



The game of their lives

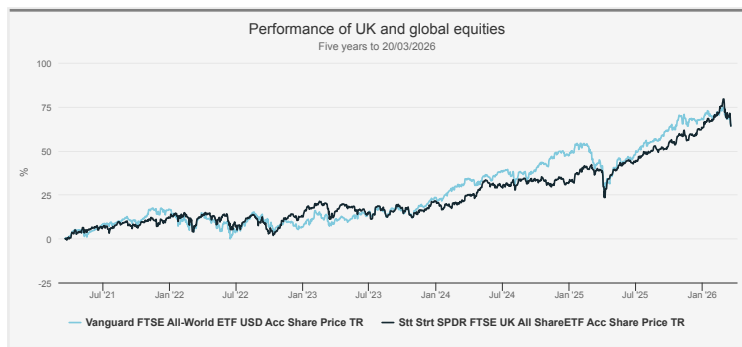
We analyse how UK equity-focussed investment trusts have performed relative to open-ended funds with near-identical mandates.

Update
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The 1966 FIFA World Cup is best remembered for England’s first – and, at least until July 2026, only – victory in football’s most prestigious tournament. Another standout story from the tournament was the unexpected performance of North Korea, which, against all odds, reached the quarterfinals. Few expectations were placed on this little-known team, and their campaign began poorly with a loss to the Soviet Union in the opening group game. In their second match against Chile, North Korea earned a crucial point with a draw. Then, in a stunning upset, the underdogs defeated the Italian powerhouse in their final group match, securing a place in the quarterfinals. Although their journey ended there with a defeat against Portugal, North Korea’s performance remains one of the greatest surprises in FIFA World Cup history. The surviving members of the team were later interviewed in a 2002 British documentary titled *The Game of Their Lives*.

One could reasonably draw a comparison with the performance of UK equities over the past five years (to 20/03/2026), a period that can be long enough to encompass a full market cycle. Expectations were low for UK equities at the start of this period, and they arguably remained out of favour throughout, as reflected in the near-continuous outflows from UK equity funds. And yet, they have slightly outperformed global equities, with the FTSE All-Share Index delivering a return of 65.5%, compared with 64.9% for the FTSE All-World Index. Both indices are represented by ETFs in the chart below.

Fig.1: Performance Of Indices



Source: Morningstar

Past performance is not a reliable indicator of future results

As the performance of UK equities has been strong over the past five years, we thought now would be a good opportunity to review how investment trusts in the AIC UK All Companies, UK Equity Income, and UK Smaller Companies sectors have performed

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during this time, and specifically, how they have fared relative to their open-ended counterparts. We considered an open-ended fund to be a ‘sibling’ of an investment trust if the two vehicles have the same investment objectives and share the same management team.

Face-off

In their game against Italy, the North Koreans won by the narrowest of margins: 1-0. Similarly, UK equity-focussed investment trusts have also edged out their open-ended ‘siblings’ by a slim margin. Across the 12 pairings we identified, investment trusts outperformed in five instances and underperformed in four. There were also three ‘face-offs’ where the performance differential was particularly narrow, less than one percentage point, which we have considered ‘draws’ rather than victories or defeats. As the table below shows, return profiles between an investment trust and its open-ended ‘sibling’ can be markedly different, despite the shared similarities.

This can result from the use of gearing, a feature more commonly accessible to the investment trust



