourable tax treatment mentioned above.

Except, yes, this comparison only goes so far, as in contrast to City of London, an infrastructure trust is, most likely, the only owner of the shares in each company, and in every practical sense it is the controlling investor. No one refers to the portfolio as a series of companies – they are generally listed as assets and always discussed as though the trust owned the asset directly. Further, all the companies it owns do much the same thing and so a full consolidation would have more meaning to an investor reading the accounts.

As a result, infrastructure trusts do generally make some disclosures on a consolidated basis, such as the sensitivity analysis that investors are accustomed to, or an analysis of the various project-level debt that exists in the individual companies. These disclosures have evolved over the years, as the investors in these trusts have built up a picture of what they want to know. Remember that these trusts are predominantly owned by investors who build portfolios using funds, not direct equities, and the information disclosed is driven by their needs, which will lead to 'whole portfolio' average numbers rather than detailed specifics of each project.

This question comes at a time when the industry is lobbying influential index provider FTSE Russell to include infrastructure trusts in its infrastructure indices, which currently comprise of the kind of operational companies the questioner is referring to. If successful, this could eventually lead to a new group of investors with a different mindset buying the shares, and would put infrastructure trusts in direct comparison to operational businesses. It's very likely that conversations between the trusts and these investors would lead to disclosures evolving to provide more granularity as envisaged by our questioner.

I'd conclude by saying that I think there's a very strong case for the UK's investment trust and REIT rules to be updated to make specific provision for infrastructure and renewables trusts. These two groups already play a



meaningful role in the UK economy, and probably deserve a separate set of rules that would help reduce some of the complex accounting they use and potentially attract a new set of investors as a result.



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abrdn European Logistics Income (ASLI) just fell on the news that its NAV did not include latent capital gains tax liabilities. How commonplace is this problem and does it apply to any other assets or other trusts?

abrdn European Logistics Income (ASLI) is in wind up and recently sold a large portfolio of properties located in Madrid. This sort of announcement is written in very precise language for obvious reasons, but it isn't always obvious to the average person what that precise language means.

Essentially the sale was agreed at a price below the carrying value of the properties. Now, REITs don't pay CGT on the sales of UK-located properties, but for European properties tax may apply depending on local laws. For this reason, properties are often acquired inside a company structure, which can help to defer tax liabilities. This what ASLI did here: it bought shares in an existing company, or SPV, which itself has the sole purpose of owning properties. At the point that ASLI bought the shares, the properties within the company structure already had latent CGT, but because ASLI owned the shares in the company and so only indirectly owned the properties, accounting rules did not require it to make allowances for those tax liabilities. Instead, it only accounted for any gains made under its period of ownership. This type of transaction is not uncommon, and the latent CGT can be a point of negotiation when it comes to a sale. After all, the structure is generally only a way to defer tax, not to avoid it all together.

Negotiation can vary according to market conditions and in this case it appears the new buyer has paid a discounted

price that reflects the total amount of latent CGT, arguing that it would have to pay this if it broke up the company structure and sold the properties directly. We think this reflects the result of selling into a buyers' market, with the investment trust in wind up and therefore motivated to sell. The board notes that there is 1–2p of latent CGT liabilities remaining in the NAV (1.7%–3.3%), but the prices achieved on the sale of the remainder of the portfolio and therefore whether these amount to losses for shareholders will depend on how negotiations go.

There shouldn't be too much read across as there aren't many REITs which invest in European commercial property, and this looks most likely to emerge as a problem when a REIT is winding up. All REITs will try to adopt the best structure to minimise legally the tax they owe, while all tax authorities will seek to claw back what they can – we note **Schroder European Real Estate (SERE)** is in dispute with the French tax authorities over what tax it should have paid in past years, despite having adopted a structure in France that should give similar taxation benefits to the REIT structure here. This is perhaps a reminder that taxation in multiple-jurisdiction portfolios of real assets may be complex, but also that winding up portfolios may well lead to frictional costs along the way.

