

The investment trust themes to watch out for in 2022

30th December 2021 09:32 by [Faith Glasgow](#)

These are the trends and sectors for investment trust fans to keep an eye on over the next year.

At the end of 2020, we looked ahead into the coming year and tried to pick out some key trends likely to shape the investment trust industry in 2021. It was a difficult, locked-down time, but [our experts accurately identified several important themes](#).

Most significant was the move towards sustainability that took place in 2021. As Andrew McHattie, publisher of the Investment Trust Newsletter, observes: “All managers have put environmental, social and governance (ESG) factors on their agendas, and many have moved it towards the top of their list of considerations. No presentational slide deck is complete now without at least one or two pages on ESG engagement and policies.”

An upturn in IPOs was another leading trend picked out by our commentators, with sustainable and environmentally themed listings leading the pack. In total, there have been 16 IPOs this year according to the Association of Investment Companies (AIC), of which five have been in the renewable energy infrastructure sector and another in farmland and forestry.

In addition, board activity has continued as predicted through 2021, with a number of mergers, reconstructions and strategic reviews taking place.

One additional development that was overlooked by the experts in last year’s crystal ball moment is worth mentioning. McHattie highlights the growing importance of retail investors, and the fact that “investment trusts have been working hard to improve information flows and transparency for everyone”. He points to improving websites and better access to webinars and other events previously inaccessible to private investors.

The question now, as we approach 2022, is how far those themes will extend into the new year and which others may emerge in the coming months.

Inflation and rate rises

As far as macroeconomic factors are concerned, the big issue facing fund managers and investors is rising inflation and potential further interest rate rises, following December’s jump from 0.1% to 0.25%. Ahead of this move, the Bank of England forecast in November that consumer price index (CPI) inflation will hit 5% in the spring, but only temporarily, and that interest rates will need to rise “modestly” to bring it back in line with the Bank’s 2% target.

Investors are increasingly fearful of inflation, and particularly stagflation (where rising prices coexist with stagnant economic growth). At Kepler Partners, analyst Pascal Dowling suggests that trusts designed to protect to some extent against rising prices are likely to prove popular and could “make some headway”.

He says: “Trusts such as **Momentum Multi-Asset Value Trust Ord MAVT** $\uparrow 0.00\%$, which aims to deliver CPI+6%, could be interesting in that light, and we would also highlight **Ruffer Investment Company Ord RICA** $\downarrow 0.53\%$; it has a proven track record in difficult markets and aims to deliver total returns twice the Bank of England base rate.”

Industry trends for 2022

Unquoted firms and further consolidation

Dowling also highlights growth in the use of unquoted companies within investment trusts. “**Scottish Mortgage Ord SMT** $\uparrow 0.13\%$, which on paper is a straight global equities trust, has blazed a trail here – buying more unlisted than listed in the last two years, according to the latest financial report – and around 30 mainstream equity trusts now have exposure to unlisted companies,” he comments. He expects the trend to persist as private companies continue to seek funding outside the market.

While 2019 and 2020 saw minimal consolidation among trusts, with just three mergers in total, there has been more activity in 2021. Six mergers have been completed or announced, driven by concerns around lack of liquidity and high costs among smaller trusts.

James Carthew, head of investment companies at QuotedData, hopes for more. He focuses in particular on the fact that “there are too many UK equity income funds”. He applauded **Murray Income Trust Ord MUT** $\downarrow 0.48\%$ ’s takeover of Perpetual Income & Growth in 2020, and wants to see further such moves – but it’s a slow burner. “While we have seen a few more deals elsewhere in the sector in 2021, the pace of consolidation is glacial. Maybe we’ll get another in 2022,” he says.

IPOs and renewable energy trusts

As already mentioned, IPOs had a good year in 2021, particularly relating to environmental/sustainable themes. McHattie expects that trend to continue next year.

“There seems no reason for capital to stop flowing into these sectors, so it seems likely there will be many more IPOs in the year ahead. Infrastructure and renewables are starting to look very well served by the existing trusts now, though, so newcomers will probably need to find some new angle, perhaps a geographic or technological focus, or some other USP to act as a differentiator.”

He suggests new trusts focusing on sustainable fishing or farming, carbon credits or electric vehicle charging infrastructure might make an appearance in due course.

Carthew, too, anticipates more expansion within the renewable energy sector. However, unlike McHattie, he believes it will be hard for new renewables funds to differentiate themselves thereafter, and “the focus will be more on growing the existing ones”. The sector is likely to raise significant amounts of money in 2022, he adds.

That sentiment is underpinned by the AIC poll of managers, which finds renewable energy infrastructure is expected to be the top-performing asset class in 2022.

Regulatory changes

With the increasing presence of retail investors in the closed-ended arena, commentators are also hoping for improvements to issues such as retail accessibility and investment trust compliance and regulations.

McHattie wants to see a re-think of the London Stock Exchange's Specialist Fund Segment (SFS), on which some investment companies choose to list. "It looks increasingly ill-suited to investment trusts as the sector attracts more and more support from retail investors," he comments.

"The SFS has been an ongoing source of annoyance and confusion for retail investors who find themselves excluded from trading certain trusts, particularly as the main trading platforms seem to draw their lines in an arbitrary way. At the moment, if you want to deal in the shares of a moderately esoteric trust such as **Tetragon Financial Ord USD TFG** $\uparrow 0.00\%$, your ability to do so can depend on which platform you happen to have an account with."

Carthew is particularly focused on the cost of new share issuance coming down for investment trusts. This may happen, he says, if the FCA's proposed changes to the Listing Rules mean that prospectuses can be simplified, or even scrapped in the case of secondary issues.

As the AIC's chief executive Richard Stone points out, the current system is plain illogical. "It makes no sense that an investor can buy shares in a company through the stock market using publicly available information but, when identical shares are issued by the very same company, it requires a hugely complex and expensive new prospectus." This means extra expenses for the company and deters retail investor participation, without providing any new information for investors.

Carthew is also hoping the AIC will be able to make progress with its protracted campaign to address the fundamental flaws in investment trust Key Information Documents (KIDs). These are supposed to ensure retail investors understand the risks attached to the trust they are buying, but are widely considered misleading in a number of important respects. Proper reforms would "help to level the playing field between closed- and open-ended funds," Carthew says.

The sectors tipped for 2022 and beyond

Kepler's Dowling picks out biotech and healthcare as a worthwhile sector focus. Surprisingly, the industry has not performed particularly well over the past year despite its high-profile and crucial contributions during the pandemic, with the average trust in this sector in negative territory in net asset value terms in 2021.

"We think the long-term outlook for this sector, supported by rising wealth in the developing world – which underpins demand for better healthcare provision – and ageing demographics in the developed world, are supportive for trusts in the sector," he comments. He suggests **International Biotechnology Ord IBT** $\uparrow 0.23\%$ and **BB Healthcare Ord BBH** $\downarrow 0.55\%$ as "interesting options" to play the theme.

Looking at regional opportunities, the end of year AIC poll of investment trust managers favoured the UK above all, with a quarter of managers expecting it to be the best-performing region in the coming year. Emerging markets came second with a fifth of the vote, while Asia-Pacific ex Japan and the US also attracted support.