Money for nothing

We look at those investment trusts covering the costs of their fees with buybacks.

Update
03 July 2025

Buybacks can be seen as a defensive manoeuvre, like financial chaff sent out to divert poor sentiment or weak demand. Viewed from the perspective of share price, it can be hard to see that they achieve much. However, they are also a return-generating tool: if a trust buys back shares at a discount, it leads to a risk-free gain in NAV per share. Investors may need the discount to close in the medium term to fully feel the benefit, but this shouldn't prevent us from recognising the value being delivered, in the same way we wouldn't ignore the alpha being delivered by the manager while a trust remains on a discount.

There is another dimension to this which is easy to overlook, which is that when trusts are buying back substantial amounts of shares and when discounts are wide, the gains to shareholders can exceed the money paid in management fees. Effectively, then, in some cases, investors are getting active management for free, on top of the other advantages of the investment trust structure. In this note, we look at how widespread this is and where buybacks are delivering the biggest gains.

Analysts:

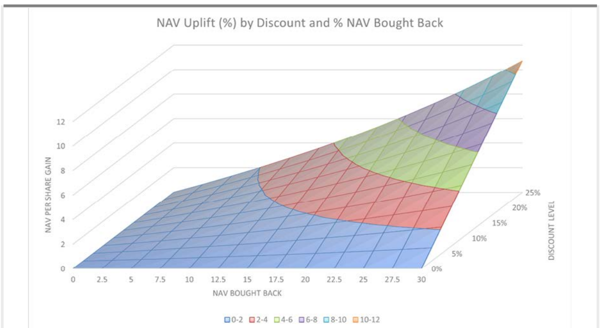
Thomas McMahon
+44 (0)203 795 0070

How does it work?

The maths behind share buybacks are quite simple. The wider the discount, the greater the gain in NAV per share. More cash spent on buybacks boosts the monetary value returned to shareholders, but also reduces the ending NAV too – spending cash reduces the NAV. The basic formula is: (Cash spent on buybacks * Discount in %)/(NAV before buybacks - Cash spent on buybacks). For example, if a trust with a NAV of £100m spends £10m on buybacks when trading at a 10% discount, the impact would be: (£10m *0.1)/(£100m - £10m) = 1.11%. This means that investors who did not sell their shares back to the company would see a 1.11% gain in their position, risk-free.

The chart below is intended to visualise the gain delivered as the cash spent and discount vary. On the X axis is the percentage of NAV bought back, on the Z axis (the third dimension) is the percentage discount, and the Y axis shows the percentage gain in NAV per share. So, for example, 20% of NAV bought back at a 10% discount would deliver a 2.5% gain, or 10% of NAV bought back at a 25% discount would deliver a 2.78% NAV uplift. It is immediately apparent that huge amounts of shares would be bought back to really move the needle, and buybacks are never going to be a major part of an investment case. However, a fund manager who could reliably provide 1% in alpha each year would be a huge success and outperform the index by 11% over a decade, so we wouldn't sniff at this extra return either. Of course, significant buybacks can't be implemented for a decade, but in the short term, this is a nice added extra. More importantly, when shares are trading at a significant discount, under some realistic assumptions, buybacks can very easily outstrip fees, effectively providing active management for free.

Fig.1: NAV Uplift Delivered By Buybacks



Source: Kepler calculations

Getting active management for free

Some papers in the active management debate suggest managers outperform on average before fees, but not after. As nobody works for free, this would be a fairly useless skill, akin to selling a pizza for less than the cost of the ingredients. While we don't propose to rerun the debate, which we think has little value at such a high level, it's worth noting how much energy and resources go into selling funds or ETFs as cheap or fee-free, largely off the back of this sort of claim. Investment trusts don't seem to put so much energy into marketing themselves this way, perhaps because trading on a discount is seen by some boards or managers as a sign of failure, but markets have created an environment in which a number of trusts are now effectively fee-free.

There are a number of moving parts to be considered, which means that the calculations can only be rough or preliminary until the year is in the book and the accounts are drawn up. NAVs change from day to day due to performance, while the management fees and ongoing charges are only known at the end of a financial year when they are calculated for the completed period. And that is before considering that management fees themselves are often changed during a financial year. However, one trust which we estimate to be offering management for free at the moment is **Vietnam Enterprise Investments (VEIL)**. According to Morningstar, the company spent c. £114m on buybacks over the year to the end of May, a year in which it traded on an average discount of 22%. This works out as a boost to NAV of c. £25.2m, which compares to a management fee of c. £21.7m in the accounts. All these numbers are estimates, not least the exchange rate used to calculate the management fee, but we think it fair to say that VEIL investors made back the management fee they paid in buyback gains. The management fee was cut mid-way through the 2024 financial year, so the bar for buybacks to meet in order to cover it this year is lower. VEIL repurchased 8.1% of its shares during 2024, which it is conceivable it could do again this year.

