FINANCIAL TIMES
SATURDAY, 08 MARCH 2025
FT.COM

Investment trusts

Wealth managers dump investment trust shares

But retail investors buy into the troubled sector

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The UK's largest wealth managers are selling their holdings in investment trusts, leaving the £274bn industry exposed to more opportunistic and activist investors, experts have warned.

Wealth managers divested some 1.2mn investment trust shares last year, marking a 7 per cent drop in the number of shares held the previous year, according to a report by consultancy Warhorse Partners and Richard Davies Investor Relations.

But retail investors have been buying. According to the report, the number of investment trust shares held by individuals grew by 4 per cent last year while the value grew by 8 per cent.

Investment trusts are public companies whose shares are listed on an exchange. They have independent boards to oversee governance and assets are run by fund managers. Investment trusts make up about a third of the FTSE 250 by number of companies.

But mergers and acquisitions in the wealth management industry have resulted in a smaller group of large managers, who oversee such large sums that it makes it difficult to put money into small investment trusts.

"As consolidation continues and investment minimums are driven up, we expect this trend to continue, leaving investment trust boards with two options," said Georgina Dybvig, partner at Warhorse, "grow or merge to meet these size requirements, or substantially increase the percentage of your shares owned by retail investors."

The average investment trust share price on a total return basis has gone up 8 per cent over the past year, according to the Association of Investment Companies.

Other industry experts warn that the retreat of wealth managers, traditionally viewed as backers of investment trusts, has left the sector vulnerable to activist and opportunistic investors.

The US hedge fund Saba waged a campaign against seven UK-listed investment trusts in an attempt to overhaul their boards and ultimately manage their assets. However, Saba's proposals were rejected by shareholders at all seven trusts.

Darius McDermott, managing director of FundCalibre, a fund rating service, said: "Both activists and private equity are spotting the huge valuation opportunity in the investment trust sector. Why are they all looking at this area? It's really, really cheap, partly because wealth managers are selling."

Ewan Lovett-Turner, head of investment companies research at Deutsche Numis, an investment bank, said investors looking for "value" opportunities, including activists, "have been some of the significant buyers at a time when several of the traditional buyers have stepped back".

He explained that the need for liquidity — selling investments quickly — "limits the ability of many investors" when it comes to backing investment trusts.

Fees have also come under scrutiny, which puts investment trusts at a disadvantage to cheaper equities or index-tracking funds.

But as wealth managers have been selling, individual investors have been buying investment trust shares.

Dybvig said that 2024 "has shown the continued importance of the retail investor for the investment trust sector".

The industry had feared that retail investors, who tend to be less engaged than institutions, would not exercise their vote in the Saba campaign. However, some of the UK's largest investment sites, including Hargreaves Lansdown, reported a record voting turnout.

"Communication with retail investors has never been more important and already in 2025, the key platforms have already upped their game when it comes to passing on voting requests from companies," said Dybvig.