Performance Of Investment Trusts And Open-Ended Siblings

Investment Trust	AIC Sector	5-Year Nav TR (To 20/03/2026) (%)	Equivalent Open-Ended Fund(S)	IA Sector	5-Year Tr (To 20/03/2026) (%)	Outperformance/ Underperformance Of Investment Trust
Investment trusts that outperformed their open-ended 'siblings'						
Temple Bar (TMPL)	UK Equity Income	88.2	Redwheel UK Equity Income	UK Equity Income	76.5	11.7
Aberdeen UK Smaller Companies Growth (AUSC)	UK Smaller Companies	-13.1	abrdn UK Smaller Companies	UK Smaller Companies	-20.6	7.5
Diverse Income (DIVI)	UK Equity Income	30.4	Premier Miton UK Multi Cap	UK Equity Income	23.1	7.3
Finsbury Growth & Income (FGT)	UK Equity Income	1.6	Lindsell Train UK Equity	UK All Companies	-4.5	6.1
BlackRock Smaller Companies (BRSC)	UK Smaller Companies	-13.8	BlackRock UK Smaller Companies	UK Smaller Companies	-15.2	1.4
Aberforth Smaller Companies (ASL)	UK Smaller Companies	25.7	Aberforth UK Small Companies	UK Smaller Companies	24.9	0.8
Investment trusts that underperformed their open-ended 'siblings'						
BlackRock Income & Growth (BRIG)	UK Equity Income	48.6	BlackRock UK Income	UK Equity Income	52.6	-4.0
JPMorgan UK Small Cap Growth & Income (JUGI)	UK Smaller Companies	4.9	JPM UK Smaller Companies	UK Smaller Companies	9.9	-5.0
Merchants Trust (MRCH)	UK Equity Income	42.6	Allianz UK Listed Equity Income	UK Equity Income	50.5	-7.9
Lowland (LWI)	UK Equity Income	46.4	Janus Henderson UK Equity Income & Growth	UK Equity Income	65.3	-18.9

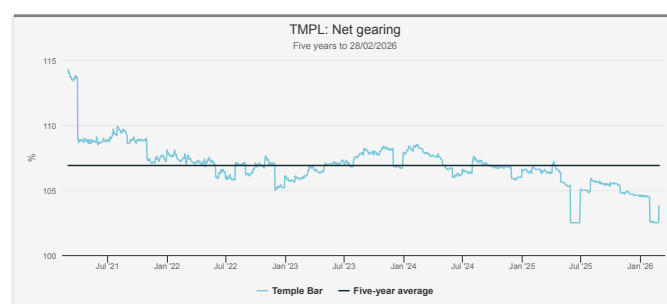
Source: Morningstar

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structure, allowing them to borrow money to increase market exposure above 100%, thereby potentially enhancing returns as well as losses. For example, gearing has likely been a factor in the significant outperformance of Temple Bar (TMPL) over Redwheel UK Equity Income, with the investment trust's gearing having averaged c. 7% over the past five years (to 28/02/2026). That said, there have also been differences in exposure between TMPL and its open-ended counterpart, notably in sector allocations and overseas holdings, which may further help explain the performance differential. Nevertheless, TMPL and Redwheel UK Equity Income have delivered returns far in excess of the FTSE All-Share Index over the past five years. Both vehicles have been managed by Ian Lance and Nick Purves over the period under review, with the duo focussing on quality companies trading at significant

discounts to their intrinsic values and holding them until their share prices more appropriately reflect what they consider to be their true worth.

Fig.2: Gearing

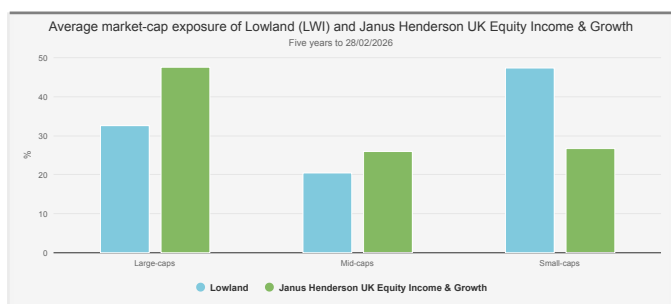


Source: Morningstar



Thanks to the permanency of capital provided by the investment trust structure, meaning that managers do not need to sell assets to meet redemptions, they may choose to allocate more to smaller companies, a less liquid asset class, than they would in an open-ended fund. For example, as the bar chart below shows, **Lowland (LWI)** has had significantly greater exposure to small-caps than its 'sibling' Janus Henderson UK Equity Income & Growth, which is run by the same two managers with the same equity income objectives, over the past five years. We think this largely explains LWI's underperformance relative to its open-ended counterpart, as smaller companies have lagged their large-cap peers over this period. That said, we note that smaller companies have historically outperformed large caps over the long term, and LWI could therefore benefit from a recovery in the asset class.

