

Investment trusts: changing ownership 2019: Report Highlights

Annual sector ownership and buying liquidity trends, RD:IR share analytics data

Warhorse Partners, 1 July 2020

RD:IR
FROM EQUINITI

Introduction: RD:IR and Warhorse Partners

Attending to all distribution channels is indispensable to managing share prices and discounts and to the future health of the investment trust sector. The report analyses share register data, trends and behaviours from over 220 UK-listed investment companies with a combined market value of £110 billion.



Richard Davies, Managing Director of RD:IR:

“The ownership of UK investment trusts has changed significantly since we started our analysis of the sector, and particularly since the arrival of the Retail Distribution Review.

“We are delighted to work with Warhorse Partners on this study to provide the sector with the data and insights to help Boards and managers navigate the complexities of the contemporary investment trust share register for better marketing.”



Piers Currie of Warhorse Partners

“The challenge for any investment trust board today is to identify how effectively it is tailoring its marketing and communications to this new audience.

“In our view, there are two key strategic ownership measures that investment trust boards should be monitoring. One is how they plan for growth in retail ownership and that segment’s share of the company’s register.”

Our grateful thanks to Ian Smith, Joint Head of Analytics at RD:IR,
for his patient hard work on the data that acts as the foundation of this report

Changing investment trust sector in 2019

Self-directed investors, mostly investing directly through online platforms, such as Hargreaves Lansdown and Interactive Investor, are putting new money into investment trusts more than three times as fast as the largest wealth managers are cutting back on their holdings.

Institutions are not what they were long ago. There are some residual pension funds of old, but they are rare. Border to Coast is a new consolidated entity for Northern Councils and they are net sellers. Others have migrated from investment trusts to index funds, changing asset allocation or new managers who divest legacy holdings. The residuals are index funds, activists, active managers and some residual Fund of Funds who are price, performance and asset class sensitive.

National wealth managers are still reducing exposure: some key wealth managers have been reducing their overall sector exposure (eg Brewins, Investec Wealth, Quilter Cheviot). This continues. Central lists, managed portfolio trends and standardised risk categorisation of portfolios contribute to this shift.

Regional independent brokers are a hope but just 6% of issued share capital: independent regional brokers without centralised white list controls are alert to national and online news as their clients ask. They are less research-driven centrally.

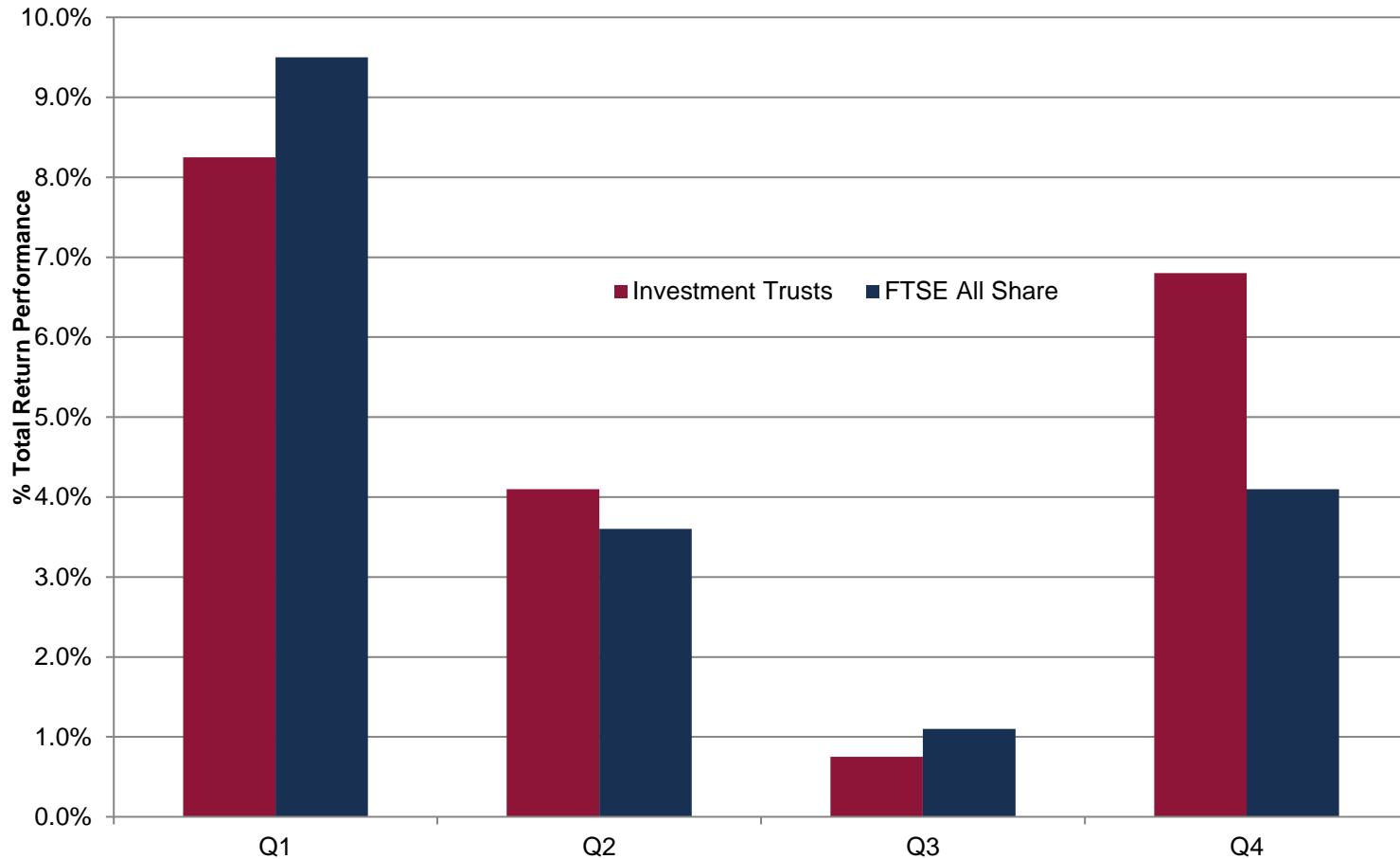
Direct 2 Consumer (D2C) is still the last growing space: for D2Cs, we include self-directed individuals, certificated holders, manager plans, platforms. Not only are they the largest ownership bloc, but also the most significant buyers. D2C platforms are in change and disruption too: in 2018, the largest owning “platform” was fund managers’ savings schemes and ISA wrappers. The reduction of manager plans in 2019 sees their ownership halve; but this reflects more managers passing their plan books to The Share Centre and Hargreaves, so this is a nominee change, not a loss of owners per se. With Interactive Investor announcing the acquisition of Alliance Trust Savings in 2019, these platforms combined account for over £38 billion of investment trusts assets under administration (AuA) and 35% of sector assets.

