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Share your views on how investment trust fees should be declared...

Update
24 October 2024

One of the biggest headwinds to the investment trust industry was swiftly resolved in September, following the joint announcement from the Treasury and Financial Conduct Authority that London listed closed-end funds would be exempt from two EU directives that had led to an effective 'double counting' of costs. This has long been touted as a contributing factor to the wide discounts in the sector, as the higher reported fees had been putting off marginal investors.

However, just a few weeks later, the absence of a formal framework has led to a new row between trusts and the platforms emerging over how fees should be declared. With the industry at a potentially critical juncture, we believe it is important to get the views of as many stakeholders as possible and, therefore, would like to hear your views, with a prize draw on offer for those who respond to our survey. To help frame the questions, we have provided a brief summary of the story of investment trust charges over the past few years.

Regulation changes

Back in 2018, two pieces of EU legislation named PRIIPS and MiFID II came into effect. These had a raft of regulations, including on cost disclosure, designed to provide investors with transparency over the fees they were paying for investment products. The FCA's interpretation of these rules meant that listed closed-ended vehicles, i.e. investment trusts, had to produce a key information document (KID) with a single statistic, which reflected the all-in costs of holding the investment, regardless of whether they were borne by the end client or not. This figure is known as the reduction in yield figure, or RIY. Many argued this was not giving an accurate picture of costs and in many cases was double counting.

The RIY figure is different to the ongoing charges figure (OCF) in that it includes costs such as transaction costs or the cost of debt.

Commentators say this approach has multiple problems. For one, it double counts the costs of running an investment company, as many of these costs are already factored into the trust's share price, and also, it is different from how equivalent vehicles such as open-ended investment companies have to declare their costs. They claim that this doesn't allow investors to make like-for-like comparisons. Furthermore, some REITs are treated as equities, which are not covered by PRIIPS and MiFID rules, and therefore don't have to declare their costs. All protagonists agree that there is not a level playing field in terms of cost disclosures.

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After several years of campaigning, the Treasury and Financial Conduct Authority announced in September 2024 that investment trusts are now exempt from PRIIPS and MiFID, with new disclosure rules expected to follow in the first half of 2025.

In the interim, a number of trusts have quickly shifted their position, and have published their KID RIY figure as zero, arguing all their costs of operation are already reflected in the share price.

However, many platforms have questioned the zero charges figures, claiming the approach is not aligned with the new UK Consumer Duty regulation. We understand some of the platforms have said they will make trusts unavailable for trading that declare a 0% KID RIY figure in the documentation they provide to the platforms. That being said, in the past few days one platform has decided to accept a 0% RIY figure if there is an OCF and an accompanying explanation. The situation clearly remains fluid.

It is worth noting that trust providers are not trying to hide the underlying costs of their products. For example, abrdn has added a comprehensive

'Statement of Operating Expenses' table on each of their trusts' factsheets, breaking down the costs directly attributable to the trust, in this case, **Murray International (MYI)**, which we have shown in the table below.

Fig.1: MYI Statement Of Operating Expenses

Murray International Trust PLC

Statement of Operating Expenses — Publication date: 3 October 2024

Recurring Operating Expenses (£000)	Year ended 31 Dec 23	% of NAV	Year Ended 31 Dec 22	% of NAV	% Ch Y/Y
Management fee (inc AIFM)	£6,929	0.42%	£6,748	0.42%	2.7%
Custody fees and bank charges	£451	0.03%	£411	0.03%	9.7%
Promotional activities	£400	0.02%	£400	0.02%	0.0%
Directors' remuneration	£208	0.01%	£157	0.01%	32.5%
Depositary fees	£155	0.01%	£157	0.01%	-1.3%
Auditors remuneration	£52	0.00%	£47	0.00%	10.6%
Other adminstrative expenses	£460	0.03%	£417	0.03%	10.3%
Ongoing Operating Expenses (ex indirect fund management expenses)	£8,655	0.53%	£8,337	0.52%	3.8%
Expenses relating to investments in other collective investments	-	0.00%	-	0.00%	-
Ongoing Operating Expenses (inc indirect fund management expenses)	£8,655	0.53%	£8,337	0.52%	3.8%

Source: Murray International, as at 03/10/2024

The way forward

The exemption of trusts from the PRIIPS and MiFID rules is clearly a positive step for investment trusts, with the hope that they will be on the same playing field as OEICs when it comes to costs. This should go some way to narrowing discounts and allowing the investment trust sector to grow again. However, the implementation of a new cost disclosure regime is clearly very important.

As such, we believe it is critical to hear from as many stakeholders as possible and, therefore, would like to hear our readers' views on the matter. Below is a short survey. We would appreciate you taking just a moment to fill in your thoughts on the matter. As a way of reflecting the importance, we are offering all those who vote the opportunity to be entered into a prize draw to win a £200 John Lewis voucher.

Furthermore, if you have any further comments that are not covered in the scope of the survey, please get in touch **via email**.

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