Money Observer

How to build a core and satellite investment trust portfolio

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By Jennifer Hill

It can be difficult for many private investors to make sense of an established portfolio, while new investors with a lump sum to invest often do not know where to start. One approach is to build a sensible core collection of trusts that focus on mainstream growth, total return or growing dividends that can be reinvested. A selection of satellite trusts can then be added, focusing on more specialist themes.

We ask three professional investors to build a core/satellite portfolio of investment trusts – the first for an investor with a cautious risk profile, the second for a balanced investor, and a final more adventurous one.

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Balanced selections

For a balanced investor, Patrick Thomas, an investment manager at Canaccord Genuity Wealth Management, favours putting 75% in a "simple and low-cost" core and overlaying this with 25% in more concentrated structural themes.

"The core part of the portfolio is a geographically diverse group of trusts where managers generally have long tenure and simple processes and the long-term performance has been good," he says. "The most important thing is that the individual funds are genuinely differentiated, so the portfolio is not susceptible to one theme or management style. This is straightforward diversification, but it works.

The satellite portfolio is a smaller group of managers, more thematic in nature, where the performance profile is potentially more volatile.'

At the heart of the core allocation are two UK managers doing different things in different ways. Nick Train of Finsbury Growth & Income runs a concentrated portfolio of larger companies, many of them household names, with a focus on quality growth companies. Alex Wright of Fidelity Special Values offers the opposite – a more diversified portfolio of smaller companies with a focus on value stocks (those he believes are undervalued).

"Together they work well," says Thomas, who suggests 16% in each. To these he adds three global trusts that bring something different to the table. He puts 9% in Monks, which invests in disruptive growth companies, particularly technology and healthcare stocks; 8% in Murray International, which has a preference for the Asia Pacific region and emerging markets plus an income focus (the trust yields 4.3%); and 8% in Smithson, a global smaller companies trust with an emphasis on corporate governance.

Thomas's portfolio has no dedicated fixed income investments on the basis that he believes this asset class is better served by exchange-traded or open-ended funds that focus on government or investment-grade bonds.

"There are no investment trusts doing this," he says. "[Trusts run by] CVC Partners and TwentyFour do not provide enough defensive ballast and we would recommend less credit-oriented strategies available in other vehicles."

Protection in his investment trust portfolio is instead achieved through two defensive multi-asset funds. Personal Assets has historically taken big positions in gold and index-linked bonds, while RIT Capital Partners' positions in unquoted investments, property and hedge funds bring diversification benefits. "If you look at volatile years for financial markets – 2008 for Personal Assets and 2018 for RIT are good examples – it's clear to see the defensive qualities of these trusts," he says.

The satellite holdings focus on the structural themes of the environment and social change. These are ideal for a balanced investor because they should persist regardless of what is happening in world markets and economies. "Environmental technology will become more and more important as the world moves towards a more circular 'use and recycle' economy," says Thomas.

He advocates putting 9% in Pacific Assets, which invests in Asia Pacific companies that are committed to the sustainable development of the region. Another 8% is in Impax Environmental Markets, which backs small and medium-sized companies in the US, Europe and Asia that are devising cleaner or more efficient delivery of basic services such as energy, water and waste, and the remaining 8% in Civitas Social Housing, which offers a long-term, asset-backed income stream from social homes in England and Wales.

Balanced portfolio

International equities: 33%
UK equities: 32%
Absolute return:18%
Asian equities: 9%
Property: 8%

Investment trust	(%)
Core	
Finsbury Growth & Income	16
Fidelity Special Values	16
Personal Assets	9
RIT Capital Partners	9
Monks	9
Murray International	8
Smithson	8
Satellite	
Pacific Assets	9
Impax Envtl Markets	8
Civitas Social Housing	8
Portfolio total	**100**

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