Money Observer

Seven family trusts for capital growth

Many investment trusts have significant and often multi-generational family involvement at a shareholder and managerial level.

As well as adding gravitas to a trust, family ownership often makes for a greater focus on capital preservation, which can be particularly attractive to lower risk, longer-term investors.

Some of the better-known family trusts have delivered consistent returns and growing dividends for close to 50 years, helping their assets under management to grow into the billions.

Moreover, the defensive and long-term nature of many of these trusts make them particularly attractive today as global markets head into a more volatile period.

CAPITAL IMPORTANCE

A number of family trusts currently listed on the London Stock Exchange have long and distinguished histories. Some of the oldest include Brunner Investment Trust, which can trace its origins to the 1870s, as well as Witan, which was established in the early 1900s.

Comparative young guns include Hansa Trust and Caledonia Investments, which both took shape in the 1950s, as well as Personal Assets, Majedie Investments and RIT Capital Partners, all of which boast 30-year track records.

PERFORMANCE OF A SELECTION OF FAMILY TRUSTS

	Total return (%) and rank in global sector after:									
Trust	6 mths %	Rank	1 year %	Rank	3 yrs %	Rank	5 yrs %	Rank	10 yrs %	Rank
Brunner*	-1.0	24	3.2	21	39.5	21	48.7	16	87.2	19
Caledonia Investments*	0.0	19	4.6	18	65.5	6	41.0	18	55.3	24
Hansa Trust	-4.8	32	-11.4	35	16.5	29	-14.8	33	30.3	27
Majedie Investments*	2.0	13	17.4	6	96.0	3	74.6	6	42.6	26
Personal Assets*	2.9	9	1.7	24	6.8	32	20.5	28	69.1	23
RIT Capital Partners*	9.8	4	22.7	4	58.4	10	53.6	14	106.8	16
Witan*	-0.1	20	5.7	17	66.3	5	70.5	7	139.6	7

Note: *denotes a *Money Observer* Rated Fund. **Source:** FE Analytics. All data is to 1 January 2016.

The continued existence of these trusts suggests that they have stood the test of time, weathering market storms that have - in some cases - included world wars as well as some of the worst economic and financial crises of the modern age.

Their provenance and proven track records also mean that all but Hansa are currently Money Observer Rated Funds (our selection of the 169 best funds and trusts plucked from a potential universe of around 4,000).

According to Annabel Brodie-Smith, communications director at the Association of Investment Companies (AIC), the fact that founding families often use these trusts to invest and protect their own wealth makes for a strong focus on capital preservation that benefits all shareholders.

'A number of AIC member companies have large family shareholdings and it is perhaps no coincidence that a number of these companies have a capital preservation strategy.

'It is clear, talking to many of these families, that some of this direct involvement is not just about the money, but about family history and with it a much wider sense of responsibility - and that makes for something distinctive,' she says.

A number of family trusts also have a strong focus on growing dividends. Brunner and Caledonia Investments, for example, have grown their dividends for 48 consecutive years, while Witan has increased its payout to shareholders for 40 years consecutively.

Annual yields do tend to be smaller than mandated income trusts (often around 2 per cent to 3 per cent); however, in most cases they are sustainable and very reliable.

RED HERRING?

Andrew McHattie of investment trust analyst McHattie Group agrees that having significant 'skin in the game' means that families are strongly motivated to ensure that their trusts perform well and avoid 'nasty losses'.

However, he says that while this may be the intention of most family trusts, not all are able to achieve it, and certainly not all of the time.

'Most family trusts sit towards the lower-risk end of the market, although there are no guarantees.

Caledonia Investments has been through a rough patch; Majedie Investments performed poorly for years and Hansa has been held back by its large holding in the shipping firm Ocean Wilsons, which operates in Brazil,' says McHattie.

He continues: 'Whilst in theory an "absolute return" approach should mean you can effectively outsource your market timing as well as stock and asset selection, in reality not everybody does it well.'

