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Inflation-friendly trusts in demand: what is proving popular?

Fundraising fell sharply in the first quarter, but investment trusts with inflation-linked assets have been in favour.

Unsurprisingly it has been a quiet start to the year for investment trust fundraising, given concerns over Russia's invasion of Ukraine, high inflation and increases in interest rates. Each has negatively impacted investor sentiment.

In the first quarter of 2022, there were no IPOs, while secondary issuance (money raised by existing investment trusts) also slumped. Figures from the investment trust analyst Numis show that £2 billion was raised, which was 50% down on the £4 billion raised in the first quarter of 2021.

Reflecting greater levels of caution among investors, there was strong demand for investment trusts with inflation-linked assets. LXI REIT Ord LXI **0.13%** and Impact Healthcare REIT IHR **0.02%** were highlighted by Numis as being popular, alongside wealth-preservation trusts Ruffer Investment Company Ord RICA **0.32%**, Capital Gearing Ord CGT **0.65%** and Personal Assets Ord PNL **0.39%**.

Investment trusts benefitting from higher power prices were also in demand. Numis points out that over the quarter there was significant issuance from renewable energy trusts. Renewables Infrastructure Grp TRIG **0.04%**, Greencoat Renewables GRP **2.03%** and SDCL Energy Efficiency Income Ord SEIT **0.13%** attracted £277 million, £237 million and £100 million.

BlackRock World Mining Trust Ord BRWM **0.28%** and BlackRock Energy and Resources Inc BERI **0.36%** also experienced strong demand on the back of rising commodity prices.

Numis said that many growth-focused equity trusts held back issuing new shares, while more value-biased trusts, such as Fidelity Special Values Ord FSV **0.17%**, Merchants Trust Ord MRCH **0.35%** and Law Debenture Corporation Ord LWDB **0.33%**, continued to issue them in a bid to satisfy investor demand.

The investment trust analyst said: "Some growth-oriented trusts, such as Smithson Investment Trust Ord SSON **0.06%**, BlackRock Greater Europe Ord BRGE **1.09%**, Mid Wynd International Inv Tr Ord MWY **0.64%**, and BlackRock Throgmorton Trust Ord THRG **0.98%** were issuing in the early part of the year, but this slowed as inflation and interest rate expectations rose and then largely paused during the volatility around the Russian invasion of Ukraine.

"Reflecting the growth sell-off, issuance by Baillie Gifford-managed vehicles was also extremely muted compared to previous years, with only Scottish American Ord SAIN **0.51%** issuing shares."

The data chimes with how some of interactive investor's customers have been positioning their portfolios. **RIT Capital Partners Ord** RCP **0.00%**, Ruffer Investment Company and Personal Assets entered our top 10 most-bought investment trust table for March, while Capital Gearing kept its place. The quartet of wealth-preservation investment trusts prioritise protecting investor capital. Each trust has plenty of defensive armoury in an attempt to weather stock market storms.

BlackRock World Mining Trust is continuing to prove popular, and was in third place in our top 10 in March. Commodities have been on a tear for the past two years, with some predicting the early stages of a new 'super-cycle', which is being driven by the global green revolution as major economies strive to decarbonise.

Inflation concerns were another factor behind Greencoat UK Wind UKW 0.04%'s entry into the top 10 trust table. The trust, which as the name suggests invests in wind farms in the UK, aims to provide investors with an annual dividend that increases in line with RPI (retail price index) inflation.

Losing their places in the top 10 in March were growth-focused Edinburgh Worldwide Ord EWI 0.70% and Baillie Gifford US Growth Ord USA 0.23%.

In 2021, investment trusts raised a record £14.8 billion through IPOs (of which there were 16) and secondary issuances.