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ISA RECOMMENDATIONS: FINANCIAL ADVISERS' INVESTMENT COMPANY PICKS FOR YOUNG, MIDDLE-AGED AND RETIRED INVESTORS

As the end of the tax year approaches, savers have just a few weeks to make the most of their £20,000 annual ISA allowance. Investment companies have strong long-term performance as well as income advantages, but with more than 300 to choose from where should an investor start?

The Association of Investment Companies (AIC) has spoken to financial advisers and wealth managers to discover which investment companies they would recommend at three different stages of an investor's life. Recommendations are included below for **young, middle-aged and retired investors**.

Younger investors

Paul Chilver, Associate and Financial Planning Manager at Birkett Long, said: "Younger investors who have a longer-term investment horizon can take more investment risk. My first suggestion is an Asian smaller companies investment trust – **Fidelity Asian Values**. This has an excellent long-term track record and is well diversified with its highest weightings to Chinese, Indian and Indonesian equities.

"My second suggestion is closer to home. On the assumption that we are starting to see signs of improved UK stock market performance after a pretty torrid 2022, one area that tends to do well at the early stage of recovery is UK smaller companies. I am recommending a relatively new trust – the **Odyssean Investment Trust** – which is approaching its fifth anniversary. Despite some of the losses experienced by many UK smaller companies investment trusts, this one is showing an excellent track record."

Jim Harrison, Director at Master Adviser, said: "Assuming there is no immediate call on the capital, investors at this stage have theoretically the longest investment horizon, and therefore can afford to take more risk. They can take a longer-term view, and look for a broad spread of underlying assets, so the **F&C Investment Trust**, which knows all about longevity, could be a good fit here. It is a global trust with over 350 underlying stocks and gives exposure to unlisted securities and private equity.

“With an eye on being a force for good, rather than just chasing returns, I’d also consider **Impax Environmental Markets**, which is active in improving lives through cleaner and more efficient delivery of energy, water and waste.”

Genevra Banszky von Ambroz, Partner, Investment Management at Evelyn Partners, said: “For the vast majority of younger investors, equity focused investment companies are firmly in the frame. **Ashoka India Equity** was launched in 2018 and has already built an extremely impressive absolute and relative track record for multi-cap investing in the Indian market. It’s also worth noting that the managers are strongly aligned with shareholders due to a fee structure with no management fee and performance fees earned by outperforming the benchmark index and paid in shares.

“For those seeking a more geographically diversified option, **Mobius Investment Trust** takes a high conviction approach to investing in small and medium sized companies in emerging and frontier markets, with a keen focus on engagement to improve ESG. We are increasingly seeing that clients, especially younger ones, are as motivated by driving positive change in the world as they are by financial returns.”

Daniel Lockyer, Senior Fund Manager of Hawksmoor Fund Managers, said: “Given younger investors’ longer investment horizon, I believe exposure to private equity would be beneficial. The sector has historically outperformed public markets over the long term and I see no reason why that track record can’t continue. We regard **Oakley Capital** as one of the best private equity managers. It focuses on just three sectors: education, technology and consumer, which offer investors exposure to structural growth themes. The portfolio is conservatively valued and can be accessed at a 30% discount, which represents a very attractive entry point for investors.”

Middle-aged investors

Jim Harrison, Director at Master Adviser, said: “Although middle-aged investors might not yet be using ISAs to supplement their earned income, they ought to be building towards that target. Starting to buy an income stream now, and reinvesting dividends until they are needed, is an alternative to the growth-only option, and I’d suggest taking a look at **Dunedin Income Growth**. A healthy dividend yield of 4.3%, rock solid dividend cover of 1.24 years, and a board who are focused on the sustainability of that dividend should give a long-term investor great comfort.

“For international exposure, **Murray International** should be in every investor’s portfolio, not just the middle-aged. An above average dividend yield at 4.1%, almost a full year’s revenue reserves and capital growth in addition to the dividends make this an attractive choice.”

Daniel Lockyer, Senior Fund Manager of Hawksmoor Fund Managers, said: “For middle-aged investors I choose **Aberforth Smaller Companies Trust**, whose managers have invested with the same value style since the trust launched in 1990. In recent years growth-biased funds have offered superior returns, largely thanks to near-zero interest rates, but we now believe the value style will come back into favour. The portfolio is trading on record low valuations not seen since the depths of the financial crisis and the trust’s shares can currently be bought at an 11% discount and a 3.5% yield.”

