

Investment Trusts

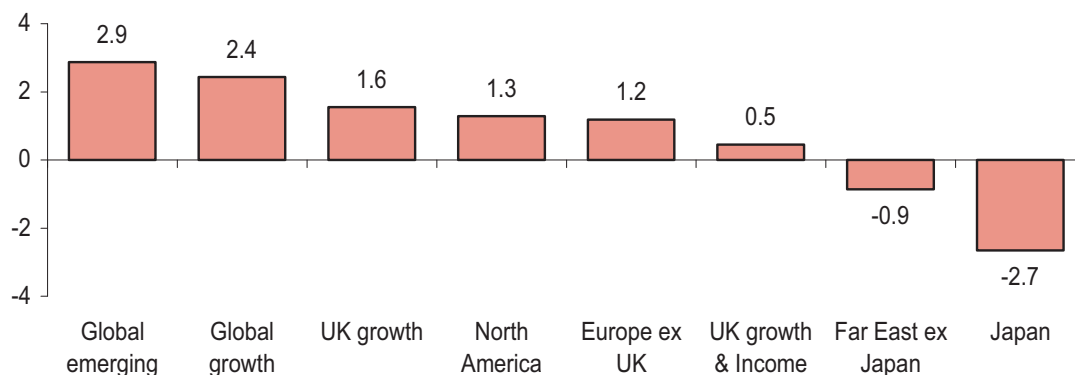
Not bad for a lot of fuddy duddies

8 March 2010

A recent FT article included the view that the investment trust sector is not capable of being revived, and is run by a lot of fuddy duddies who have no place in the industry. Given such a damning indictment, we decided to take a closer look at the 10-year performance record of the investment trust sector against the supposedly superior open-ended vehicle. While acknowledging the impressive growth of the open-ended sector during the past ten years, the results would suggest this has certainly not been driven by asset performance. Roll on 2012!

- In an industry increasingly obsessed with short-term returns, we feature the total returns of the open and closed-end sub-sectors over ten years to the end of 2009. In almost all the mainstream regional sectors, investment trusts have comfortably outperformed their open-ended rivals (and this data excludes the impact of higher costs of dealing in open-ended funds).
- Performance relative to benchmarks is equally impressive with investment trusts outperforming in six out of eight mainstream sectors, while the open-ended sectors have outperformed in just two out of eight sectors – see p3.
- Relative returns in Japan (both large and small), UK and European smallcaps have been less impressive, although these only account for 3% of the open-ended universe.

Investment Trusts vs OEICs/Unit Trusts: compound out/underperformance, 10 years to 31 December 2009 (%)



Source: Morningstar

Is the gravy train about to go the same way as the steam train? Despite this widespread underperformance, the FUM of the open-ended industry have grown 90% to £481bn in the past 10 years, while investment trust sector assets have risen just £2bn to £80bn. Although it is impossible to quantify, we believe the ability to pay commissions to “independent” advisors has been a key driver of growth. We look forward to a post-RDR world, when the playing field will finally be levelled, laying the foundations for genuinely independent advice across all fund types.

This document is Independent Investment Research. Please see the disclosures on the back page of this document for further information.

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Methodology

Investment Trusts

For each sub-sector, Morningstar have provided the size-weighted NAV total returns and mid-to-mid share-price total returns for the 10 years to 31 December 2009.

With regards to the share price data, we would note that an adjustment would have to be made to reflect the experiences of investors. The current bid-offer spread of the investment trust constituents of the FTSE Mid-250 index, which represent around 72% of the FTSE Equity Investment Instrument index is just 64 basis points.

OEIC/Unit Trusts

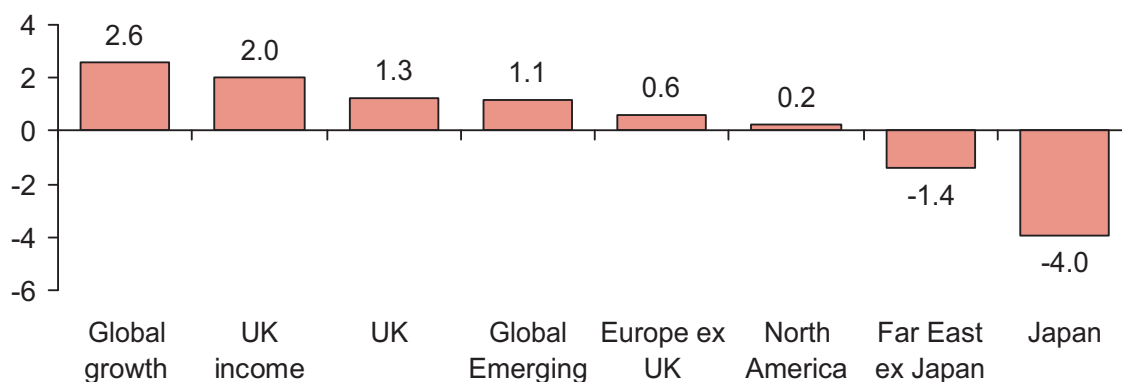
The open-ended performance data has been sourced from the Investment Management Association. This sector data is also size-weighted, and on a bid-to-bid basis.

