Hand it over to the professionals

Multi-manager trusts let ordinary people leave the hard work of asset allocation, portfolio construction and ongoing active management to expert investors...

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Kepler Trust Intelligence

Investment trusts are often comprised of investments in a particular asset class. A trust might focus on bonds or stocks, for example, and might further focus on stocks within a single region, country or even industrial theme.

Wind farms, distribution hubs, forests and even tea plantations are among the more niche corners of the market which these single-theme investment trusts offer exposure to, but a key attraction of investment trusts for many people is the fact they can provide very broadly diversified exposure to a portfolio of investments.

Multi-manager investment trusts take this diversification one step further. Either by investing in the shares of other investment trusts or funds, or by allocating portions of their capital to a group of underlying managers, multi-manager funds offer hard to beat combination of diversification and active management – letting ordinary investors hand over the job of identifying the best possible funds to a fund selector, or a team of fund selectors, who have the knowledge and resources to make an informed choice.

What is a multi-manager investment trust?

Before we go any further, the author would like to apologise for the number of times you are going to have to read the word 'manager' in this article. It is unfortunate, but there's no way around it.

With that said, we will continue.

Multimanager investment trusts combine the skills of a number of underlying managers in a single portfolio which is built, monitored and tuned by a single overall manager.

The overall manager may choose a 'fund of funds' approach, whereby the trust buys the shares of other funds or trusts, or a 'manager of managers' approach where tranches of the trust's capital are allocated to selected fund managers, in both cases according to the overall managers asset allocation strategy.

The goal may be to act as a one-stop shop for investors seeking general market exposure by spreading funds across a wide variety of managers in different regions, sectors and asset classes.

Alliance Trust

Multi-manager funds also offer investors the ability to gain exposure to a group of managers who are 'best in class', chosen and monitored by expert fund selectors who can ensure they continue to deliver on their promises.

Having said that, it's also not uncommon for a multi-manager trust to skew towards a particular investment style or asset class. For example, a multi-manager trust could have a larger exposure to US equities that invest in value stocks than anything else.

How do multi-manager investment trusts work?

Analysts working at a multi-manager investment trust will select managers in much the same way they would if they were picking individual stocks, building a portfolio designed to achieve their asset allocation goals.

The first thing they need to think about are their own goals. For example, the trust may have been set up to deliver income to shareholders. Alternatively the trust's goal could be to deliver capital growth or a combination of capital growth and income. These factors act as a starting point for the trust managers and will have a big influence on how they allocate their funds.

They'll then look at how different managers invest and what they invest in. Although it's not a sign of future performance, they'll also look at a manager's track record. Underperformance may not actually be a reason to avoid a manager, if the overlying fund manager thinks that the underlying manager is able to explain why that underperformance has occurred – and in what circumstances outperformance will occur.

As noted, this is to a large extent a similar process to the one that the trust managers would go through if they were investing directly in assets themselves. The difference is that multi-manager trusts have to spend much more time gauging how competent the managers are that they're allocating funds to, as opposed to just analysing individual assets.

Manager of managers trusts vs fund-of-funds trusts

As alluded to above, multi-manager is a catch-all phrase that can refer to either a 'fund of funds' or a 'manager of managers' trust.

The key difference is that fund of funds invest in the shares or units of other funds.

A manager of managers trust will get a mix of managers to pick assets to invest in but they hold those assets themselves.

Fund-of-funds and manager-of-managers trusts both have their advantages but the latter arguably possess some traits which are likely to make them the preferred option for retail investors.

One is that fund-of-funds invest in existing funds which may be available to investors anyway. In contrast, multi-manager trusts are often made up of bespoke portfolios created by leading fund managers. So the picks that a manager makes in a multi-manager trust are unlikely to be available anywhere else.

On top of that, the fact that a multi-manager trust holds all of the assets itself means that there is likely to be only one layer of fees and more transparency in what it has invested in. In contrast, the fund-of-fund model can make it much harder to understand what you're actually invested in and lead to layers of fees that you don't realise you're paying.

Why invest in a multi-manager investment trust?

The main appeal of multi-manager trusts is that they're a simple way of getting a diversified portfolio. Rather than picking lots of managers, stocks or investment trusts yourself, you can invest in one and get exposure to a diversified portfolio in the process.