Adviser platforms are small for a reason: by contrast to D2C platforms, adviser platforms represent a small group, just £2.16 billion (2.14% of sector assets). The most significant adviser platform is Transact which accounted for £694 million of investment trusts assets AuA. There are considerable challenges to expanding adviser use of investment trusts, which have been explored by the AIC in its recent research. However, a minority of advisers are strong supporters of investment trusts. The AIC continues to work on expanding the use of investment trusts among financial advisers through its education programme.

1 July 2020

Average market and alpha growth was around 18% last year

Quarterly bumpy ride and BREXIT didn't help as the year progressed until a post-election rally



Source: FTSE

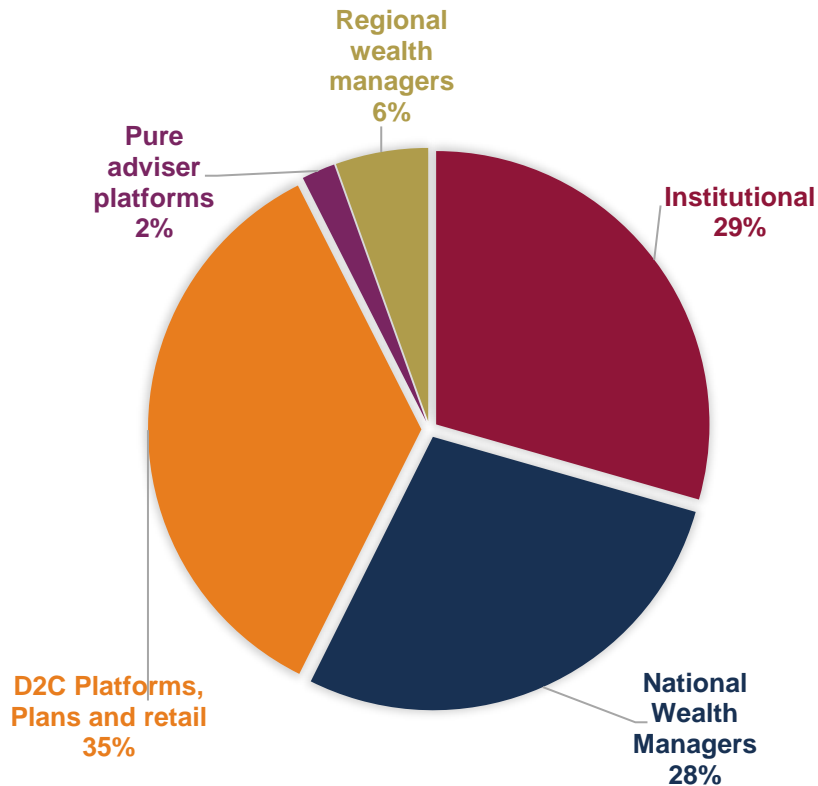
Changing investment trust sector in short

- The overall sector continues to grow
- Institutions are not what they were long ago and are concentrated: activists are now 30% of that segment's top ten holders by value
- National wealth managers: many are still reducing sector exposure
- Regional independent brokers are a hope, but just 6% of AuM
- D2C and self-directed investors still the last growing space – a third of cash flow, 35% of assets
- Adviser platforms are small, less than 2% of market cap