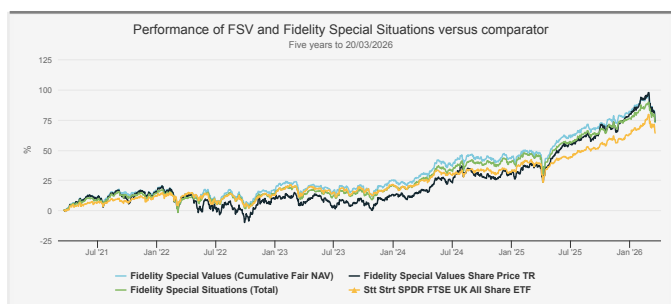
Fig.3: Market-Cap Exposure



Source: Morningstar

Conversely, some investment trusts have delivered returns very similar to those of their open-ended sibling, which can stem from strong portfolio similarities. This was notably the case for **Fidelity Special Values (FSV)** and Fidelity Special Situations, both managed by Alex Wright and Jonathan Winton, where differences in holdings and weightings have tended to be slight. In addition, unlike many investment trusts, FSV does not use borrowing facilities to gear the portfolio; instead, employing derivative instruments such as contracts for differences (CFDs), a feature also available and used in the open-ended fund. Nonetheless, both vehicles have delivered strong returns over the period under review,

Fig.4: Five-Year Performance



Source: Morningstar

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outperforming the FTSE All-Share Index. The managers apply a contrarian approach to the UK equity market, focussing on undervalued companies with the potential to enter a period of positive change.

Forty-four years later

After its remarkable run in England in 1966, North Korea did not participate in a FIFA World Cup again until 2010. However, the team was unable to replicate its prowess. After narrowly losing 2–1 to Brazil in their opening game, the North Koreans suffered two heavy defeats against Portugal and the Ivory Coast, finishing last in their group with zero points. Arguably, developments in sports science, tactics, and training methods over more than four decades made it increasingly difficult for smaller teams, particularly one with limited international exposure, to topple the established powerhouses.

While the bar may have been too high for North Korea to challenge football giants again 44 years later, we believe UK equities could remain competitive in the years ahead, supported by attractive valuations relative to other developed markets. As such, they could benefit from a rotation out of US equities, as investors have shown greater interest in non-US markets since last year, notably on valuation grounds. Besides valuations, it is also worth highlighting that the UK is home to many companies that dominate their industries and/or are well positioned to benefit from structural growth themes, including global rearmament via defence-related firms and the data centre buildout through energy and mining businesses.

In our view, investment trusts provide a more compelling route than their open-ended counterparts to access these opportunities at present, thanks to the unique tools offered by the trust structure. These include gearing, which we have already discussed, as well as discounts, another feature unique to investment trusts that allows investors to benefit from a potential rerating of the shares in addition to the performance of the underlying assets.

Interestingly, most investment trusts across the three UK equity-focussed AIC sectors are currently trading at discounts. However, we believe the most attractive opportunities lie in the AIC UK Smaller Companies sector, where over three-quarters of the constituents trade at discounts wider than 5%, and just under half at discounts wider than 10%. Beyond discounts, we also see compelling characteristics at the asset-class level, with UK small and mid caps trading on lower forward P/E ratios than their large-cap peers, while being expected to deliver stronger earnings growth over the next 12 to 24 months, as the table below shows.