On top of this, you get access to specialist analysts who have been tasked with finding the best managers to meet a certain goal. Just as analysing equities, fixed-income, or real estate requires some level of expertise, so too does analysing funds and picking good managers.

Multi-manager trusts typically sift through hundreds of different managers in order to find those most suitable for the goal their trust has. That means you can access the best managers to help meet whatever goals you have.

Another key attraction of multi-manager investment trusts is that you may be able to get exposure to fund managers that would otherwise be off-limits to you. Fund managers that don't have a retail offering or which are inaccessible to UK investors, for example, may be accessible via a multi-manager trust.

In some instances, you may also be able to access more niche asset classes that are otherwise hard to get exposure to. Private equity funds, for example, feature in some multi-manager trusts, even though they're often very difficult for individuals to invest in if they want to go it alone.

Case Study: Alliance Trust

Company: Willis Towers Watson

Launched: 1888

Managers: Craig Baker, Stuart Gray and Mark Davis

Ongoing charges: 0.60%

Dividend yield: 2.55%

Benchmark: MSCI ACWI (sterling adjusted, total return)

Founded in 1888, **Alliance Trust (ATST)** is one of the oldest investment trusts listed on the London Stock Exchange today. The trust's board delegated management of ATST to investment group Willis Towers Watson in 2017 and they have managed the closed-ended fund since then.

The trust's goal is to provide capital growth and a rising dividend to shareholders. On the latter front, the trust has the joint best track record in the investment trust sector today. It has paid a rising dividend for 55 consecutive years, something only two other investment trusts have done.

It's achieved that, at least over the past few years, with a unique structure. The trust managers filter through hundreds of fund managers to come up with a top 200, a number that is further narrowed down to 20.

From that top 20, the ATST team pick 8 to 12 managers and get them to contribute their highest conviction stock picks to the portfolio. Managers can be 'subbed' out of the portfolio and replaced by others in that top 20 if the managers believe it would enhance performance.

Managers are selected for their complementary features, as well as their performance. The result is that the trust typically holds over 200 stocks, although this is actually a much smaller figure than comparable multi-manager trusts because the Alliance Trust stock pickers focus on their best ideas.

Some of these managers are hard to reach as a retail investor in the UK and ATST remains the only way of accessing their high conviction picks. Combined together, the trust is unique in being composed solely of high conviction stocks but also being broadly diversified.

1) What is ATST's goal?

ATST's goal is to provide capital growth and a rising dividend to shareholders.

2) What kind of stocks do the managers like?

ATST allocates to managers with a range of different investment styles, which means they generally all pick different stocks with very few overlaps.

3) Are investment decisions driven by a particular investment style?

It's common for ATST to have an even balance between growth and value stocks, although there may be occasions where one style is more predominant than the other but only at the margin. The managers try to ensure that the stock pickers they allocate to complement each other, rather than attempting to go all-in on a particular style. ATST is designed so that stock selection rather than sector or style allocations drive returns.

4) How many stocks does the trust typically hold?

ATST typically invests in 8 to 12 different fund managers. Those managers pick their 10 to 20 highest conviction stocks, so the portfolio usually contains around 200 stocks as a result.

5) What is the investment trust's dividend policy?

ATST aims to pay a rising dividend to shareholders and has done for the past 55 consecutive years. The trust enhanced the payout in November 2021, with the goal of paying a higher dividend on a quarterly basis.

6) What are the trust's ongoing charges?

The investment trust's current ongoing charges are 0.60%.

7) Are there any performance fees?

ATST does not charge a performance fee.

8) How much attention do the managers pay to their benchmark, and to what extent are absolute returns important?

The ATST managers are aware of the benchmark but are not constrained by it, nor does it have an influence on their investment decisions.

9) How much does ATST differ from its benchmark?

ATST tends to differ markedly from its benchmark. Around 80% of the stock exposures are different. This is due to the highly selective approach to stock picking by the trust's managers.

10) Does the investment trust use gearing and if so is it structural or opportunity led?

ATST uses long and short gearing. It spreads this equally across the managers in its portfolio. Gearing tends to be opportunity led and driven by the manager's views on the market.

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