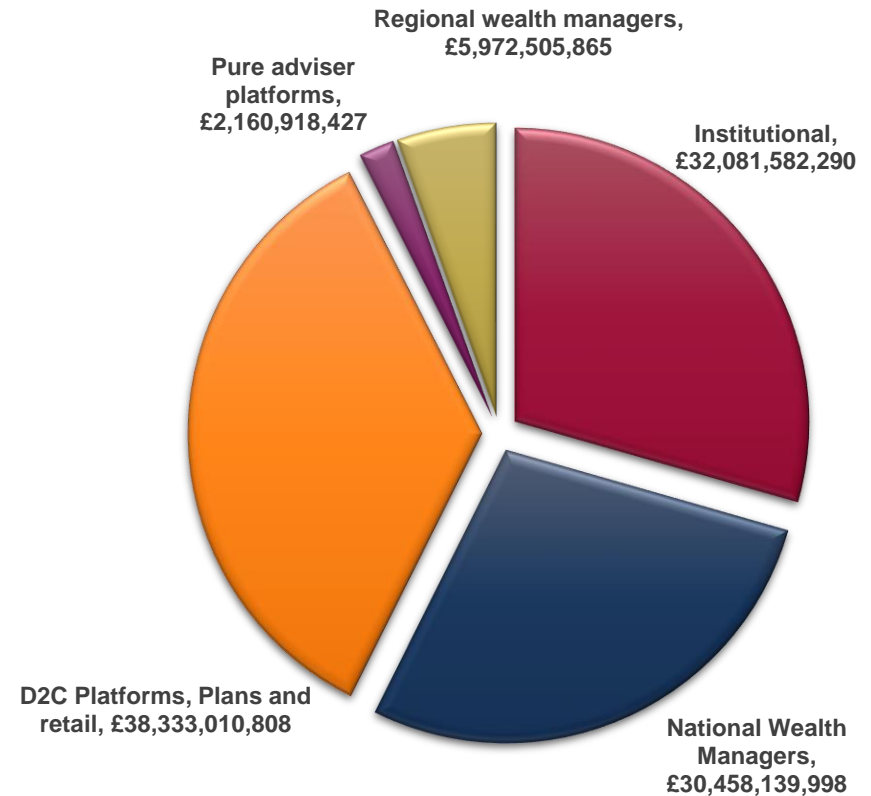
Please note there may be rounding errors, based on the topology used and adjustments, also cash flows are calculated by subtracting annual sectoral market returns and estimated and not at sub-sector or trust-specific levels. They also exclude buy backs and tenders. Base data is based on share registers and movement.

RD:IR IT universe 2019: ownership by shareholder type: £110 bn

RD:IR SECTOR OWNERSHIP ISC%, END 2019



OWNERSHIP BY £ VALUE, END 2019

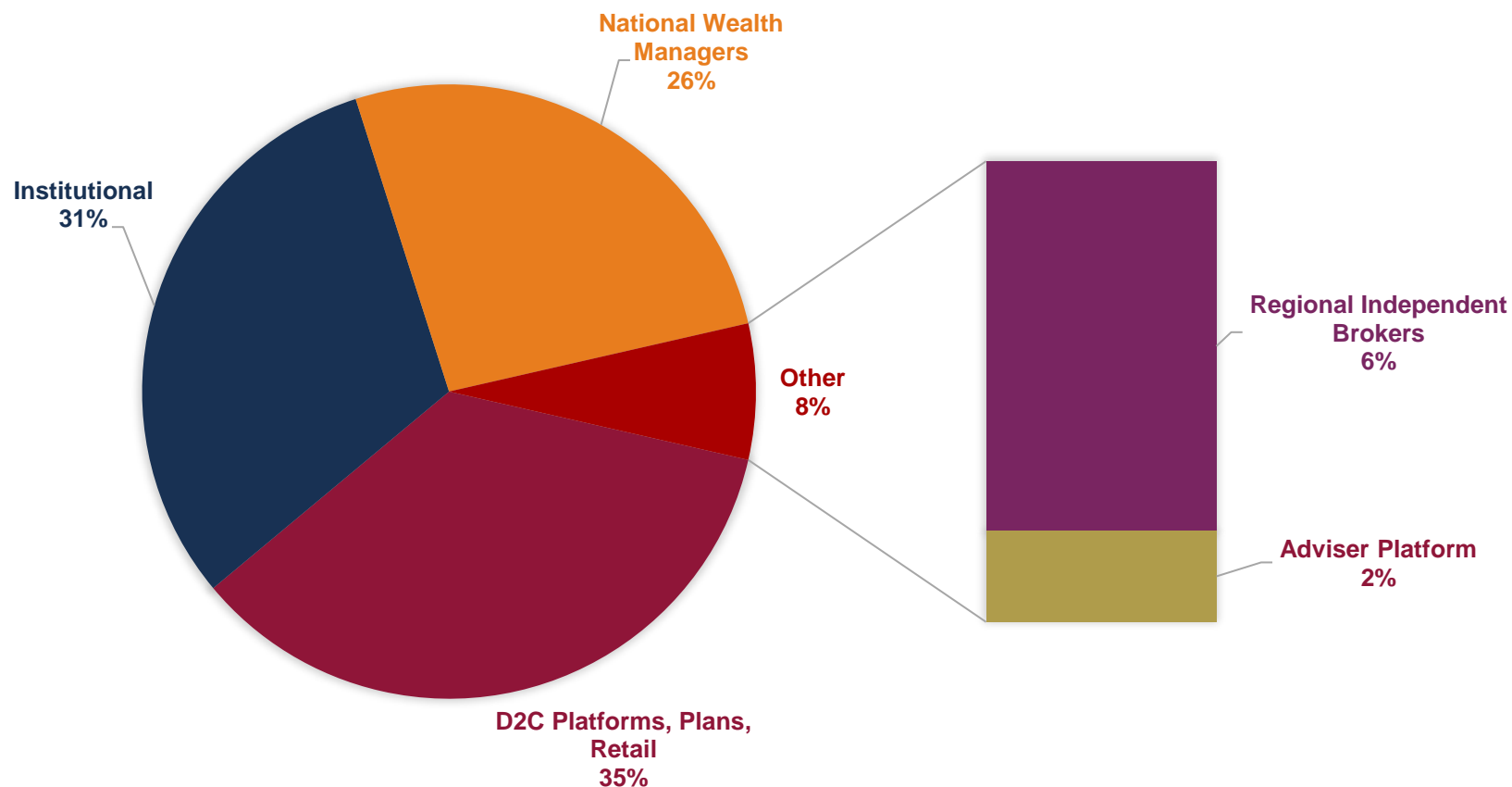


Source; Richard Davies Investor Relations/ Warhorse Partners topology

RD:IR analyses 75% of all investment trusts at a granular level

D2C is the dominant single growth segment by cash flow

2019 EX-MARKET CASH FLOW: £19 BILLION



D2C segment overall was c. £6.7 billion (35%) of all annual positive buying liquidity last year