We have not made any adjustments to reflect the experiences of investors. These would typically include the initial charge (up to 5%), exit charges (where applicable) and a discretionary dilution levy. Although approximately two-thirds of the open-ended industry has moved to “single”-pricing, investors in unit trusts continue to incur a bid-offer spread of around 5%.

Performance versus benchmarks

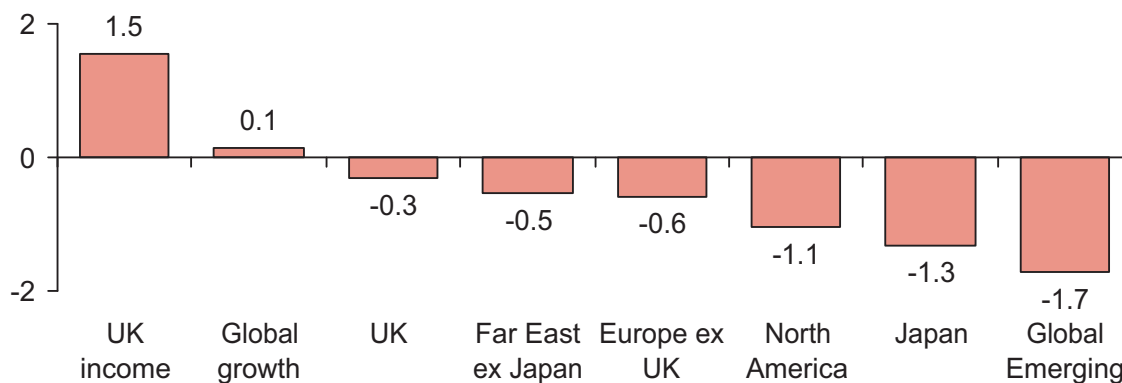
The following charts highlight the long-term compound out/underperformance of the Investment Trust and OEIC/Unit Trust sub-sectors relative to an appropriate benchmark.

Investment Trusts - compound out/underperformance vs benchmark (% based on NAV total returns) – 10 yrs to 31 Dec 2009



Source: Morningstar/IMA

OEICs/Unit Trusts compound out/underperformance vs benchmark (% – 10 years to 31 December 2009)



Source: Morningstar/IMA

Benchmarks used

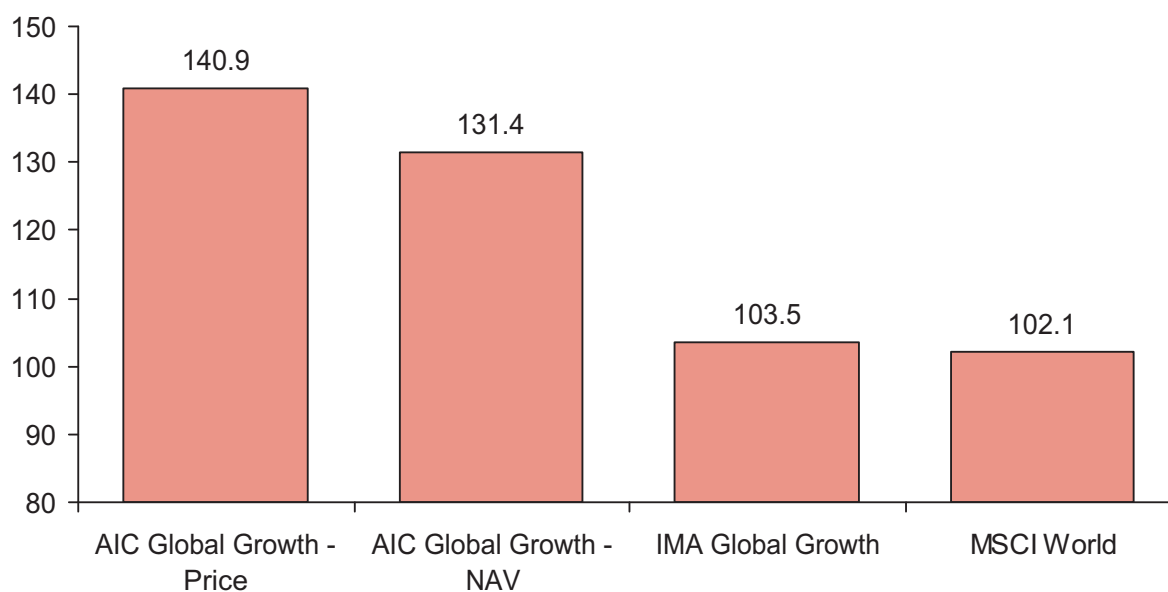
Global growth	MSCI World	Japan	TOPIX
UK/UK Income	FTSE All Share	Global Emerging	S&P/IFCI Composite
North America	S&P Composite	Far East ex Japan	MSCI AsiaPacific ex Japan
Europe	FTSE W Europe ex UK		