Moreover, he adds that there doesn't seem to be a 'particular correlation' between risk-adjusted performance and the size of major family shareholdings.

Certainly performance varies across family trusts, with the five-year share price return from Witan beating Brunner by 20 percentage points despite the fact that, like almost all family trusts, both are listed in the AIC's global sector.

What is more, the family shareholding in Witan is now relatively negligible, whereas the Brunner family still owns around 30 per cent of the trust's shares - arguably disproving the 'skin in the game' theory when it comes to family shareholdings.

For McHattie, the issue of family shareholdings can be 'a bit of a red herring' as, he says, this alone will not determine whether or not a trust can perform well and meet the needs of other, non-family, investors.

Rather, he says that the remit of the trust and how well it is executed by the managers is far more important.

RIT CAPITAL PARTNERS

One of McHattie's preferred family trusts is RIT Capital Partners. RIT traces its roots back to the Rothschild Investment Trust, with which Jacob Rothschild enjoyed great success between 1971, when he was appointed to the board, and 1988, when it was split into two separate entities: St James's Place Capital and the current trust, RIT Capital Partners.

Having listed with net assets of £281 million, RIT is now one of the UK's largest investment trusts, with a market capitalisation of over £2 billion. Lord Rothschild remains as chairman and he and his family are the largest shareholders, with a holding of 18 per cent.

'We have recommended RIT Capital Partners several times,' says McHattie. 'RIT has done well over a long period and has proven adept at capturing much of the upside during bullish periods whilst avoiding the worst of the pain during downturns.'

RIT is one of the best-performing UK-listed family trusts, delivering the best share price return of our selection over one year to 1 January with 22.7 per cent and the second best over 10 years with 106.8 per cent.

Its multi-asset strategy also makes it ideal for those who - like the Rothschild family - are looking for a one-stop shop to place their wealth.

RIT's success does, however, mean that its shares are currently trading at a premium to net asset value (NAV) - 2.7 per cent as of 11 January. As a consequence, new investors may want to wait for a better entry point.

MAJEDIE INVESTMENTS

Majedie Investments recently experienced a sustained period of underperformance, ranking largely in the fourth quartile of the global sector in terms of share price returns between 2007 and 2011.

However, Majedie's performance has since picked up considerably, with the trust delivering the best three-year share price return of our selection, 96 per cent, which is also the third-best return among the 35 trusts in the global sector.

The £139 million trust was founded in 1985 following the sale of rubber plantations in Malaysia belonging to the Barlow family - although it had been a private company since 1910.

The Barlows continue to have a significant family holding of around 53 per cent, which the AIC says is held by a broad number of individuals including William Barlow, chief executive of the trust.

The bulk of the portfolio is currently invested in Majedie Asset Management (the asset manager the trust seeded in 2002), both in direct shares and through its funds.

These holdings account for around 70 per cent of the trust's portfolio, making it a highly concentrated choice very much tied to the success of the family business. As of 11 January shares are also trading on a relatively steep premium to NAV of around 4 per cent.

WITAN

Money Observer Rated Fund Witan was launched in 1909 to manage the estate of Alexander Henderson, the first Lord Faringdon. In 1932 Witan formed what is today Henderson Global Investors and sold its remaining stake in 1997.

Harry Henderson remains chairman of the company and has a personally significant shareholding, although due to the trust's £1.4 billion size it is not a large percentage of the total trust.

Witan is arguably the most general of the family trusts, employing a broad multi-manager approach that was implemented by current chief executive Andrew Bell, following his appointment in 2010.

The trust is split into a number of separate portfolios, which are outsourced to external specialists that include Artemis, Lindsell Train and Matthews Asia.

Bell's revamp has led to strong gains for the trust, which is the second best performer in share price terms over five years with 70.5 per cent and the best performer over 10 years with 139.6 per cent. The shares trade at around par value, making it cheaper than RIT or Majedie.