Activists are 30% of top 10 institutions, indexers also high

Top ten institutional holders in the sector, ranked by y-o-y change

| | Dec-19 | | Dec-18 | | |
|---|----------------|----------------|----------------|----------------|-----------------------|
| Institution | £ RD:IR Stable | % RD:IR Stable | £ RD:IR Stable | % RD:IR Stable | Change |
| BlackRock | 2,897,718,069 | 2.66 | 2,149,248,121 | 2.50 | 748,469,948 |
| Vanguard Group | 1,076,009,417 | 0.99 | 487,573,569 | 0.57 | 588,435,848 |
| City of London Investment Management | 2,060,061,113 | 1.89 | 1,513,629,974 | 1.76 | 546,431,140 |
| Aberdeen Standard Investments | 1,992,918,511 | 1.83 | 1,580,471,774 | 1.84 | 412,446,736 |
| 1607 Capital Partners | 1,052,571,973 | 0.97 | 696,951,005 | 0.81 | 355,620,968 |
| Legal & General Investment Management | 2,138,155,910 | 1.96 | 1,795,062,910 | 2.09 | 343,093,000 |
| Schroder Investment Management | 561,314,097 | 0.51 | 275,633,643 | 0.32 | 285,680,453 |
| M&G Investment Management | 958,508,887 | 0.88 | 699,593,624 | 0.81 | 258,915,263 |
| Lazard Asset Management | 1,455,520,654 | 1.34 | 1,223,744,293 | 1.42 | 231,776,361 |
| Close Brothers Asset Management | 627,626,191 | 0.58 | 413,082,758 | 0.48 | 214,543,433 |
| Top ten holders by change | | 13.61% | | 12.60% | £3,985,413,150 |

Top ten holders are over two-thirds of the institutional segment by ISC%, activists up 47% £ y-o-y

Big groups Investec, Brewin, Quilter see secular reduction in ISC%

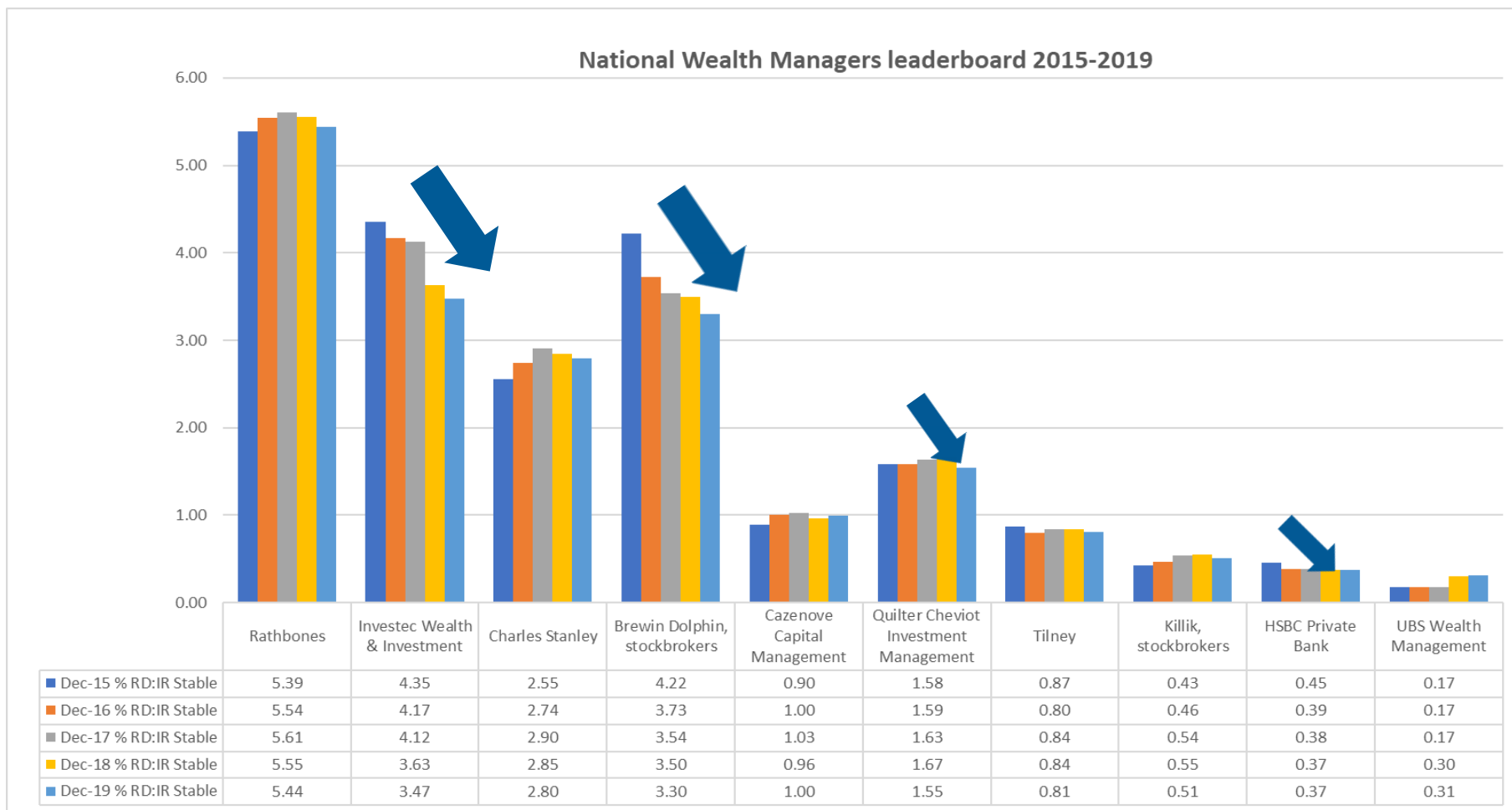
National wealth manager top ten by growth, in absolute value 2019