Source: Collins Stewart Research

Investment Trusts vs OEICs/Unit Trusts

Global

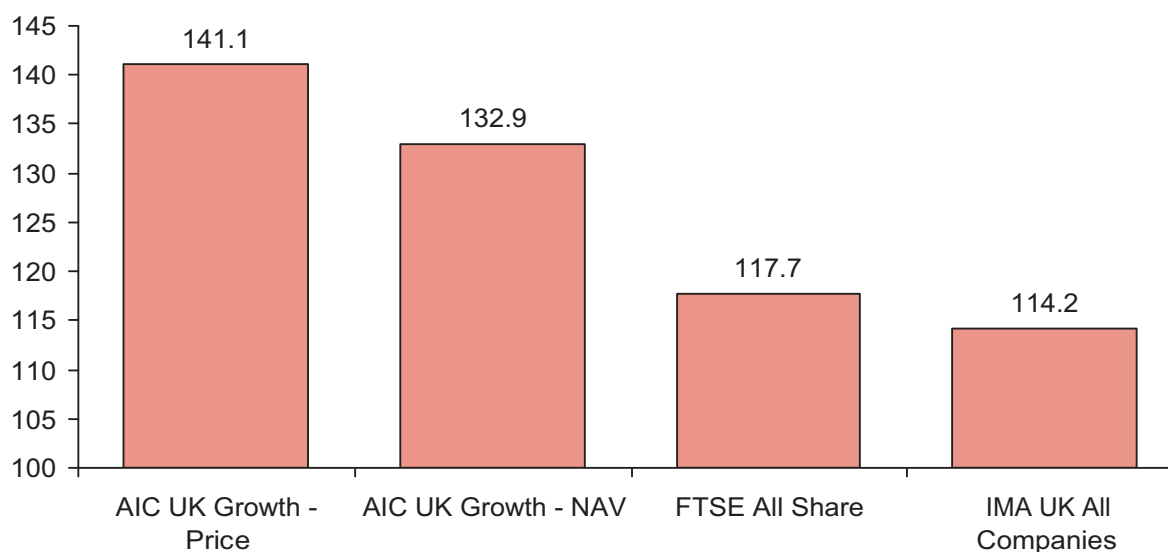
AIC Global Growth, IMA Global Growth & MSCI World index - 10 years to 31 December 2009 (total returns, base = 100)



Source: Morningstar

UK

AIC UK Growth, IMA UK All Companies & FTSE All Share - 10 years to 31 December 2009 (total returns, base = 100)



Source: Morningstar

UK Income

AIC UK Growth & Income, IMA UK Equity Income/Inc & Growth & FTSE All Share - 10 yrs to 31 Dec 2009: (total returns, base=100)

