A balancing act

Two trusts that have made efforts to align their interests with shareholders have also produced good returns...

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Kepler Trust Intelligence

One of the perennial problems in the fund management sector is the alignment of interests between investors and the fund managers investing their money.

In short, a fund manager is going to want to get paid, regardless of performance. But shareholders may not feel that a management fee, particularly if it's a high one, is warranted if performance is poor.

That's certainly understandable but it's also worth keeping in mind that fund managers are professionals, who need to be paid to do a job – just as we pay anyone else that provides us with a product or service.

Still, that doesn't mean managers can't try and make sure their interests are aligned with their shareholders. Some trusts tackle this challenge in really quite unique and interesting ways.

One of these is **Ashoka India Equity (AIE)**. The trust was launched by White Oak Capital in 2018 and the asset manager has run the trust since then.

AIE charges no management fees and day-to-day expenses are covered by charges levied on other funds that White Oak manages. In its place, a 30% performance fee is charged on any alpha produced over three-year periods.

Fees are also paid in the form of AIE shares, half of which have a three-year lockup period, meaning the trust managers have to deliver good returns for six years to really enjoy the fruits of their labour. Analysts working on the trust are also rewarded based on the returns their picks produce, rather than how the fund performs as a whole.

As we noted in last week's post, AIE has delivered the best returns in its peer group since launching, although it has seen a recent stint of underperformance.

AVI Japan Opportunity (AJOT) is another trust that has arguably taken a big step to try and align its managers' interests with their shareholders.

Most notably, the trust is set up so that it reinvests 25% of the annual management fee back into the trust. Those shares then have a two-year lock in period, so the managers can't turn around and immediately sell off their holdings.

AJOT and AIE are both relatively new trusts, having both only launched in 2018. But since holding their respective IPOs, the pair have been the top performers in their AIC peer groups.

One swallow doesn't make a summer and it's always possible this won't continue. Nonetheless, it's a positive to see that, at least thus far, two trusts that have made big efforts to align themselves with their shareholders, have also delivered good returns as well.

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