When you invest in a 'trust of trusts vehicle' like MIGO, it has a portfolio of investment trusts, which individually trade at a range of discounts – which seem to be typically south of minus 10%. However, MIGO itself trades at a low single discount. How does the maths work on this?

There are a number of trusts that invest in other trusts: as well as **MIGO Opportunities Trust (MIGO)**, **AVI Global Trust (AGT)** and **CT Global Managed Portfolio (CPMG/CPMI)** both invest in trusts as at least a major part of their strategy too. In basic terms the model is: raise cash, use cash to buy trusts at the share price, and then either agitate for actions that close the discount or wait for it to close, then sell at a share price closer to NAV, receiving the gains from the NAV and any discount closing.

The NAV of MIGO will reflect the market value of its investments, i.e. the valuation implied by the share price of the investment trusts at its discounted level. MIGO's shares may themselves depart from NAV, which means the share price is lower than the per share value of the already



discounted market prices of the investments. What this means is there is typically a 'double discount'. MIGO's shares are trading at a discount of 4.5% at the time of writing. The trust doesn't disclose the average discount of its holdings, but in our last note we reported the top ten were on an average 30% discount, so let's use that for the sake of our worked example. This would mean that for every 100p of the NAVs of the underlying funds, MIGO has reported 70p in its own NAV. Its own shares trade on a 4.5% discount to that, which is $70 \times (1 - 0.045) = 66.85p$. So, we could say that MIGO's shares trade on a double discount of 33.15% to the NAV of the underlying funds. It's worth noting that this relationship between discounts is multiplicative rather than arithmetic, equivalent to $1 - ((1 - 0.7) \times (1 - 0.045))$.

As an aside, MIGO's strategy is changing somewhat to focus exclusively on alternative trusts, watch this space for an updated note following a meeting with the new management team.

Why are Baillie Gifford Japanese trusts BGFD and BGS performing so badly compared with other managers?

Baillie Gifford has a distinctive investment style that most of our readers will be very familiar with. It is heavily committed to growth, meaning looking for companies the managers believe can grow their earnings the most over the long run. Often the market can be short term in its assessment of growth potential, particularly in disruptive businesses, and this is the basic anomaly the growth investing style sets out to exploit.

The post-pandemic period saw a rapid change in the investment environment from one which was amazingly well set up for a growth strategy to one that was bad for it. A key factor was the sharp rise in interest rates. Under the potential technical explanations for this is a basic intuition: if rates on safe assets are high, investors need higher returns for taking risks, and so the price of riskier assets like growth companies will fall. In addition, we saw the deflation of prices in many internet-related industries which had soared during the lockdowns, while the unlisted equity space slowed and saw greater investor wariness. This was the key reason for the relative performance of both Baillie Gifford Japan (BGFD) and Baillie Gifford Shin Nippon (BGS) declining, which has now brought down long-term performance numbers. Another factor has been Japan-specific: corporate governance reform has seen overseas investors prefer to look for cheap companies, which are in need of corporate governance reform, which typically means older businesses in more established

industries and those that have weaker organic earnings growth.

However, one could argue that the post-pandemic environment is over and giving way to something new. We have seen a revival in the fortunes of growth strategies globally, albeit one that has been relatively concentrated in AI-related technology names. It has also been relatively focussed on the large-cap space, for reasons that could be debated at great length. BGFD, the large-cap focussed portfolio, has started to outperform once more. On a one-year basis and in 2025 year to date it has comfortably outperformed the TOPIX Index. High conviction holding SoftBank is up 58% in 2025 and 71% over a year, and is the largest position in the portfolio at 8.3% as of the end of July. SoftBank is benefitting from its investments in the AI industry; as well as publicly listed Nvidia this includes the private OpenAI. BGFD is definitely on an improving vector at the moment, and this plus the discount of the shares could make it look attractive.

BGS has yet to see the same recovery. We think the main reason is that the small-cap space has remained out of favour in Japan as well as globally, with most of the attention going to the larger businesses in the tech and AI industries. However, as we reported in our June note, there is a new management team on the trust promising greater integration with the Japan team that has performed well on BGFD and a higher-conviction portfolio. The discount remains almost 10%, although it has narrowed since the new managers took over, and we would note that BGS has been a stellar performer in past cycles when the environment is in its favour.