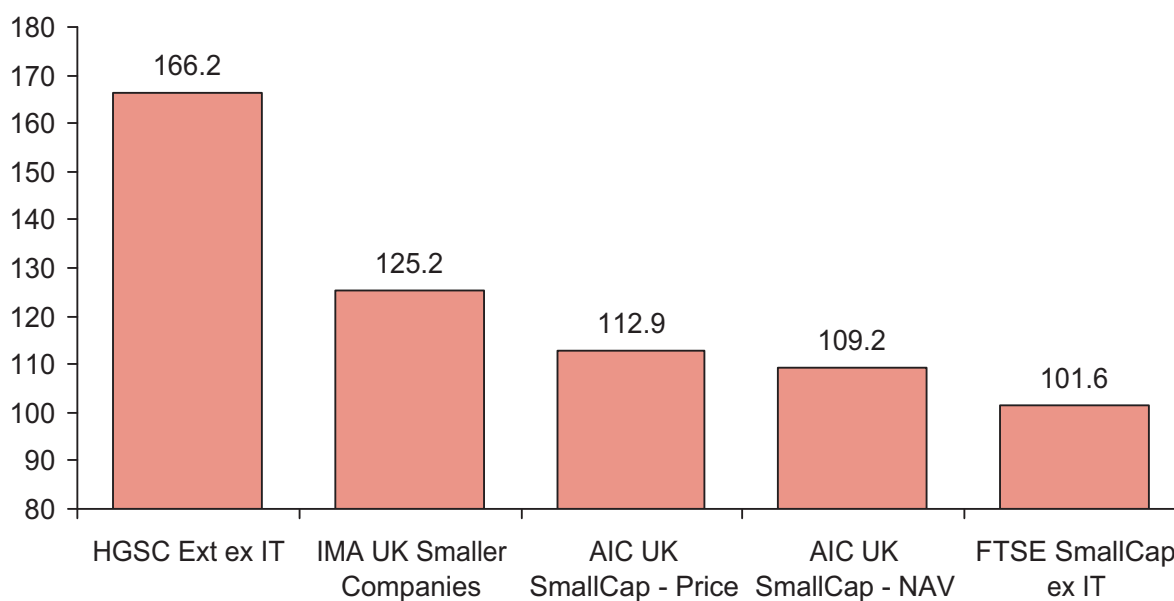


Source: Morningstar

The IMA UK Equity Income sector includes funds that must have an historic yield in excess of 110% of the FTSE All Share. The IMA UK Equity Income & Growth sector includes funds that have a historic yield in excess of 90% of the FTSE All Share. Over the 10-year period, the latter delivered a total return of 154 (base = 100).

UK Smallcap

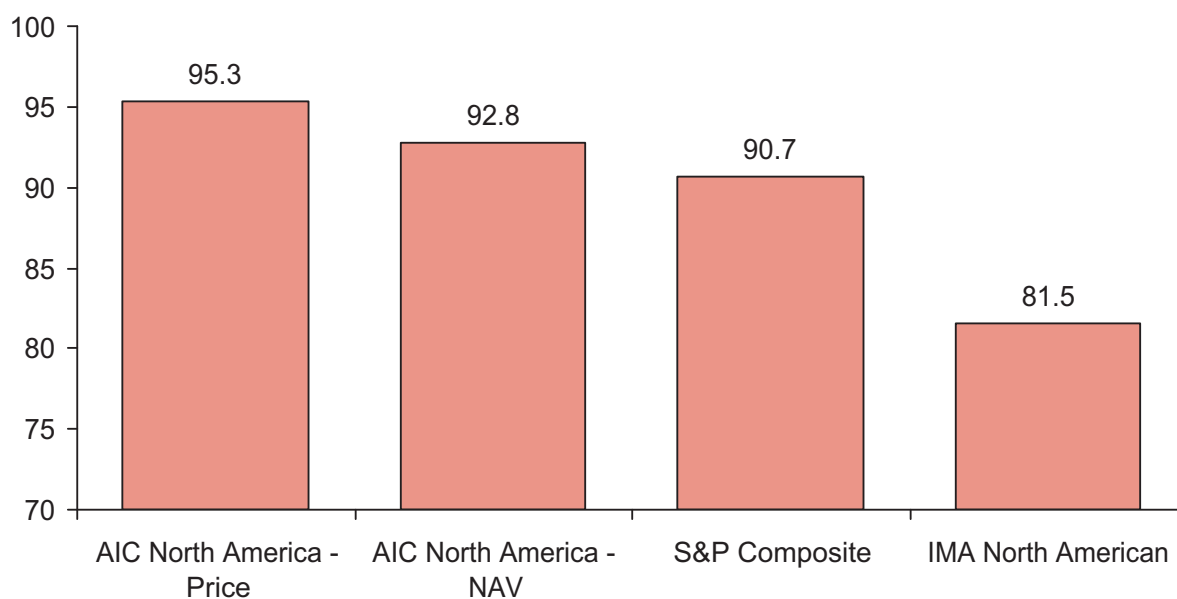
AIC UK smallcaps, IMA UK smaller co's, HGSC Ext ex IT & FTSE SmallCap ex IT - 10 yrs to 31 Dec 2009: (total returns, base=100)