To see how widespread this might be, we decided to dig into Morningstar's database. Surveying investment trusts as a universe is complicated by the fact that they have different financial year ends, and many of the numbers we need to be sure of our calculations are only reported in their financial statements. And some of the numbers we need—like the average discount at which shares were bought back—aren't reported as standard by all trusts. We decided to 'lean in' to this uncertainty and produce an estimate as close as we could get to the current state of play, for the current financial year. To do this, we extracted buyback data over the year ending 31/05/2025 for all AIC trusts. We then calculated the average discount over that 12-month period and the implied monetary benefit of the buybacks, assuming they were conducted at that average discount. We then used the latest management fee given to calculate an implied monetary value of the management fee over the average net assets for the past year. There are all sorts of perils in this approach. Apart from the assumptions we have made in using these estimates, there are issues with the database: some NAVs need to be converted into GBP (from USD or GBX), some fat finger errors in the buyback data led to billions being paid back from £500m investment trusts, which need to be corrected if spotted. Hopefully, those are enough excuses to cover our backs against any angry emails from readers! We still think there is a lot of value in this exercise, and some interesting stuff comes out of it.

One trust we believe to be effectively offering active management for free is **BlackRock Throgmorton Trust (THRG).** The trust has bought back something close to 15% of its shares over the past 12 months, implying a return of capital of close to £10m. The management fee was around £2.6m in the last report and accounts, and we estimate it at around £2.1m on an ongoing basis using the above methodology, so we estimate buybacks have returned more than four times the management fee over the past 12 months. THRG has a performance fee, which complicates matters but shouldn't offset this capital return. In the last report and accounts, it pushed the total fees to c. £4.1m, less than half our rough and ready estimate of the trailing £12m capital return.

Also worth a mention as a special case is Chrysalis (CHRY). A rock-bottom management fee of 1/12 of 0.5% of the NAV, plus a tiny additional tier on amounts above or below £1bn, means only a small buyback would be needed to offset any management fees. CHRY is in the middle of a £100m buyback programme and has halted further investments until it is completed, so it can certainly be considered to be offering its management for free, although there is a performance fee which will hopefully kick in again at some point. Our rough and ready calculation is that around 2.5% has been added to NAV per share thanks to buybacks over the past 12 months, one of the highest in our results.

But we don't want to consider the special cases too much in this review. There are a number of trusts which have made massive tender offers or are in wind-down, which is not the purpose of this note to explore—Crystal Amber and Schroders Global Capital Innovation (INOV) are examples. The table below shows the five trusts that have delivered the greatest estimated NAV per share gain via 'normal buybacks'.

Biggest Gains From Buybacks (Estimated): 12m To 31/05/2025

TRUST	MANAGEMENT FEE (%)	NET ASSETS – AVERAGE	AVERAGE DISCOUNT (%)	IMPLIED MANAGEMENT FEE	MONETARY VALUE OF BUYBACKS	IMPLIED CAPITAL RETURN	EXTRA RETURN OVER MANAGEMENT FEE	BB RETURN AS % OF MANAGEMENT FEE	BB AS % OF AVERAGE NAV	ESTIMATED GAIN IN NAV PER SHARE
Smithson	0.9	£2320.1 m	-11.2	£20.9 m	£481.5 m	£54.1 m	£33.2 m	259%	20.8%	2.3%
Finsbury Growth & Income	0.45	£1697.3 m	-7.9	£7.6 m	£357.2 m	£28.1 m	£20.4 m	367%	21.0%	1.7%
abrdn New India	0.8	£391.5 m	-17	£3.1 m	£37.4 m	£6.4 m	£3.2 m	203%	9.6%	1.6%
Montanaro UK Smaller Companies	0.5	£188.9 m	-11.4	£0.9 m	£26.7 m	£3.0 m	£2.1 m	322%	14.1%	1.6%
BlackRock Throgmorton	0.35	£614.7 m	-10.9	£2.2 m	£89.7 m	£9.8 m	£7.6 m	455%	14.6%	1.6%

Source: Morningstar, Kepler calculations

A sense check of recent annual reports suggests all these estimates should be in the right area. Smithson's (SSON) management fee is charged on the lower end of market cap or NAV, which Morningstar's database doesn't capture, so the fee should be slightly lower than that in our table. Meanwhile, Montanaro UK Smaller Companies (MTU) has cut its management fee during the past year, so the average rate should be higher than it is in the table. Meanwhile, THRG's fee is charged on gross assets, not net, so it will be around 10-15% higher than our estimate. But none of these issues should make more than a minor impact.

It's interesting to note that Finsbury Growth & Income (FGT) and **abrdn New India (ANII)** have delivered similar gains to shareholders. FGT has bought back around 21% of its shares at a discount of around 17%, while ANII has bought back around half that in percentage terms but at a much wider average discount. ANII's NAV per share return in the year to 31/05/2025 was -0.3%, while the index lost 1.9% , so buybacks have really made the difference and prevented a meaningful loss over the year. It's also worth noting that funds have to pay capital gains tax on their trades in India, unlike tracker funds, so active managers are starting with a big disadvantage; the impact of these taxes is already incorporated in ANII's NAV, so the managers have done meaningfully better than this suggests.