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Why can you buy some investment trusts without having to pay Stamp Duty? And why do others not change to make it possible for them as well?

Firstly, Stamp Duty (or Stamp Duty Reserve Tax to give it its full title) is the tax paid on the purchase of the shares



of UK companies, and equates to 0.5% of the transaction balance. The reason some investment trust purchases do not attract this charge is because they are incorporated offshore, in jurisdictions such as the Channel Islands, and listed in London. As they are not UK companies, their shares are not subject to Stamp Duty. If an investment trust has the suffix 'limited' on its name, rather than 'PLC' there's a very good chance it is an offshore investment company.

This is not unusual for closed-ended investment funds, which are often incorporated offshore in order to reap the benefit of tax advantages and more flexible regulations when it comes to structure.

On the other hand, being incorporated offshore could affect eligibility for certain indices, depending on whether the company is judged to conform to UK standards, meaning a trust could miss out on inflows from index-tracking funds which have grown in popularity. Furthermore, there is a perception that offshore companies have fewer regulations and therefore are more risky, meaning some investors may choose not to hold them. That said, the Channel Islands, which is by far the most common offshore domicile for investment companies, has very similar regulations and governance to the UK and companies domiciled here generally have no problem conforming to UK standards and, following recent updates to the FTSE eligibility rules, have become eligible for FTSE indices including the FTSE 250. And indeed, several prominent Channel Islands investment companies have redomiciled to the UK in recent years as the differences between the two have diminished.

Looking forward, there are discussions ongoing about potentially removing Stamp Duty on share purchases across the board as one way of instigating a recovery in the UK stock market. Should this happen, this quirk of the investment trust market could become irrelevant.

Will we see new trusts appearing or are investment trusts dying out?

Whilst there have undeniably been headwinds, we believe the investment trust sector continues to serve a vital need, with several key attributes that continue to appeal.

Over the past couple of years, the outlook for the sector has been impacted by higher interest rates. Not only has this decreased investor appetite for trusts, but it has also put a question mark over their valuations, particularly for real assets trusts, which use interest rates as an input into their valuation models. As rates have stayed higher for longer and discounts have been wide, many trusts have either wound up, thus returning capital to shareholders, or

merged with others, leaving the sector smaller and raising questions over its future.

However, the range of trusts still remains high. As at the end of July 2025 the investment trust industry contained 317 companies and totalled £266bn in total assets. Investment mandates range from the likes of logistics hubs to innovative biotech companies, and plenty in between. Clearly, the industry continues to be a critical source of long-term, fixed capital for important industries, and also provides investors access to generate returns from their growth in a structure that provides daily liquidity, and oversight from an independent board of directors.

This structure arguably remains the best one for certain asset classes, such as those with liquidity concerns like smaller companies and real assets. There continue to be lots of successes in these areas too, with trusts such as Rockwood Strategic (RKW) delivering exceptional returns and proving very popular with investors, despite its current mandate being relatively new.

In the near term, with many investment trust sectors remaining at aggregate discounts, new launches are unlikely. This is because they are unlikely to persuade investors to fund something new at NAV, when existing strategies can be bought for a discount. However, discounts have been narrowing throughout 2025, and interest rates have continued to come down, meaning headwinds are easing and the outlook is improving. As such, there remain plenty of existing discount opportunities for investors to capitalise on, with the long-term potential for this 150+ year old industry still very much in play.



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What threat are active ETFs to investment trusts? Are investment trusts obsolete given that ETFs don't attract Stamp Duty, can't fall into discount territory and involve lower costs?

Despite the advantages of the investment trust structure, the rise of active ETFs has generated no shortage of debate. They combine the benefits of active management



with the liquidity, transparency and cost efficiency of the ETF wrapper, without the discount risk associated with investment trusts. Notably in the US, they have gained rapid traction thanks to favourable tax rules and semi-transparent structures that protect managers' intellectual property.