| | Dec-19 | Dec-19 | Dec-18 | Dec-18 | |
|--|------------------------|----------------|------------------------|----------------|-----------------------|
| Wealth Management (Non Regional Independent) | £ RD:IR Stable | % RD:IR Stable | £ RD:IR Stable | % RD:IR Stable | Change |
| Rathbones | 5,931,626,948 | 5.44 | 4,770,429,310 | 5.55 | 1,161,197,639 |
| Investec Wealth & Investment | 3,784,705,349 | 3.47 | 3,116,328,406 | 3.63 | 668,376,942 |
| Charles Stanley | 3,047,717,798 | 2.80 | 2,447,923,228 | 2.85 | 599,794,570 |
| Brewin Dolphin, stockbrokers | 3,595,123,993 | 3.30 | 3,006,817,227 | 3.50 | 588,306,767 |
| Smith & Williamson Wealth Management | 1,940,472,966 | 1.78 | 1,486,766,342 | 1.73 | 453,706,624 |
| JM Finn, stockbrokers | 1,213,915,701 | 1.11 | 936,685,965 | 1.09 | 277,229,737 |
| Cazenove Capital Management | 1,086,742,992 | 1.00 | 826,816,101 | 0.96 | 259,926,891 |
| Quilter Cheviot Investment Management | 1,685,458,438 | 1.55 | 1,436,036,033 | 1.67 | 249,422,404 |
| Tilney | 886,510,926 | 0.81 | 718,613,325 | 0.84 | 167,897,601 |
| Vermeer Partners | 146,450,447 | 0.13 | 0 | 0.00 | 146,450,447 |
| | £23,318,725,558 | 21.39 | £18,746,415,937 | 21.81 | £4,572,309,621 |

The top ten national WMs are three quarters of their overall segment by ISC%

The trend is not favouring growth from the national WMs

Investec Wealth, Brewin reducing sector exposure (% ISC)



Source; Richard Davies Investor Relations/ Warhorse Partners topology

43 regional WMs (as nominees), no new net business growth

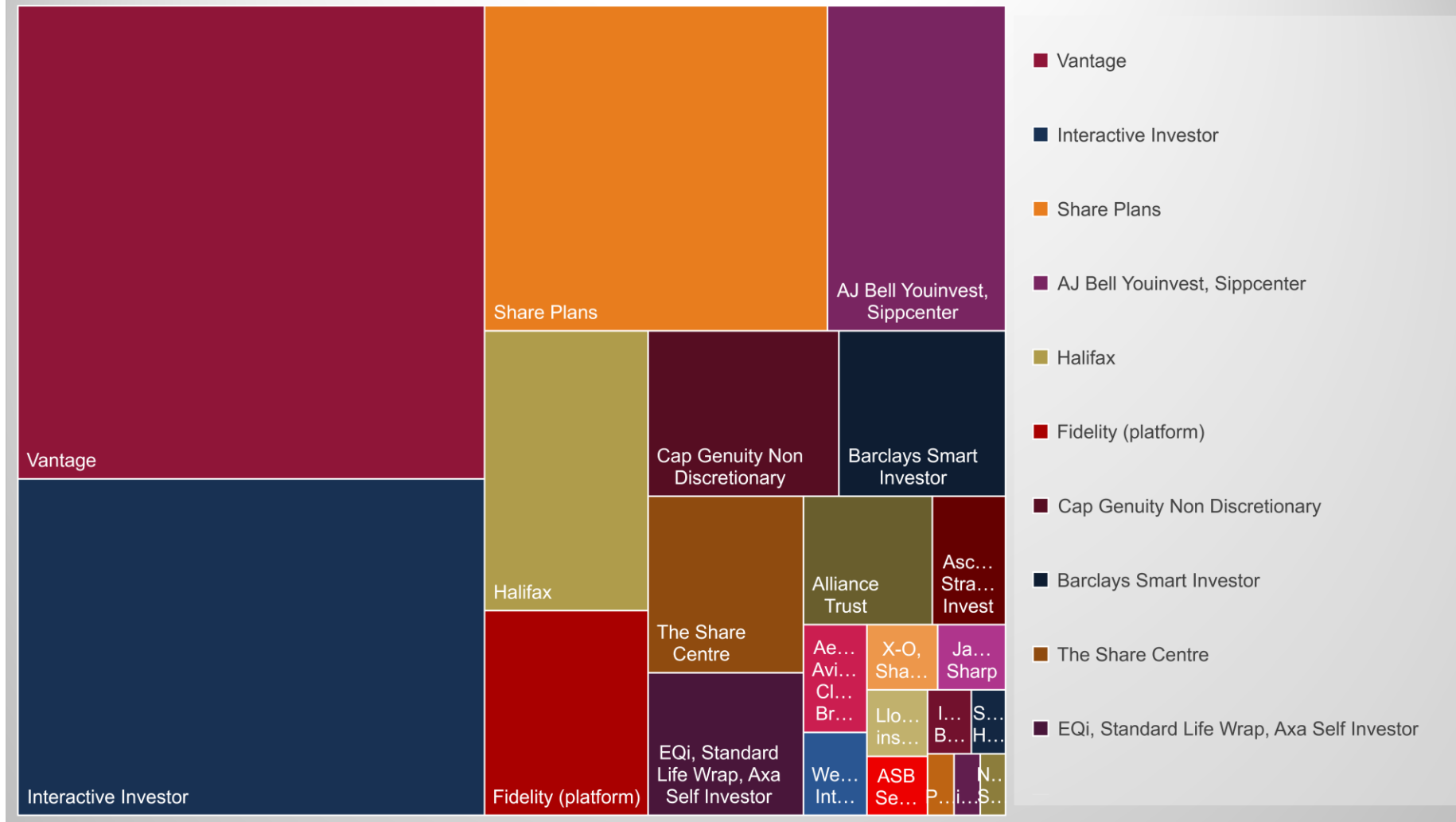
Only EFG Harris Allday, Redmayne Bentley, Raymond James growing any ISC%

