INVESTMENT WEEK

Trust discounts widen in 2021 as post-Covid euphoria is hit by new variants

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By Kathleen Gallagher

In 2021, equity investment trusts saw their discounts widen by a weighted average of 4.8%, according to figures from the Association of Investment Companies (AIC) and Morningstar for *Investment Week*. However, when it comes to the individual winners and losers trusts swung drastically in both directions.

Ten years ago, in 2011, the equity investment trust universe saw their discounts widen by a weighted average of 11.1%. Since then the widening has gradually been declining, reaching just 3% for 2020. However, 2021 saw the reversal of that trend, with the average widening ending up higher than that of 2019.

"If we cast our minds back to this time last year there was a fair bit of euphoria around the 'reopening' trade as Covid vaccines began to be rolled out," explained Sarah Godfrey, director of investment trusts at Edison Group.

She pointed out that, over the past 12 months, euphoria has faced the emergence of new Covid variants combined with "the spectre of rate hikes".

Sector by sector

Despite the changing market sentiment, some investment trust sectors had a strong year, with two seeing a positive change: Biotechnology & Healthcare and Environmental. These sectors saw their discounts narrow by a weighted average of 4.1% and 6.8% respectively.

Meanwhile, four trust sectors saw double-digit widenings: commodities & natural resources (15.5%); flexible investment (14.7%); country specialist (14.5%) and India (12.9%).

While some of the changes in discounts can be attributed to wider market movements, this is not always the case. For instance, the China/Greater China sector saw its discount widen, but only by 3.4% – below the average for the entire universe.

Similarly in the UK, while small caps performed better than the broader market, the UK Smaller Companies sector's discount widened by 7.9% compared to 1.8% for UK All Companies.

It is all individual

Looking to the trusts that saw the biggest positive and negative moves reveals there is a lot dependent on the individual trust.

When considering the table above, it is important to note the discounts of the very small trusts, those around £15m, can be misleading as they are traded so infrequently. This could, in part, explain why both the £17.8m Blue Planet and the £5.8m British & American top their respective lists.

Separately, JZ Capital Partners is a slight anomaly and does not compare so well because its governance practices are not shareholder-centric, according to some analysts, so its figures should also be taken with a pinch of salt.

The biggest winner after taking these factors into account is the £4.6bn RIT Capital Partners investment trust.

"RIT Capital Partners is unique among investment companies in that it offers shareholders access to a diverse range of investment styles that are not usually available to individual investors," explained James Carthew, head of investment company research at QuotedData.

"It is not as uber-defensive as some other absolute return funds (and that can lead to a discount opening up) but tends to hold up well when markets are falling and outperform much of the competition on the way up, which has driven renewed interest and the elimination of the discount recently."

Aside from the general market movements, corporate activity also played a role in several of the discount moves. UIL's board, for instance, highlighted the double discount that exists as it has investments in holding companies that are also trading at discounts. However, while this helped it climb up from a 45.7% discount, it still sits at an unenviable 35% discount to NAV.

JPMorgan Multi-Asset Growth & Income's board had more success when it revamped the trust and introduced a discount control mechanism which brought it down from double digits to a discount of just 1.5%.

Looking to those trusts that saw their discount widen during the period, several were impacted by the rotation away from growth stocks.

This was the case for both Baillie Gifford China and JP Morgan UK Smaller Companies, according to Carthew.

James Budden, director of marketing and distribution at Baillie Gifford, noted the China trust began 2021 on a significant premium in part due to Baillie Gifford taking on its management in the autumn of 2019 and the rating throughout last year "normalised as demand moderated".

Favourites falling out of favour

Baillie Gifford trusts have previously been in high demand. Throughout the last year, however, only one managed to see a positive change in its discount – Keystone Positive Change, which the firm recently took over the management of.

Carthew believes this is due to investor focus shifting from growth stocks as they start to "look through Omicron to a post-Covid world".

Along with the shift from growth-oriented investing, Godfrey pointed out that "it is debatable whether a portfolio largely made up of listed companies should ever be trading on [double-digit] premiums" as several of the firm's trusts have.

In that sense, she added, the re-rating seems sensible and the trusts are not trading too far away from their NAVs.

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Biggest positive and negative discount changes (%)

Biggest positive changes	31/12/20	31/21/21	Difference
Blue Planet Investment Trust*	-32.6	-18.7	13.9
RIT Capital Partners	-9.9	1.8	11.7
UIL	-45.7	-35.0	10.7
RTW Venture	-4.1	6.6	10.7
JPMorgan Multi-Asset Growth & Income	-12.1	-1.5	10.7
JZ Capital Partners**	-71.1	-61.0	10.1
Weiss Korea Opportunity	-4.4	5.2	9.6
Biggest negative changes	**31/12/20**	**31/21/21**	**Difference**
British & American*	81.9	22.6	-59.0
Baillie Gifford China Growth Trust	17.2	-2.7	-19.9
JPMorgan UK Smaller Companies IT	3.5	-11.0	-14.5
Lindsell Train	20.4	6.1	-14.3
Athelney Trust*	-15.8	-29.3	-13.6
Manchester & London	0.7	-12.7	-13.4
JPMorgan Global Core Real Assets	8.1	-3.8	-11.9

*Under £15m. **limited shareholder engagement. Source: AIC and Morningstar