WhatInvestment

# Investment trust ISA millionaires and how you could be one of them

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There are investors who are investment trust ISA millionaires, having favoured these companies for their savings. 28 companies could have got you there had you invested fully since 1999.

Investment trusts appear to be the popular choice for ISA millionaire account holders, accounting for 54% of the average ISA millionaire account ahead of equities (36%), funds (7%) and ETFs (just 2%), according to investment platform interactive investor.

Investment trusts have tended to outperform funds over the long term: 2020 saw the largest ever outperformance of the FTSE All Share by investment trusts, with the FTSE Equity Investment Instruments Index (FTSE EII) producing a total return for the year of 17.8%.

interactive says its customers tend to be buy and hold, focussing on long term, 'get rich slow' wealth creation, yet in the last year its ISA millionaires made twice as many trades as the average ISA account (34 versus 17).

Investment trusts that feature strongly amongst ISA millionaire's top 10 holdings, include Scottish Mortgage the most held, followed by Alliance Trust. Witan, RIT Capital Partners and City of London also feature in the top 10 and big FTSE 100 blue chips, like Royal Dutch Shell and Glaxosmithkline, National Grid and BP also dominate.

ii makes the understandable point that the length of time it takes to become an ISA millionaire is determined by the amount someone can invest and how well their investments perform.

It calculates that if an investor started now and invested the full £20,000 annual ISA allowance (assuming it stays the same), and their investment saw 5% annual growth excluding fees, it would take 25 years to reach the £1million mark – £1,002,269.08 to be exact. This is of course an investment of £500,000.

If those investments grew by 7% net of fees, three years could be cut off that period, achieving £1,048,722.82 in 22 years. However, if an investor experienced annual growth of just 3%, it would take 31 years to reach the seven-figure sum (£1,030,055.17).

Moira O'Neill, head of personal finance at online investment platform interactive investor, says: "ISA millionaire status will elude most of us, but it is inspiring to see how they got there – and we can all learn from the nation's wealthiest. With an average age of 71, most will have started out with Personal Equity Plans (PEPs), when ISAs were just a twinkle in policymakers' eyes. So, the number one lesson is patience – even the millionaires didn't get there fast.

"Lesson two is the importance of portfolio diversification – and don't forget investment trusts. Their ability to gear (borrow) to enhance returns, means they can give a portfolio a turbo charge over the long term – but this can also drag down performance further in volatile times, so be prepared for a bumpy ride. Globally diversified trusts are a good place to start."

**Investment Trust winners**

A total of 28 investment companies would have made investors millionaires if they had invested the full annual ISA allowance in the same company each year, according to new data from the Association of Investment Companies (AIC).

Investing the full ISA allowance annually from 1999 to 2020, a total of £246,560, and reinvesting the dividends into one of the eight investment companies below would have generated a tax-free pot of over £1,500,000 by 31 January 2021.

The top ten are:

- Scottish Mortgage
- Biotech Growth
- Allianz Technology
- Pacific Horizon
- JPMorgan China Growth & Income
- Edinburgh Worldwide
- Polar Capital Technology
- HgCapital Trust

Scottish Mortgage would have paid a total of £2,541,100, more than ten times the original investment. The 28 investment trusts are spread across 13 different sectors, 14 of the trusts from the smaller companies sectors.

Annabel Brodie-Smith, communications director at the Association of Investment Companies (AIC), said: “Twenty-eight investment companies would have made investors millionaires if they had invested the ISA limit in the same company each year, with many companies returning far more than £1 million. The investment companies come from a wide range of sectors which demonstrates the benefits of the investment company structure for delivering strong returns over the long term.

“It’s worth highlighting that half of the investment companies that have made investors ISA millionaires are in the smaller companies sectors. Their closed-ended structure makes investment companies particularly suitable for investing in harder-to-sell assets like smaller or unquoted companies.

“Whilst it’s always fun to dream of becoming an ISA millionaire and have that ‘what if’ moment, it’s important not to put all your eggs in one basket. No-one can tell which will be the best-performing investments in future and it’s important to have a diversified portfolio which suits your long-term needs.”

**ISAs for children**

Consider also how, as a parent or grandparent by investing the £9,000 allowed into a junior ISA – by the time your youngster reached 18 they could have had £162,000 invested for them.

NFU Mutual reports that nearly four times as many Junior ISAs were opened with it in January 2021 than in January 2020. For more realistic savings amounts – especially if there are several children in the family – NFU gives the example of £100 a month to a Junior ISA over 18 years, growing at 4% after fees, would build to £31,559. Over 15 years, it would be £24,609 and over 10 years it would be £14,724.