Source: Morningstar

North America

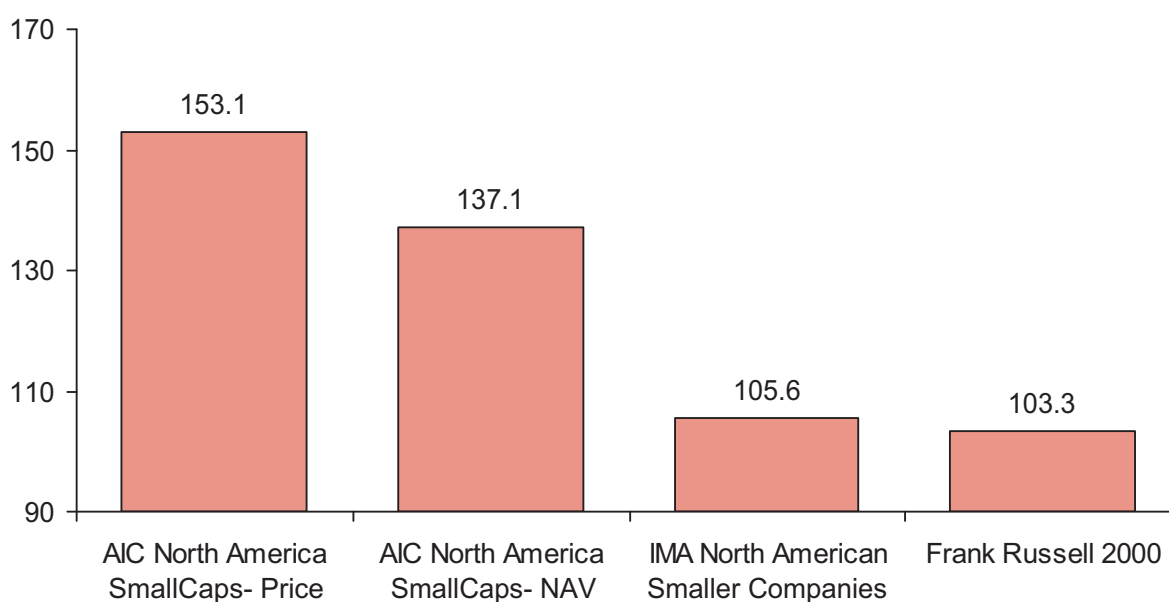
AIC North America, IMA North America & S&P Composite - 10 years to 31 December 2009: (£ total returns, base = 100)



Source: Morningstar

North America SmallCaps

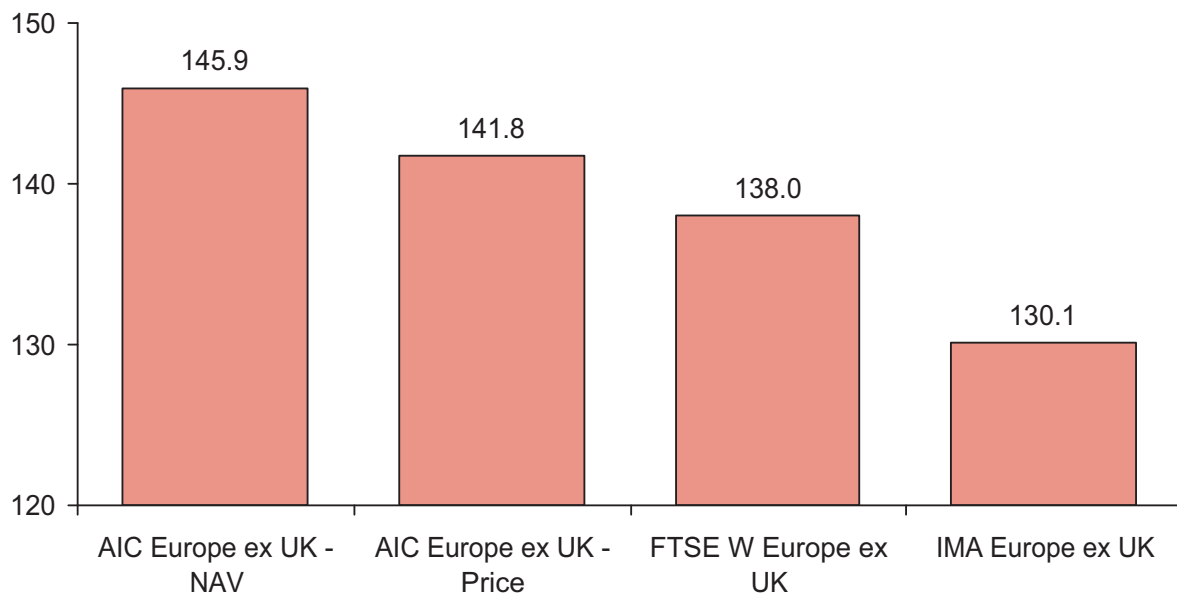
AIC North American smallcaps, IMA North American Smaller Companies & Frank Russell 2000 - 10 years to 31 Dec 2009 (£ total returns, base = 100)