Europe has been slower to follow, partly because tax incentives are weaker and regulators have required daily disclosure of holdings, something many active managers are reluctant to do. But momentum is building. ETFs in Europe drew record inflows of more than \$200 billion in the first half of 2025 and whilst active ETFs still account for just 2.5% of assets, they captured nearly 8% of inflows in early 2025. Large managers including JPMorgan, Janus Henderson, Fidelity and Jupiter are now bringing active ETFs to market to meet growing demand. Regulation is also evolving. Ireland, Europe's dominant ETF domicile, is reviewing daily disclosure rules, potentially paving the way for semi-transparent structures similar to those in the US. If adopted, these changes would make Europe a more attractive launchpad for active ETFs, and uptake could accelerate significantly.

So, are investment trusts under threat? Not in our view. Active ETFs are clearly here to stay and will continue to expand, offering investors useful tools, particularly for highly liquid strategies where cost and transparency matter most. However, we would note that many of the active strategies being sold in the ETF structure are systematic and perhaps even could be considered semi-active, strategies which aim to do just a little better than the index and where the incremental cost advantage could be most significant. We think these types of strategies typically appeal to professional investors rather than retail.

Additionally, trusts retain unique features that make them hard to replace, and the fact they often trade at a discount is a source of opportunity rather than a drawback in our view. For income-seeking investors, for those who value gearing, or for those with truly long-term investment horizons, we think trusts remain unmatched and remain powerful vehicles for exposures and outcomes that are difficult to replicate elsewhere.

What sectors do you think will do best in the rest of the year?

Markets are uncertain and surprises are the rule, not the exception. Few expected gold to keep setting new highs, or China to rebound despite trade and tariff tensions. Some were even caught out when India's momentum cooled later last year. That said, the following three areas are where I see potential for the rest of the year.

When US tariff discussions resurfaced earlier this year, many expected China to suffer. Instead, the market rebounded, buoyed by domestic resilience, targeted stimulus and a consumer base more insulated from tariff shocks than anticipated. That reaction underlined a key point: further tariff noise may not automatically spell weakness and could even trigger further support from China's government via stimulus, incite continued innovation or supply chain independence, and thus could lead to similar market rebounds, though nothing is guaranteed. Either way, valuations remain near historic lows, and many high-quality companies are trading at discounts that already price in a bleak outlook. With stimulus flowing, domestic consumption strengthening and innovation in areas like AI, EVs and green tech accelerating, the risk may lie more in holding nothing at all, a mistake some investors felt keenly at the start of the year when sentiment turned.

European equities have been quietly outperforming this year, supported by a mix of attractive valuations, fiscal momentum and a shift in investor sentiment. At a forward P/E of around 14x, Europe still trades at a significant discount to the US, where valuations are closer to 23x. That relative value, alongside the tariff and political-induced US market wobbles this year, is attracting capital from global investors who are beginning to diversify away from an overconcentrated US market. At the same time, strong corporate earnings and renewed fiscal initiatives in Germany, including increased defence spending and large-scale infrastructure investment, are expected to boost growth across the region's industrial base. Risks remain, particularly around geopolitics, but with investor flows turning back toward Europe and innovative companies available at appealing valuations, the outlook for the rest of the year remains constructive.

Whilst this might be slightly left field, non-US tech could be an area that does well. With US tech darlings facing greater scrutiny and stretched valuations, investors are increasingly looking for alternative ways to play things like AI and semiconductors. NVIDIA continues to set the pace, but there are other companies further east, notably in Korea and Taiwan, that are proving to be exceptional businesses too, showcasing innovation, strengthening supply chains outside the US and in some cases, deepening collaboration with it. TSMC, for example, remains a linchpin in the global semiconductor ecosystem, underpinning both AI adoption and US tech resilience. The region's firms are benefitting from a potent mix of secular AI demand, robust earnings and capex commitments, whilst also riding a cyclical recovery in the broader semiconductor market. For investors seeking exposure to the next phase of tech growth, beyond the handful of US giants, Korea and Taiwan could stand out as a compelling cluster.





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