| Name | Region | ISC% 2019 | £ 2019 | ISC% 2018 | £ 2018 | Change ISC% |
|--|--------------------|--------------|-----------------------|-------------|-----------------------|--------------|
| EFG Harris Allday, stockbrokers | Birmingham | 0.90 | 977,940,172 | 0.84 | 720,041,999 | 0.06 |
| Redmayne Bentley, stockbrokers | Leeds & North East | 0.86 | 939,063,088 | 0.80 | 688,619,616 | 0.06 |
| Raymond James Investment Services | Regional Offices | 0.46 | 501,815,557 | 0.41 | 355,639,327 | 0.05 |
| Brewin Dolphin Capital & Investments (Ireland) | Ireland | 0.29 | 318,999,512 | 0.30 | 256,853,554 | -0.01 |
| Rowan Dartington, stockbrokers | Bristol | 0.17 | 190,121,012 | 0.17 | 144,773,698 | 0.01 |
| Adam & Co Investment Management | Scotland | 0.17 | 187,974,123 | 0.19 | 159,700,926 | -0.01 |
| WH Ireland, stockbrokers | Manchester | 0.17 | 184,300,032 | 0.22 | 188,820,757 | -0.05 |
| Pilling, stockbrokers | Manchester | 0.16 | 175,385,204 | 0.16 | 135,066,875 | 0.00 |
| James Sharp, stockbrokers | Manchester | 0.15 | 166,088,922 | 0.15 | 130,361,987 | 0.00 |
| Brewin Dolphin Ireland | Ireland | 0.15 | 158,557,858 | 0.15 | 125,631,501 | -0.00 |
| Top ten regionals | | 3.48% | £3,800,245,480 | 3.39 | £2,905,510,240 | 0.11% |

Top ten regionals are 64% of ISC% of the segment, all others in negative

Vantage (HL) leads but Interactive catching up (ISC%)

Direct Platforms, Plans and Self-directed investors



Interactive meanwhile bought Alliance Trust Savings and The Share Centre

D2C channel is concentrated: but c £3.4bn of net flows in 2019

| | Dec-19 £ | Dec-19 % | | Dec-19 | Dec-19 |
|--|---------------|----------|-------------------------------|-------------|--------|
| Vantage (Hargreaves) | 8,304,852,818 | 7.62 | Ascentric/Strawberry Invest | 352,736,640 | 0.32 |
| Interactive Investor | 5,907,383,847 | 5.42 | Wins Platform Services | 257,002,467 | 0.24 |
| Share Plans | 4,197,330,053 | 3.85 | Wealth Interactive | 197,962,524 | 0.18 |
| AJ Bell Youinvest, Sippcenter | 2,176,305,180 | 2.00 | X-O, SharedealActive | 173,674,597 | 0.16 |
| Halifax | 1,721,889,459 | 1.58 | James Sharp | 166,088,922 | 0.15 |
| Fidelity (platform) | 1,258,855,315 | 1.15 | Lloyds insurance | 151,650,066 | 0.14 |
| Cap Genuity Non Discretionary | 1,187,693,786 | 1.09 | ASB Securities Online Trading | 134,561,844 | 0.12 |
| Barclays Smart Investor | 1,036,409,306 | 0.95 | Interactive Brokers | 105,486,350 | 0.10 |
| The Share Centre | 1,031,377,650 | 0.95 | Pure Deal | 61,553,764 | 0.06 |
| EQi, Standard Life Wrap, Axa Self Investor | 833,507,115 | 0.76 | iDealing | 60,414,547 | 0.06 |
| Alliance Trust | 621,922,268 | 0.57 | | | |

