

How To Choose An Investment Trust Company

In the ever-evolving world of finance, the role of an investment trust company remains a cornerstone for many investors seeking diversified and professionally managed portfolios. Understanding how to select the right investment trust company can significantly impact your investment experience and outcomes.

What is an Investment Trust Company?

An **investment trust company** is a public limited company designed to generate profits by investing in a diversified portfolio of assets. These companies are listed on stock exchanges and offer investors the opportunity to buy shares. Investment trusts are known for their ability to provide access to a wider range of assets and potentially higher returns compared to direct investments.

Types of Investment Trust Companies

Investment trust companies come in various types, each with a unique focus and investment strategy, catering to different investor needs and preferences.

Understanding these types will help you make informed decisions aligned with your financial goals.

1. Geographical Focus

Investment trusts often specialize in specific regions, such as the UK, Europe, Asia Pacific, or globally. These trusts invest in companies based in their focus areas, leveraging regional growth potentials and market dynamics. For example, UK Growth trusts concentrate on companies located in the UK, aiming to benefit from domestic market trends.

2. Sector-Specific Trusts

Some investment trusts target specific sectors or industries, such as infrastructure, property, or [private equity](#). These trusts provide investors with an opportunity to

invest in particular market segments, often driven by specialized knowledge and industry expertise. For instance, Property trusts invest in real estate assets, offering potential income through rent and capital appreciation.

3. Ethical and Socially Responsible Investing

Ethical investment trusts are increasingly popular, focusing on socially responsible investing. These trusts invest in companies that meet certain ethical criteria, avoiding those involved in controversial practices.

For example, they might exclude companies with significant carbon footprints or those involved in the production of meat products. This approach aligns investment with personal values, offering a means to contribute positively to social and environmental causes.

4. Investment Strategy and Style

Investment trusts also differ in their investment strategies and styles. Some may adopt a growth-oriented approach, focusing on companies with potential for high capital appreciation. Others might focus on income, investing in companies known for paying consistent dividends. The choice between [growth and income-focused trusts](#) depends on individual investment objectives and risk tolerance.

5. Closed-Ended Structure

A key characteristic of investment trusts is their closed-ended structure, allowing fund managers to take a long-term investment approach without the pressure of short-term redemptions. This structure can offer stability and the potential for steady growth, particularly beneficial for long-term investors.

How To Choose An Investment Trust Company

Choosing the right investment trust company is a critical decision for investors. Here are key factors to consider:

1. Understand the Trust's Investment Focus

Begin by examining the areas where the trust invests. Does it focus on specific geographical regions, sectors, or investment styles? Trusts may specialize in

diverse areas like UK growth, global growth, infrastructure, property, or private equity. Your choice should align with your investment goals and risk tolerance.

2. Assess the Trust's Performance and Structure

Investigate the historical performance of the trust. While past performance is not a guaranteed indicator of future success, it can provide insights into the trust's [management efficiency and strategy execution](#).

Consider the closed-ended structure of the trust, which allows for a long-term investment approach, potentially leading to more stable and consistent performance compared to open-ended funds.

3. Evaluate the Level of Gearing

Gearing, or borrowing to invest, can amplify returns in rising markets but also increase losses during downturns. Understanding a trust's gearing policy is essential for assessing risk. A trust with higher gearing may offer higher potential returns but also comes with increased risk.

4. Consider Ethical and ESG Factors

If socially responsible investing aligns with your values, consider ethical investment trusts. These trusts invest in companies adhering to specific ethical standards, such as environmental responsibility or social justice, avoiding those with harmful practices.

5. Check Management Expertise and Fees

Research the expertise and experience of the management team. Experienced managers with a proven track record are crucial. Also, consider the fees associated with the trust, as these can impact your overall returns. Investment trusts typically have higher charges than tracker funds but may offer lower annual charges as they grow.

6. Understand Client Services and Support

The level of client service provided by the trust company is vital. A lower client-to-officer ratio can mean more personalized attention and better service.

Ensure that the trust company has the capacity and resources to manage your investments effectively.

7. Look for Transparency and Communication

A trustworthy investment trust company should be transparent in its operations and communication. Regular updates, clear reporting, and easy access to information about your investments are important for maintaining trust and confidence.

8. Personal Comfort and Trust

Finally, choose a company you are comfortable with and trust. This is crucial since the company will handle sensitive information and make significant financial decisions on your behalf.

Benefits and Risk of Investment Trust Company

Investment trusts offer distinct benefits and risks that investors should carefully consider.

Benefits

- **Diversification:** Investment trusts hold a variety of assets, reducing the risk that comes from investing in a single stock or sector. This diversification can lead to a more stable investment experience over time.
- **Professional Management:** They are managed by experienced professionals who make informed decisions based on extensive research and analysis. This expertise can be particularly beneficial for investors who lack the time or knowledge to manage their own portfolios.
- **Potential for Higher Returns:** Due to their ability to use gearing (borrowing to invest), investment trusts can potentially offer higher returns compared to direct investments or open-ended funds. Gearing magnifies gains in rising markets, although it also increases losses when markets fall.
- **Closed-Ended Structure:** This structure allows fund managers to take a long-term view without the pressure of dealing with constant redemptions. It

can lead to more strategic investment decisions and potentially more stable performance.

Risks

- **Market Volatility:** Like all market investments, investment trusts are subject to market fluctuations. Their value can go up or down depending on the performance of the underlying assets.
- **Impact of Gearing:** While gearing can enhance returns in favorable markets, it can also amplify losses during market downturns. High gearing levels increase the investment's risk profile.
- **Liquidity Concerns:** As closed-ended funds, investment trusts might trade at a discount or premium to the net asset value, affecting the liquidity and pricing of shares.
- **Costs and Fees:** Investment trusts may have higher management and operational costs compared to other investment vehicles, such as tracker funds, which could impact overall returns.

Bottom Line

Choosing the right investment trust company involves careful consideration of various factors, including the type of trust, management expertise, costs, and your personal comfort with the company.

By doing thorough research and understanding your investment goals, you can make an informed decision that aligns with your financial objectives. Remember, all investments carry risk, and past performance is not indicative of future returns.