MoneyWeek

MoneyWeek's Super Six: December 2021 update on our investment trust portfolio

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Just under ten years ago we decided to put our money where our mouths are. So we launched the MoneyWeek Investment Trust Portfolio: six trusts to hold in equal weights, making up a diversified portfolio that should hold up well in most market conditions. I hold all the trusts – and so far I'm pretty pleased. The portfolio, which has seen only a few changes since its inception, has produced an annualised return of just over 17% a year since we launched it. I'm not bothering with decimal figures here as I haven't factored in the charges you pay as you buy and sell. I'm also pretty sure that not very many readers get around to rebalancing regularly.

That's good in that you will have made a lot more than 17% a year; top performer Scottish Mortgage Investment Trust (LSE: SMT) will have become an increasingly large part of your portfolio over the last five years. It's also not good: you may well now have too much of your money in Scottish Mortgage, making you vulnerable if growth stocks slide in 2022.

Either way, I'm worried. A gain of 17%-plus a year for 9.5 years is a huge tribute to the brilliance of our advisers (Sandy Cross of Rossie House, Alan Brierley at Investec and Winderflood's Simon Elliott). But it isn't normal and it feels unsustainable. So should we change elements of the portfolio? Should we make it even more defensive?

Missing the rally

Almost every time we review the portfolio we have this conversation – and we have one problem trust. Last year it was RIT Capital Partners (LSE: RCP). We worried that Jacob Rothschild's departure would turn it into a bog-standard multi-asset trust (nothing wrong with that – it's just not what we want). In March it was Caledonia Investments (LSE: CLDN), which had somehow managed to miss out completely on the UK's vaccine-led equity rally.

Most of the time the trusts come good. RIT certainly has – it has made a total return of 33% in the last year against an average of 21.7% for the AIC Flexible Investment sector. The same is now true of Caledonia, which one member of our advisory panel insisted we hang on to. We did, and the share price is up by a whopping 40% since March last year; our debate coincided exactly with the share-price low.

The first half of 2021 was an "outstanding period", say the analysts at Numis. It included the sales of several businesses (including BioAgilytix Labs and Deep Sea Electronics) "at strong uplifts to carrying value". That should be a reminder of Caledonia's positive record in the unquoted market (a quarter of the portfolio is in private markets) and also of the fact that following the sales it has "significant firepower to invest". CEO Will Wyatt will retire in July 2022 and will be succeeded by Mathew Masters (head of Caledonia Quoted Equity).

During his tenure Wyatt played a "crucial role in formalising the investment process" – and Caledonia has generated returns of nearly 11% a year since he took over (versus 8.4% for the FTSE All-Share). The shares still trade at a 20%-plus discount to their net asset value (NAV). We are going to keep holding.

We are also very happy to keep holding Law Debenture (LSE: LWDB) – up by 7% since we last reviewed the portfolio in March. This is an unusual company in that it comes in two parts. The first is the global professional-services business IPS, which offers a regular income to supplement the dividend of the UK equity portfolio run by the formidable team of James Henderson and Laura Foll (both great participants at the MoneyWeek Wealth Summit last month). IPS has covered 35% of the dividend for the last ten years.

We agree with Foll and Henderson that UK equities remain cheap relative to most of the rest of the world, so we want our portfolio to be overweight here. The trust is a good way to achieve that. It also boasts a 42-year record of hiking or maintaining dividends and a long record of outperformance with very low charges (0.5% against a sector average of more like 1.02%).

QuotedData recently ranked the UK's biggest equity-income trusts on five criteria – yield, growth in NAV, number of years of consecutive dividend growth, discount to NAV and five-year dividend growth. Law Debenture was the clear winner. It's a keeper.

Much the same goes for Personal Assets Trust (LSE: PNL), up by 13% since March. This one rarely shoots the lights out. But that is not what it is there for. We bought it and keep it because the manager's main priority is to preserve the value of our capital. Personal Assets is ready for inflation – and that works for us. On to Scottish Mortgage (up by 25%). We've had this one from the beginning too – and will keep holding it for the opposite reasons we hold Personal Assets.

It is about participation in human ingenuity, new technology and growth, not about safety. We might constantly worry about the valuations of the constituents of the portfolio, but we have been wrong to do so every year for many years. Scottish Mortgage is both the driver of much of our outperformance and our hedge against our own wrongness (this balance is vital in investing). It stays.

Our final holding is our newest, Mid Wynd International Investment Trust (LSE: MWY), which we swapped into the portfolio last year (it replaced Temple Bar). It is up by 17% since March – so we haven't much to complain about there either. So there you have it. We've thought about changing something in the portfolio – and we have decided not to (again).