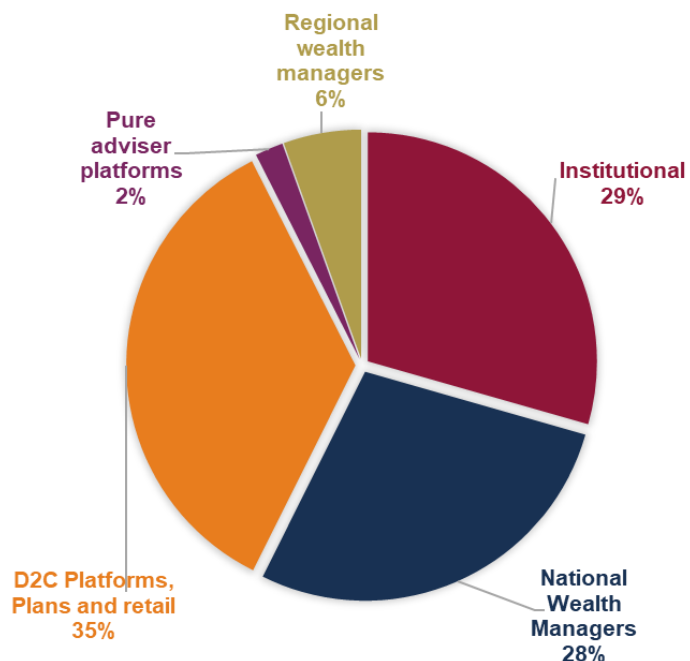
The top five platforms and retail outlets account for three quarters of its AuM, 85% of annual buying

Changing investment trust sector 2019

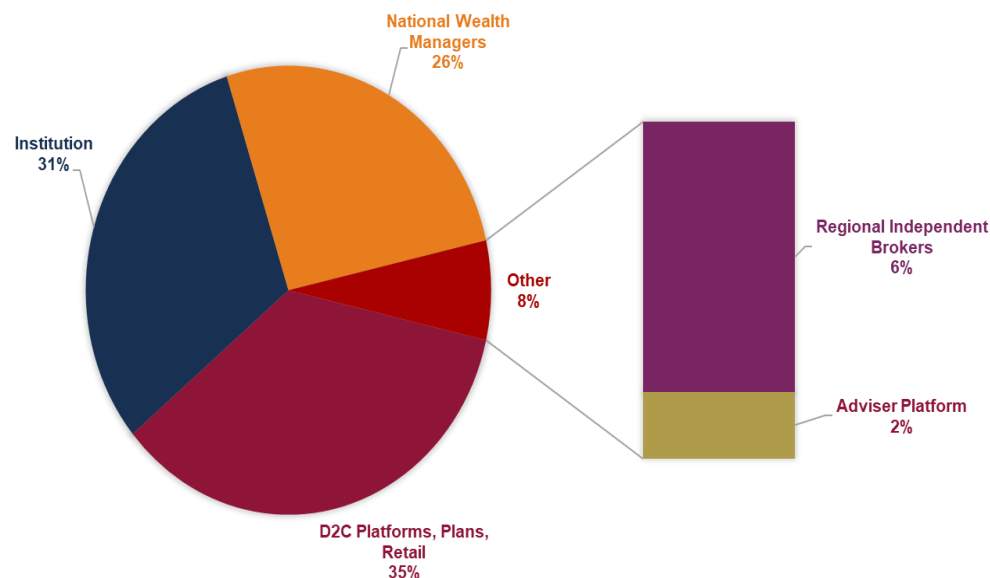
- **Institutions** are not what they were long ago: activists are now 30%
 - £32 billion, top ten holders dominate, indexers 40% of top ten
- **National wealth managers:** many are still reducing sector exposure
 - £30 billion, but many divesting, eg outflows of £1.8bn from two last year
- **Regional independent brokers** are a hope, but just 6% of ISC%
 - £6bn EFG Harris Allday, Redmayne Bentley, Raymond James growing
- **D2C and self-directed** investors still the last growing space – a third of cash flow
 - £38 billion, inflows of £6.75 bn in 2019
- **Adviser platforms** are small for a reason, less than 2% of ISC%
 - £2 bn

Summary: ownership and buying liquidity are the key indicators

RDIR SECTOR OWNERSHIP ISC%, END 2019



2019 EX-MARKET CASH FLOW: £19 BILLION



Please note there may be rounding errors, based on the topology used and adjustments, also cash flows are calculated by subtracting annual sectoral market returns and estimated and not at sub-sector or trust-specific levels. They also exclude buy backs and tenders. Base data is based on share registers and movement.

Appendix

Sector performance in 2019

Longer term trend by ISC%

Eight year trend, platforms v professional audiences ISC%

| Key segmentation | % | % | % | % | % | % | % | % |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 31-Dec-19 | 31-Dec-18 | 31-Dec-17 | 31-Dec-16 | 31-Dec-15 | 31-Dec-14 | 31-Dec-13 | 31-Dec-12 |
| D2C Platforms, Plans | 26.23 | 26.40 | 25.92 | 24.58 | 23.73 | 23.35 | 23.58 | 22.02 |
| Adviser Platform | 1.98 | 2.14 | 2.17 | 2.09 | 1.99 | 1.95 | 1.85 | 1.01 |
| Institutions and Wealth Managers | 71.78 | 71.47 | 71.91 | 73.34 | 74.28 | 74.70 | 74.57 | 76.97 |

