Are we the Wampanoag?

LTAFs promise virgin territory for investors seeking exposure to private markets, but isn't there something there already?

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To the people of the lush Northeastern Woodlands the news that America, in all its abundance and beauty, had been discovered by a group of bedraggled, hungry God-botherers – too weird even for Britain in 1620, when the head of state spent much of his time writing a detailed manual on how to deal with the witches he believed had delayed his wedding – must have been quite confusing.

Likewise for those of us with any experience of investment trusts, the news that we will soon be able to invest in illiquid assets via a fund structure which allows the manager to invest for the long-term, without worrying about the need to meet redemptions, and with a low minimum investment, seems somewhat like a non-story.

For the benefit of those at the back of the wigwam, Long Term Asset Funds (LTAFs) are a new form of open-ended fund, designed to provide access to illiquid, long-term assets like private equity, venture capital, infrastructure, and property – collectively termed as private markets – and equipped with structural mechanisms specifically designed to protect them from redemption pressures faced by OEICs and unit trusts.

In effect their defining feature is that they are semi-closed-ended funds. Withdrawals are limited to specific times and frequencies; you cannot simply sell up when it suits you. When you can sell, limits on the amount of money that can be redeemed, charges for redemption and even refusals are all at the discretion of the manager, who will make these decisions with the long-term success of the portfolio as their priority.

Last week *Hargreaves Lansdown* published an article[1] outlining the benefits of the new LTAF structure to private investors, among whom are SIPP investors on the HL platform, who can now buy two LTAFs managed by Schroders Capital. Next year ISA investors will also be able to but LTAFs in a tax efficient manner.

Diversification (that old chestnut), the fact that they can be held in a tax efficient SIPP or (as of next year) ISA wrapper, and a 'low minimum investment threshold' were among the benefits described in the article.

The headliner, though, for those considering these new vehicles was '*the chance to invest in private investments that were previously only available to large institutions. These could be sectors shaping our future, like renewables, fintech, biotech, and artificial intelligence*'.

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We've been here for ages, savvy?

The new opportunities outlined here may seem like familiar ground for investors in **Greencoat UK Wind (UKW)** (among whom I am counted) and **The Renewables Infrastructure Group (TRIG)**, both of which hold a Kepler Alternative Income Rating thanks to their success in delivering a steady or growing dividend without running down the NAV and both of which are invested in illiquid private assets in the renewables space.

Shareholders in **International Biotechnology Trust (IBT)**, too, might be tempted to argue that they were here already. The trust has shifted its focus to smaller companies in the sector this year in anticipation of an M&A boom – and has the ability to invest up to 15% into unquoted assets via a tie up with SV Health Advisers, where COVID tsar Kate Bingham calls the shots.

IBT has delivered solid returns since inception in 1994, and significantly outperformed the biotech sector under the stewardship of Ailsa Craig and Marek Poszepczynski since they took the reins in 2021.

NB Private Equity Partners (NBPE) is explicitly and solely focused on private markets, offering exposure to a portfolio of 76 private companies, across a wide variety of sectors, via co-investments alongside 48 private equity sponsors, and even retail giant **Scottish Mortgage (SMT)** has shifted heavily toward unquoted stock in recent years. The Baillie Gifford flagship counts more than fifty private companies among its holdings including SpaceX – the single largest holding in the portfolio.

It's a big country, surely there's room for us all?

Via investment trusts ordinary investors have for a long time had access to a structure which allows them to invest in private markets which were 'previously available only to large institutions' – since 1868 in fact, when Foreign & Colonial was established "to give the investor of moderate means the same advantages as the large capitalists".

What's more, liquidity is better for investment trusts – I can sell my shares in NBPE instantly – and charges are, by and large, lower or at par than they are likely to be via an LTAF. I can also buy private markets assets at a discount, because investment trust shares may trade at a discount to NAV.

So why all the fuss?

There has, over the years, been much talk of the inevitable 'death' of investment trusts as an industry – outgunned by and unable to keep up with the more retail-friendly, modern competition.

With Saba still prowling the alleys around Threadneedle Street, the arrival of LTAFs has been added to the ledger as another potential existential threat for an investment trust industry 'under seige[2]'. Newspapers like this kind of headline.

And, truly, there is scope for LTAFs to flourish. Kepler's own Tom Trotter – a partner at the firm – is an expert on the new structure, having orchestrated a study of the sector this year. He says: "Momentum seems to be building with now 150+ELTIFs and 26 LTAFs approved and investable. More broadly, unregulated evergreen structures have been gaining real momentum, and there are now reportedly over 500 funds available, offering access to some of the largest and best-known private markets managers globally.

"Estimates suggest there is approximately $700bn now invested in these evergreen strategies. While a big number, it only represents about 5% of invested capital in private markets, highlighting the potential for this part of the market to grow."

But perhaps the real growth opportunity for LTAFs is not in edging out retail investors from investment trust share registers, and the threat for investment trusts does not lie in losing ground there. Instead, it is a matter of horses for courses.

A key issue which has faced the investment trust sector in recent years is the problem of liquidity that they present for very large institutional owners. An individual wealth manager twenty years ago might run a portfolio for his rich client with twenty idiosyncratic stocks in it, each chosen by hand (I like to imagine before a boozy lunch at Sweetings then the early train home to West Sussex – but I digress). Today, it is far more likely that the wealth manager will be choosing from the same list of stocks as everybody else in his or her company, approved by a central research function, and then probably doing some mindfulness and a two hour ayurvedic spin class before crying themselves to sleep in a flatshare in Romford.

This means far more money is moving in the same direction at the same time. In that scenario there simply isn't enough daily liquidity in the shares of many investment trusts for them to be practical targets for investors of this scale and so, for this type of investor, LTAFs may well be of more interest.

So, while the writing may not be on the wall for investment trusts, which remain a far more flexible, affordable and straightforward means to gain exposure to private markets for ordinary investors on small budgets, there is certainly scope for LTAFs to add value for some larger investors – and we will be watching developments closely.

[1] **https://www.hl.co.uk/news/investing-in-long-term-asset-funds-what-are-ltafs-and-how-could-investors-benefit**

[2] **https://www.ft.com/content/a6b83e03-5177-497d-937c-38778b4b5a85**

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