Genevra Banszky von Ambroz, Partner, Investment Management at Evelyn Partners, said: “Us millennials are in our thirties and forties now. Most of us have many more financial and personal commitments than we did in our twenties, and our risk appetites have moderated as a result. The good news is that there are still some great options to consider in the investment company universe.

“Someone looking for a core, diversified global equity fund might consider **Alliance Trust**. The team at Willis Towers Watson actively allocates the company’s capital between six to twelve of the best stock pickers in the industry, globally; each manages a portfolio of a limited number of best ideas. Performance since Willis Towers Watson took over the mantle has been very solid.

“For those looking for exposure to the UK market, **Diverse Income Trust** offers multi-cap exposure to the UK with an attractive yield. Gervais Williams and Martin Turner have an excellent track record of delivering over the longer term, primarily through fundamental stockpicking, but they have also been savvy in terms of protecting the portfolio from the worst of the market drawdowns with the use of put options when appropriate.”

Paul Chilver, Associate and Financial Planning Manager at Birkett Long, said: “My first suggestion for this type of client is the **Caledonia** investment trust. Despite its excellent long-term track record, it is still trading at a significant discount – 27% – and I personally feel it provides the opportunity for further growth going forward.

“My second suggestion is a global equity investment trust which, again, has a ‘healthy’ discount despite some excellent long-term performance. This is the **AVI Global Trust** whose investment approach over the past 12 months has produced some very good returns. This trust is currently at a discount of around 10%."

Retired investors

Genevra Banszky von Ambroz, Partner, Investment Management at Evelyn Partners, said: "With no employment-related income, many retirees will be looking to their investments to supplement any pension income they might have. **International Public Partnerships** is a very well-established company with a long track record of delivering a diversified portfolio of predominantly operational social infrastructure projects across the UK, Europe, North America and Australia. Its underlying assets have strong inflation correlation and support an attractive covered dividend.

"Those who have a low appetite for risk, and who are most motivated by maintaining the value of their capital in real terms, might look to **Capital Gearing Trust**, which has been expertly stewarded by Peter Spiller since 1982. In recent years, he has been joined by co-managers Alastair Laing and Chris Clothier. The character of the company remains very much the same, a conservatively managed portfolio of conventional and index-linked sovereign bonds, corporate bonds, preference shares, equities and funds, with strong representation from investment companies."

Daniel Lockyer, Senior Fund Manager of Hawksmoor Fund Managers, said: "With a high income and steady capital growth profile in mind, I have chosen **Gresham House Energy Storage**. The transition to net zero over the coming decades requires a huge increase in renewable energy generation but that can't happen without accompanying battery storage solutions. Gresham House Energy Storage is the largest developer and operator of battery storage sites in the UK and is well placed to deliver its annual target total return of 10% of which around half is currently in income."

Paul Chilver, Associate and Financial Planning Manager at Birkett Long, said: "For my final two suggestions I am making the assumption that 'boomers' are likely to be looking for retirement income.

"The first trust, which is in the UK Equity Income sector, is the **Edinburgh Investment Trust** which has excellent performance since the management team was changed in early 2020. The trust currently pays an attractive dividend yield of 3.8%.

“The second trust is in the Global Equity Income sector and targets a rising dividend – the **Securities Trust of Scotland**. This is managed by James Harries of Troy Asset Management who has a long track record investing in global equities with an income objective. The current yield is 2.7%.”

Jim Harrison, Director at Master Adviser, said: “Boomers are the bracket most likely to be drawing income, or at least preparing to. High-yield managers might not like me for this, but this is an age where reliability and sustainability is more important than pushing the envelope on yield. That said, there are two trusts with higher than average yields which could play a role in portfolios, **Invesco Bond Income Plus** and **Shires Income**. I’ve been wary of fixed income for some time, but rate rises have shaken things up a bit, and made the sector more appealing to me. Invesco Bond Income Plus, managed by the respected Rhys Davies, is a high-income fund, deriving its 6.7% yield from a broad spread of debt, with a material allocation to preference shares and perpetuals. Many of the holdings are household names.

“An above average yield from equities can be found in Shires Income, with its yield of 5.3%. Although this is an equity income trust, it has material exposure to preference shares, equities with a fixed coupon. The higher yield means a slow annual growth rate – 1.5% over the last five years – but the dividend is backed by robust reserves of 1.57 years of dividends.”

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2. For more information about the AIC and investment companies, visit the AIC’s website.

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