Source: Morningstar

Europe ex UK

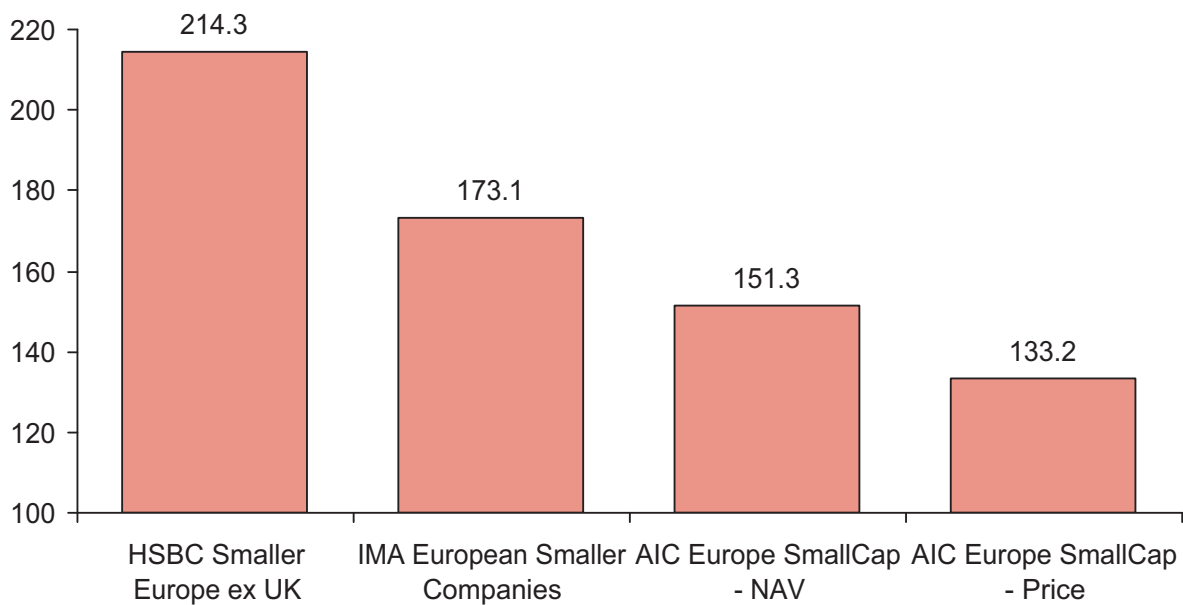
AIC Europe ex UK, IMA Europe ex UK & FTSE W Europe ex UK - 10 years to 31 December 2009 (£ total returns, base = 100)



Source: Morningstar

Europe (ex UK) smallcaps

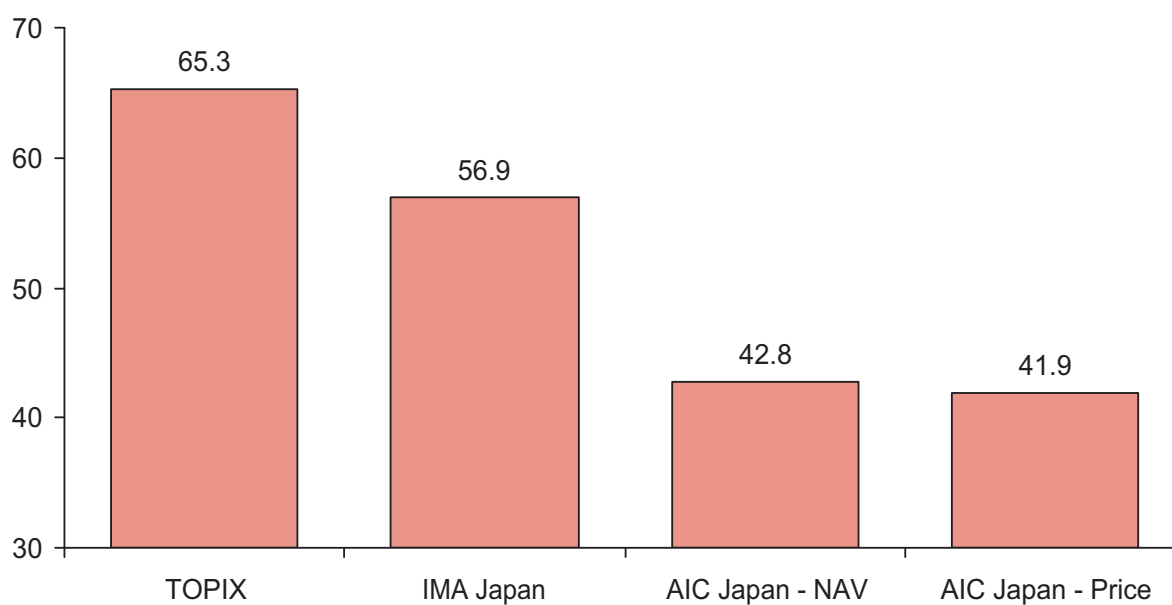
AIC Europe smallcap, IMA European smaller co's & HSBC Small Europe ex UK - 10 yrs to 31 Dec 2009 (£ total returns, base=100)



