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Investment trusts eye up Swiss escape to avoid EU rules

By CALUM MUIRHEAD
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Money managers at some of London's biggest investment trusts are considering defecting to Switzerland to avoid damaging rules that force them to overstate how much they charge savers.

One trust with a value of more than £630 million is pondering a move to the Swiss stock exchange to avoid the problem, an industry source told The Mail on Sunday.

UK-listed investment trusts are forced by leftover EU rules, implemented by the Financial Conduct Authority, to declare charges far higher than savers pay in reality.

Britain is under no obligation to obey these rules following Brexit. Campaigners say the rules are not even followed in the EU. Another source said some trusts were eyeing the Dutch stock exchange as a destination to sidestep the pitfall.

The revelations come as investment platform AJ Bell showed Britain's largest investment trusts have suffered huge falls in value since 2022 when the rules came into effect.

Damaging: UK-listed investment trusts are forced by leftover EU rules, implemented by the Financial Conduct Authority, to declare charges far higher than savers pay in reality.

Other factors, including high interest rates and a global slowdown, have also pushed down values. Some, such as the popular Scottish Mortgage trust, whose shares have slumped 40 per cent in two years, have also faced questions over governance and the value of some unlisted holdings.

However, campaigners including former Pensions Minister Baroness Altmann argue the controversial EU regulations are worsening the situation and harming savers.

Other players such as FTSE 250 real estate trust Tritax Big Box and RIT Capital, founded by the Rothschild banking dynasty, have fallen 40 and 37 per cent, respectively. AJ Bell said London's biggest investment trusts, which make up a big chunk of its FTSE 350 index, have lost £16.9 billion in value over the last two years.

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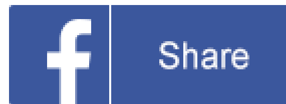

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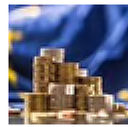

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Altmann, with the Lib Dems' Baroness Bowles and Labour's Lord Davies of Brixton, is trying to remove trusts from the rules.

Campaigners warn they leave trusts starved of cash and vulnerable to foreign takeovers. Last week US activist investor Elliott Management became Scottish Mortgage's largest shareholder with a 5 per cent stake worth £607 million. It sparked fears the trust could face the same fate as Alliance, whose boss was ousted after a long campaign by Elliott.

Some of the UK's largest green trusts also face questions after a long slump in their share prices.

Danger of killing the goose that lays the golden eggs

Stock market-listed investment trusts are a super way for investors to build long-term wealth.

Many have been around for over 150 years, quietly delivering a mix of income and capital return for shareholders. In the process, some have a record of continuous dividend growth going back 50 years or more – nirvana for income-hungry investors.

Others, such as Scottish Mortgage – the largest trust by a country mile – have provided crucial capital to private companies specialising in space technology and batteries needed in electric cars.

Though the Baillie Gifford-run trust has recently experienced a period of poor investment performance, its long-term track record remains impressive.

Newer trusts have used their capital to invest in the infrastructure – wind and solar farms, and energy storage – vital to keeping lights on in homes and turning the economy a shade of green.

Yet these stalwarts of wealth creation are under threat like never before. This is not because they have outlived their usefulness, or as a consequence of crass investment decisions.

Far from it. They are struggling as a result of ill-thought-out rules – imported from the EU and implemented by the Financial Conduct Authority – which make the ongoing charges of some look very expensive. In other words, as appealing to investors as a night out in a gale on Ben Nevis.

The rules are baffling and illogical. But, in a nutshell, if an investment trust or an investment fund (not stock market listed) itself holds trusts within its portfolio, the charges of these must be reflected in the overall charge it discloses to investors.

To take but one example, the £663 million investment fund Gravis UK Infrastructure Income invests in firms financing vital infrastructure projects. Some of these are infrastructure orientated investment trusts.

As a result, as well as disclosing its own fund charge of 0.75 per cent a year, it must also incorporate the fees of trusts in its portfolio. This bumps up its charges to 1.65 per cent. Off-putting? Of course. Ridiculous? Yes.

These rules should be rescinded forthwith as they risk killing the trusts that are the geese that lay the golden eggs of attractive investor returns.

Jeff Prestridge