We think there are at least 40 trusts that have more or less covered their management fee with the gains made by buybacks. THRG, SSON, and FGT all figure in the list of those returning the highest multiple of the management fee to shareholders via buybacks. Excluding these and the exceptions discussed already, the table below shows the five trusts we estimate to have returned the highest multiple of their management fee in cash gains. Scottish Mortgage tops the list, thanks to its huge share buyback programme, which has returned c. £1.7bn over the past year and its low management fee of 0.3%. The Morningstar database can't capture tiered management fees, which means that **Monks's (MNKS)** estimate of this is too high, and so our estimated gain is likely a little too low. We also note that the numbers for **BlackRock American Income (BRAI)** exclude a tender offer which saw an additional £21m returned to shareholders, or around 16% of NAV.

Highest Estimated Multiple Of Management Fee Returned: 31/05/2025

INVESTMENT TRUST	MANAGEMENT FEE (%)	NET ASSETS - AVERAGE	AVERAGE DISCOUNT	IMPLIED MANAGEMENT FEE	MONETARY VALUE OF BUYBACKS	IMPLIED CAPITAL RETURN	EXTRA RETURN OVER MANAGEMENT FEE	BB RETURN AS % OF MANAGEMENT FEE	BB AS % OF AVERAGE NAV	ESTIMATED GAIN IN NAV PER SHARE
Scottish Mortgage	0.3	£12977.9 m	-10.2	£38.9 m	£1760.5 m	£179.8 m	£140.9 m	462%	13.6%	1.4%
Monks	0.45	£2587.7 m	-10.5	£11.6 m	£330.9 m	£34.9 m	£23.2 m	299%	12.8%	1.3%
Baillie Gifford UK Growth	0.5	£280.6 m	-12.7	£1.4 m	£32.7 m	£4.2 m	£2.8 m	296%	11.6%	1.5%
BlackRock American Income	0.35	£164.0 m	-8	£0.6 m	£20.9 m	£1.7 m	£1.1 m	290%	12.7%	1.0%
Lowland	0.5	£372.8 m	-10.2	£1.9 m	£48.8 m	£5.0 m	£3.1 m	266%	13.1%	1.3%

Source: Morningstar, Kepler calculations

Discount control mechanisms

SSON and FGT are amongst the trusts to have returned the highest percentage of their net assets in buybacks, but most of the others haven't featured in our lists so far. Readers who read sub-headings will have guessed this is because they are those trusts with aggressive discount control mechanisms, whereby the board has committed to keeping the share price close to NAV. As a result, the buybacks have been conducted at a narrow discount. As the table below shows, this means that they have bought back substantial amounts of capital without fully offsetting the management fee. We have included MIGO Opportunities (MIGO) in this list even though it doesn't have a formal DCM because the annual tender offer is intended to have a similar effect, and the strategy of buying discounted trusts means the board is motivated to keep the trust's own shares close to NAV. This table serves as a reminder that a wide discount is necessary for buybacks to really move the needle and to offset management fees.

Conclusion

Generally speaking, if a trust is on a wide discount, there will be plenty of investors who feel aggrieved or concerned about the future. Even if we know that sentiment and discounts tend to be cyclical, and even if we have held for a long time or just bought on a wide discount, it is difficult to look through the present moment when the catalyst for a discount closing isn't immediately apparent. The significant buybacks discussed here are providing a meaningful contribution to NAVs, and we think this is a positive for such investors to focus on. Any buyback return of 1% or more is nothing to sniff at, in our view, given that it would be an attractive level of annualised alpha over a long holding period. And in particular, we think getting active management for free is a compelling feature of these situations. These buybacks at wide discounts are increasing the chances that the NAVs of these trusts will outperform their index, which means that when the discount closing does eventually come, the share price total return will be even more powerful.

Highest Estimated Percentage Of Capital Returns: 12m To 31/05/2025

Investment Trust	Management Fee (%)	Net Assets - Average	Average discount	Implied management fee	Monetary value of buybacks	Implied capital return	Extra return over management fee	BB return as % of management fee	BB as % of average NAV	Estimated gain in NAV per share
Capital Gearing	0.6	£971.3 m	-2	£5.8 m	£191.4 m	£3.8 m	-£2.1 m	65%	19.7%	0.4%
Mid Wynd International	0.5	£412.9 m	-2	£2.1 m	£80.4 m	£1.6 m	-£0.5 m	78%	19.5%	0.4%
Franklin Global	0.4	£250.7 m	-2.1	£1.0 m	£40.3 m	£0.8 m	-£0.2 m	83%	16.1%	0.3%
MIGO Opportunities	0.65	£79.1 m	-3.1	£0.5 m	£11.9 m	£0.4 m	-£0.1 m	73%	15.0%	0.5%
Ruffer Investment Company	1	£1066.9 m	-4.7	£10.7 m	£154.5 m	£7.3 m	-£3.4 m	68%	14.5%	0.7%

Source: Morningstar, Kepler calculations

Disclaimer

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.