Investment trusts battered by bizarre EU rules

By CALUM MUIRHEAD
UPDATED: 12:03, 3 March 2024

Share

9
View comments

British savers are at risk of losing out in a crisis that is threatening the existence of a popular and low-cost way of building a nest egg, campaigners have warned.

Investment trusts have been a key part of the stock market for more than 150 years.

In the Victorian era, they were used to raise money to build railways and other projects around the world.

More than 360 trusts, with £267 billion of assets, are listed in the City.

True to their roots, today's trusts raise capital for areas such as renewable energy and infrastructure. They are one of the few ways that enable small savers to have a piece of the action.

Drawing a line: Post-Brexit, the UK is under no obligation to apply the EU regulations in question

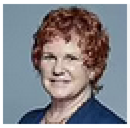
But campaigners, including peers in the House of Lords, say trusts are caught by a bizarre remnant of EU law that is starving them of cash and exposing them to foreign predators.

Post-Brexit, the UK is under no obligation to apply the regulations in question.

But opponents say the City watchdog is imposing them in a 'unique' way that is putting British savers, companies and the stock market at a disadvantage.

They warn that the City regulator, the Financial Conduct Authority (FCA) is using a 'flawed system' to calculate how fees are charged.

This makes it appear as though investing in the trusts is more expensive than it really is.



This has sparked a sell-off which has pushed down the value of shares in the trusts and made them vulnerable to overseas vultures.

Baroness Altmann said the FCA has 'taken these EU rules and uniquely applied them in a way that disadvantages UK companies. It is the opposite of what Brexit was meant to achieve'.

She added that 'the regulator has misled everybody' by forcing the trusts to declare costs that do not in reality exist.

As they are listed on the stock exchange, an investment trust's share price includes its running costs, including management fees and general business expenses.

But under the current rules, these must be presented to potential investors as if they are paid directly by shareholders. This, campaigners say, amounts to double-counting.

For example, the FTSE 250 Abrdn Private Equity Opportunities Trust, which invests in private companies and has a market value of nearly £800 million, is listed on the Hargreaves Lansdown investment platform as having an 'ongoing charge' of 6.25 per cent.

This implies that an investor buying its shares would expect to pay additional fees on top of their initial investment, when in fact they will not.

And according to data from the Association of Investment Companies (AIC), the 6.25 per cent figure is in itself inflated and is in fact only 2.84 per cent.

Altmann has tabled a bill in the House of Lords asking that trusts no longer need to comply with the rule. Lib Dem peer Baroness Bowles said it is 'an FCA-sponsored failure of consumer duty that has killed off investment.'

William MacLeod, managing director at boutique investment firm Gravis Capital, warned the sector faces 'a crisis' with trusts' share prices having 'collapsed'.

AIC data showed the average discount across the investment trust industry stands at 10.8 per cent compared with an average since 2008 of around 6.5 per cent.