Source: Morningstar

Japan

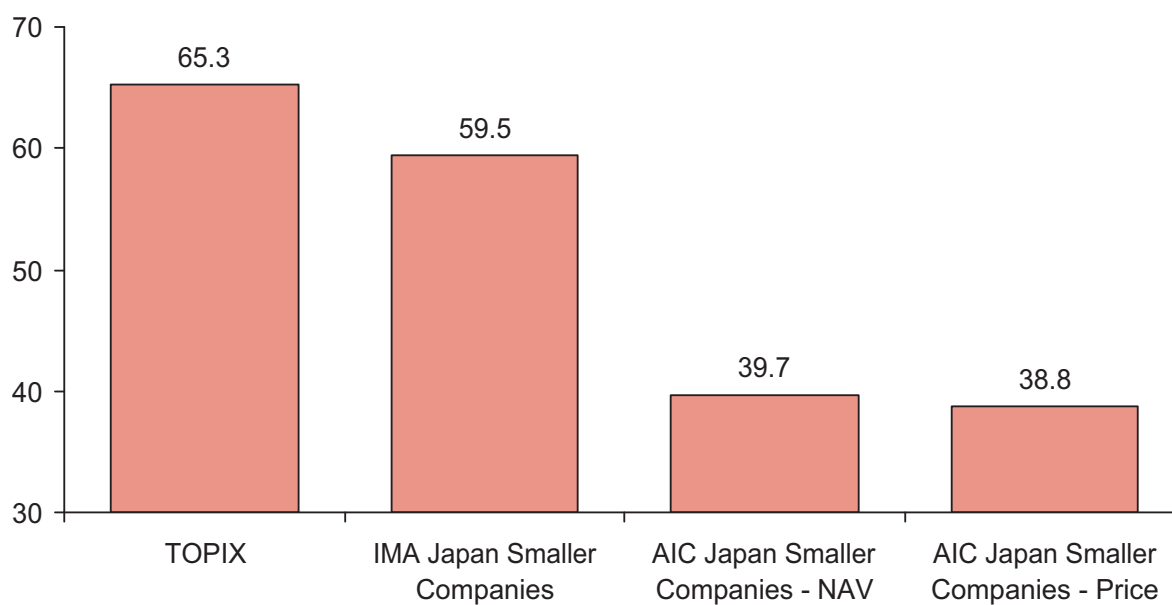
AIC Japan, IMA Japan & TOPIX - 10 years to 31 December 2009 (£ total returns, base = 100)



