ACTIVIST INVESTOR

I'm sticking by the funds with family ties

Mark Atherton
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In the early 2000s I came across a series of funds that caught my imagination.

They all either had a connection with a particular family or they invested quite heavily in family-owned businesses.

The Trojan fund and the Troy Income & Growth investment trust, run by Troy Asset Management, were set up by Lord Weinstock, a past chairman of GEC, the electronics giant, to manage his family's investments. Troy was named after his 1979 Epsom Derby winner and it was designed so that outside investors could join members of the Weinstock family in investing in the funds it managed. It was a way for ordinary people to hitch their investment wagon to some of the most well-connected people in the financial world.

At about the same time I became aware of a whole series of other trusts with family links. There was the Caledonia investment trust, in which the Cayzer family have a 48 per cent stake; the RIT Capital Partners trust, where members of the Rothschild family hold more than 21 per cent of the shares; and the Hansa Trust, in which the Salomon family hold a sizeable stake. I also discovered the British

Empire Securities trust (now AVI Global), which does not have a large family shareholding but invests in family-owned businesses.
Leaving aside the AVI trust, the others all share certain characteristics and you can learn a lot from the way they manage their finances. As befits funds designed for rich people, they have a strong focus on wealth preservation. If they had a collective motto it would be "what we have, we hold". Whereas many investors might be looking to get rich quick, their millionaire counterparts are looking to stay rich and get wealthier slowly.

Most wealthy families are looking at investment on a 20 or 50-year timescale, so managers are not so constrained by the short-termism that affects the wider investment world.

To achieve wealth preservation, the managers of these funds usually spread their money across a range of assets. RIT Capital Partners invests in shares, private equity, property and hedge funds, providing breadth and balance.

For the same reason the managers are not afraid to take decisive action when required. In 2001, in the first year of the Trojan fund, when the dotcom crash bear market was in full swing in the UK, they held 75 per cent of the fund's money in bonds, preference shares and cash — so survived the stock market turmoil in much better shape than most rivals.

I took an instant liking to these funds, and in the early 2000s I bought Caledonia, RIT Capital Partners, Hansa and AVI Global. I suspect it will also not come as a total shock to learn that I still hold all four today.

Overall I am pleased with their performance. Over the past 20 years AVI Global has returned 523 per cent, considerably better than the global sector's return of 379 per cent.

Caledonia has produced 467 per cent and RIT Capital Partners 422 per cent, both well ahead of the average return of 137 per cent in the flexible investments sector, in which they sit. The one laggard has been Hansa, also in the flexible sector, which has returned 202 per cent.

But while performance of these family-orientated trusts has been generally good, it has not kept pace with the even better performance of trusts in the global sector, particularly over the past ten years. It has produced a return of 185 per cent, compared with 50 per cent for the flexible investments sector.

Scottish Mortgage, the largest and best-performing trust in the global sector, has returned 767 per cent over the past decade, while its stablemate Monks trust returned 287 per cent. The family-orientated trusts Caledonia and RIT returned 107 per cent and 101 per cent respectively. AVI Global produced 101 per cent, despite being in the global sector, and again Hansa was the poorest performer, with a ten-year return of 14.7 per cent.

Many of the trusts in the global sector, including Scottish Mortgage and Monks, have a heavy weighting to technology stocks, which have done exceptionally well in the past decade. The family influenced trusts, with their emphasis on wealth preservation and diversification, have less money in the high-risk, high-reward tech sector.

I hold both types of trusts and, with the exception of Hansa, which has exhausted my patience, I am happy to continue holding both because they offer different but effective ways of growing wealth. RIT, Caledonia and AVI have multiplied my original stake five or six times over 20 years, which I regard as a pretty reasonable performance. They provide an alternative, “steady Eddie” way of growing my money and I think there is room for both.