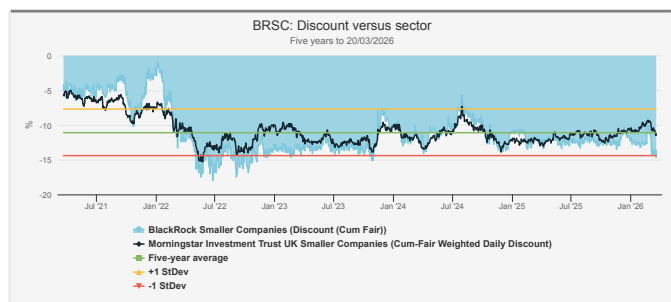
Valuations & Earnings Growth Expectations

INDEX	FTSE 100	FTSE 250 EX INVESTMENT TRUSTS	FTSE SMALL CAP EX INVESTMENT TRUSTS	FTSE AIM ALL-SHARE
P/E (forward to the end of 2027) (x)	12.0	10.0	8.3	11.1
P/E (forward to the end of 2028) (x)	11.1	4.6	6.1	9.0
Earnings growth (1-yr forward) (%)	8.8	4.3	32.6	33.2
Earnings growth (2-yrs forward) (%)	7.9	95.7	29.3	45.0

Source: Bloomberg, as at 24/03/2026

We believe **BlackRock Smaller Companies (BRSC)** is one investment trust in the AIC UK Smaller Companies sector that is particularly attractive relative to its open-ended sibling at this juncture. It is trading at a 14.7% discount, wider than the 11.3% average discount of the Morningstar Investment Trust UK Smaller Companies sector, and almost one standard deviation below its own five-year average of 11.1%. The manager, Roland Arnold, focusses on capital-light companies that generate high levels of recurring revenue and have strong balance sheets. While this investment approach has faced headwinds over the past five years, we believe BRSC could be well positioned if the market shifts to an environment that rewards fundamentals. In addition, the boards of BRSC and **BlackRock Throgmorton (THRG)** have agreed to combine the two investment trusts, subject to shareholder approval at the general meeting on 30/03/2026. If the combination goes ahead, it should result in greater scale, improved liquidity, and enhanced cost efficiencies for BRSC.

Fig.5: Discount



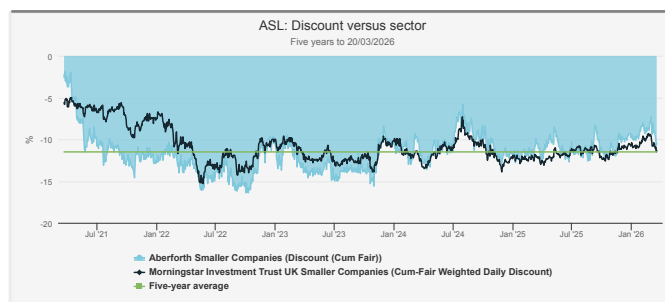
Source: Morningstar

Alternatively, we believe **Aberdeen UK Smaller Companies Growth (AUSC)** could also be attractive relative to its open-ended sibling, abrdn UK Smaller Companies. Managers Abby Glennie and Amanda Yeaman apply the same investment process across both vehicles, emphasising the quality, growth, and momentum factors to identify potential holdings. Essentially, they are looking for businesses with strong balance sheets and competitive advantages that can grow sustainably across a range of environments and consistently meet or exceed their own forecasts. We note that the two portfolios are very similar, with only small differences in stock selection and

weighting. However, the trust employs gearing, currently standing at 10.7% and having averaged c. 5.5% over the five years to 28/02/2026, which could amplify returns in a UK small-cap recovery. The trust also currently trades at an 8.3% discount, offering scope for rerating.

For investors favouring an investment approach that places greater emphasis on valuations, we believe **Aberforth Smaller Companies (ASL)** could be an attractive option, with the trust currently trading at a 9.4% discount. The six-strong management team aims to invest in companies with strong business models that generate positive cash flows but are currently out of favour with investors. This approach results in a portfolio that is generally more attractively valued than the Deutsche Numis Smaller Companies ex Investment, ASL's benchmark, and has delivered outperformance over the past five years. ASL's NAV total return has been closely aligned with the return of its open-ended 'sibling', Aberforth UK Small Companies, over the same period, but it does currently have gearing on, a relatively rare fact in the trust's long history, which reflects the value the managers see in the market.