Source: Morningstar

Japan smallcaps

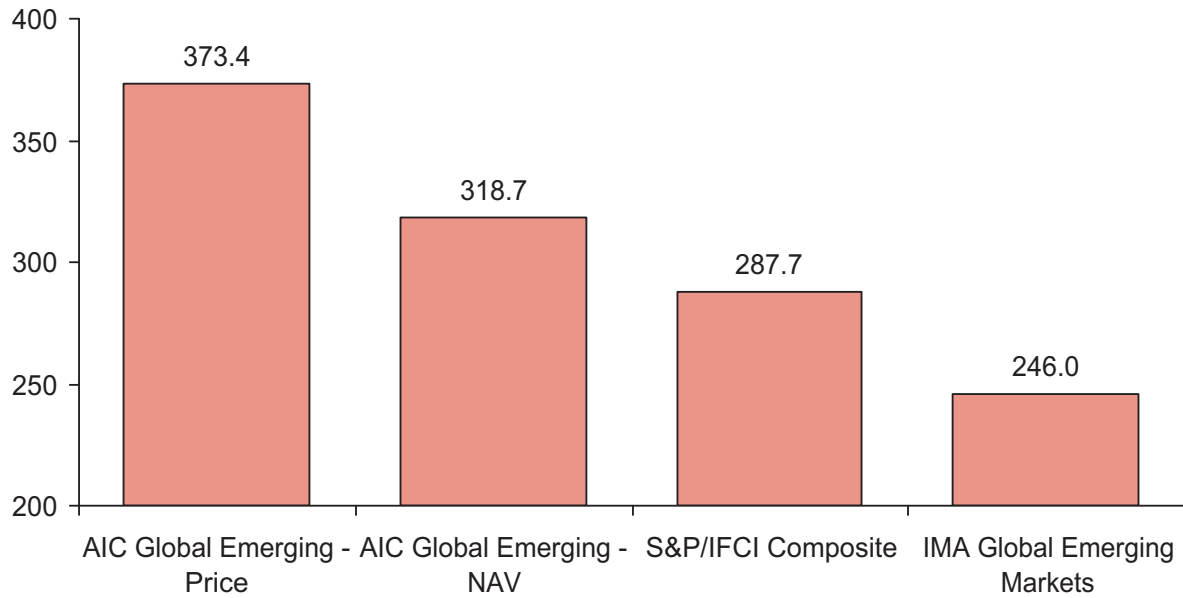
AIC Japan smallcaps, IMA Japan smaller companies & TOPIX - 10 years to 31 December 2009: (£ total returns, base = 100)



Source: Morningstar

Global Emerging

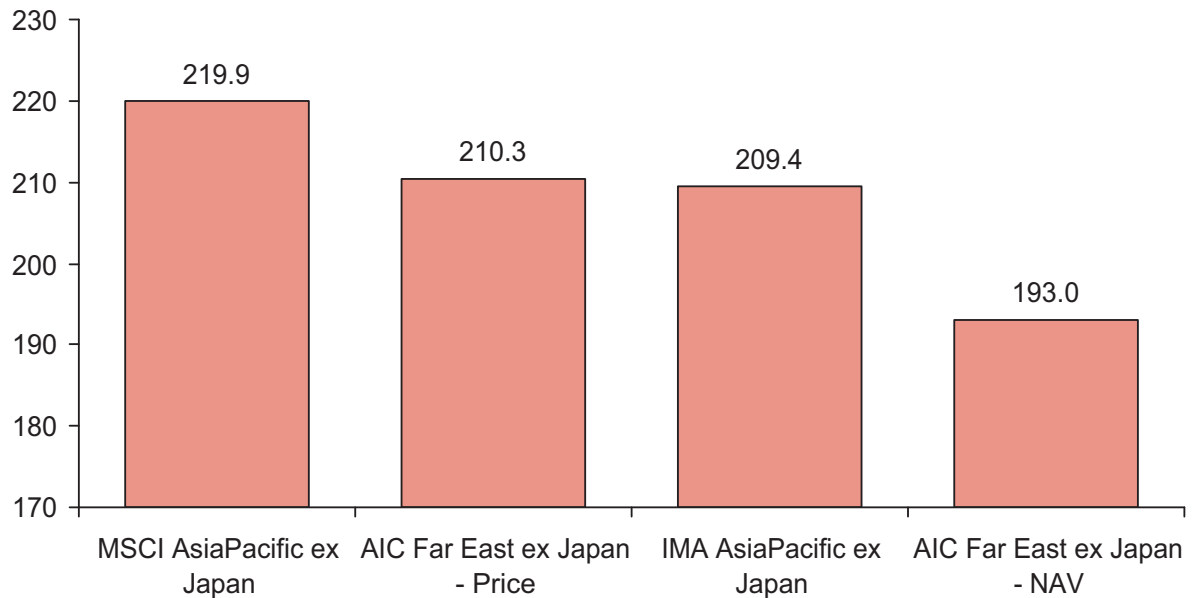
AIC Global Emerging, IMA Global Emerging Markets & S&P/IFCI Composite - 10 yrs to 31 Dec 2009: (£ total returns, base=100)



Source: Morningstar

Far East ex Japan

AIC Far East ex Japan, IMA Asia Pacific ex Japan & MSCI AsiaPacific ex Jap - 10 yrs to 31 Dec 2009 (£ total returns, base = 100)



Source: Morningstar

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Percentage of Total	53%	15%	32%
Percentage of which in Corporate Client stocks	13%	0%	4%