| RDIR broad topology type of Investor | % | % | % | % | % | % | % | % |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 31-Dec-19 | 31-Dec-18 | 31-Dec-17 | 31-Dec-16 | 31-Dec-15 | 31-Dec-14 | 31-Dec-13 | 31-Dec-12 |
| Warhorse D2C | | | | | | | | |
| Manager Share Plans | 3.85 | 7.06 | 7.15 | 7.47 | 7.90 | 8.93 | 9.35 | 9.77 |
| Self-directed D2Cs, certificated | 31.40 | 28.57 | 29.20 | 28.04 | 27.95 | 27.09 | 26.56 | 23.86 |
| | 35.25 | 35.63 | 36.35 | 35.51 | 35.86 | 36.02 | 35.90 | 33.62 |
| Warhorse Wealth Management | | | | | | | | |
| Raw wealth Management | 35.32 | 35.39 | 35.06 | 34.31 | 33.97 | 34.65 | 34.33 | 33.73 |
| | 35.32 | 35.39 | 35.06 | 34.31 | 33.97 | 34.65 | 34.33 | 33.73 |
| Warhorse institutions | | | | | | | | |
| Mutual Fund Manager | 2.75 | 2.73 | 2.71 | 2.41 | 1.94 | 1.72 | 1.52 | 1.48 |
| Asset Manager | 10.82 | 10.49 | 10.10 | 10.57 | 10.11 | 9.87 | 10.38 | 11.39 |
| Pension Fund Manager | 7.06 | 7.10 | 7.55 | 8.25 | 8.92 | 8.89 | 8.96 | 9.46 |
| Institution <3% | 4.29 | 3.96 | 3.72 | 4.18 | 3.59 | 3.26 | 3.05 | 3.95 |
| Insurance Fund Manager | 4.51 | 4.69 | 4.50 | 4.77 | 5.61 | 5.59 | 5.86 | 6.37 |
| | 29.43 | 28.98 | 28.59 | 30.18 | 30.17 | 29.33 | 29.77 | 32.65 |

Top twenty investor groups since 2012

| Top 20 Investors | % | % | % | % | % | % | % | % |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 31-Dec-19 | 31-Dec-18 | 31-Dec-17 | 31-Dec-16 | 31-Dec-15 | 31-Dec-14 | 31-Dec-13 | 31-Dec-12 |
| Hargreaves Lansdown, stockbrokers (EO) | 7.62 | 5.56 | 5.07 | 4.10 | 3.76 | 3.00 | 2.72 | 2.15 |
| Rathbones | 5.44 | 5.55 | 5.61 | 5.54 | 5.39 | 5.54 | 5.38 | 5.20 |
| Interactive Investor (EO)* | 5.42 | 1.63 | 1.55 | 1.38 | 1.27 | 1.11 | 1.02 | 0.93 |
| Investec Wealth & Investment | 3.47 | 3.63 | 4.12 | 4.17 | 4.35 | 4.25 | 4.04 | 3.86 |
| Brewin Dolphin, stockbrokers | 3.30 | 3.50 | 3.54 | 3.73 | 4.22 | 4.85 | 4.88 | 5.17 |
| Charles Stanley | 2.80 | 2.85 | 2.90 | 2.74 | 2.55 | 2.54 | 2.52 | 2.43 |
| BlackRock | 2.66 | 2.50 | 2.52 | 2.59 | 2.62 | 2.47 | 2.59 | 2.40 |
| AJ Bell, stockbrokers (EO) | 2.00 | 1.83 | 1.43 | 1.11 | 0.99 | 0.72 | 0.49 | 0.25 |
| Legal & General Investment Management | 1.96 | 2.09 | 2.09 | 2.30 | 2.36 | 2.44 | 2.60 | 3.01 |
| City of London Investment Management | 1.89 | 1.76 | 1.73 | 1.75 | 1.27 | 1.33 | 1.09 | 1.99 |
| Aberdeen Standard Investments | 1.83 | 1.84 | 1.91 | 1.99 | 2.11 | 2.12 | 2.19 | 2.46 |
| Smith & Williamson Wealth Management | 1.78 | 1.73 | 1.66 | 1.56 | 1.54 | 1.50 | 1.42 | 1.41 |
| HSDL, stockbrokers (EO) | 1.58 | 1.52 | 1.69 | 1.85 | 1.60 | 1.60 | 1.66 | 1.71 |
| Quilter Cheviot Investment Management | 1.55 | 1.67 | 1.63 | 1.59 | 1.58 | 1.61 | 1.71 | 1.67 |
| Lazard Asset Management | 1.34 | 1.42 | 2.03 | 2.04 | 1.90 | 2.02 | 1.96 | 2.02 |
| Fidelity (platform) | 1.15 | 1.06 | 1.08 | 0.95 | 0.66 | 0.72 | 0.80 | 0.91 |
| JM Finn, stockbrokers | 1.11 | 1.09 | 1.08 | 1.03 | 1.07 | 1.06 | 1.06 | 0.96 |
| Canaccord Genuity Wealth Management (ND) | 1.09 | 1.19 | 1.14 | 1.00 | 0.92 | 0.84 | 0.81 | 0.62 |
| Cazenove Capital Management | 1.00 | 0.96 | 1.03 | 1.00 | 0.90 | 0.84 | 0.90 | 0.79 |
| Vanguard Group | 0.99 | 0.57 | 0.44 | 0.35 | 0.28 | 0.17 | 0.14 | 0.10 |

*Interactive Investor purchased Alliance Trust Savings October 2019