Fig.6: Discount



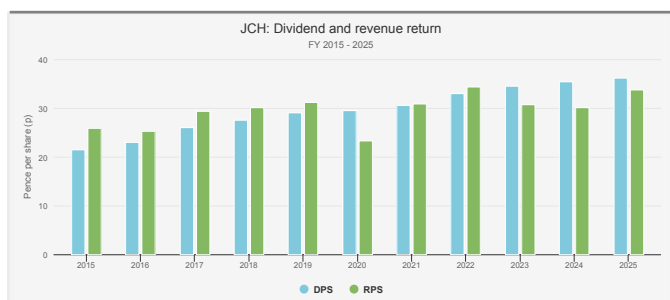
Source: Morningstar

Finally, another attractive feature of the investment trust structure, unavailable to open-ended funds, is the ability to retain up to 15% of the income received from holdings, enabling them to build revenue reserves. This provides boards with the flexibility to draw on these reserves to maintain or grow dividends when income from investee companies falls short. For example, Diverse Income (DIVI) was able to continue increasing its dividend in FY 2020 despite falling revenue return per share, as companies



reduced or cut payouts due to the economic shock caused by COVID-19 lockdowns, as the chart below shows. This has helped DIVI establish a track record of 13 consecutive years of dividend growth. In comparison, the income distribution of its 'sibling', Premier Miton UK Multi Cap Income, fell from c. 11.94p to c. 10.36p between FY 2018/19 and 2019/20. At the end of FY 2025, DIVI held revenue reserves of c. £17.3m, sufficient to cover c. 1.7x the dividends paid in the previous 12-month period, providing support for further dividend increases in the future, including in the event of revenue shortfalls.

Fig.7: DPS & RPS



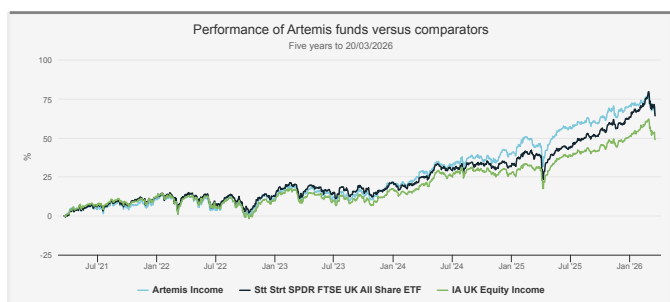
Source: Premier Miton

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Conclusion

UK equity-focused investment trusts have slightly prevailed over their open-ended 'siblings' in terms of performance over the past five years, and we believe they may continue to have an edge going forward thanks to the flexibility afforded by their structure. This includes discounts, which remain generally wide across the AIC UK All Companies, UK Equity Income, and UK Smaller Companies sectors, offering potential for rerating in addition to the performance of the underlying assets. Meanwhile, gearing, when employed, provides the opportunity to amplify returns, although it is important to remember that it can also magnify losses. Finally, revenue reserves should afford investment trusts a greater

Fig.8: Five-Year Performance



Source: Morningstar

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ability to maintain or grow dividends even in challenging environments compared to open-ended funds.

We also see positive developments across the three sectors. That includes, for example, the recent appointment of Artemis as investment manager of **Murray Income (MUT)**, with Adrian Frost, Nick Shenton, Andy Marsh, and Jamie Lindsay having managed the trust since 02/03/2026. The team also runs the open-ended fund Artemis Income, which has largely outperformed its average peer in the IA UK Equity Income sector and kept up with the FTSE All-Share Index over the past five years, as the chart below shows. Combined with a discount of c. 7.5% and the option to employ gearing, we believe MUT's investment case has strengthened. Artemis also became the investment manager of the former Invesco Perpetual UK Smaller Companies (IPU) in March 2025, which has since been renamed **Artemis UK Future Leaders (AFL)**. The trust is managed by William Tamworth and Mark Niznik, who also oversee the open-ended fund Artemis UK Smaller Companies, which has been one of the best-performing funds in the IA UK Smaller Companies sector over the past five years.



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