the lang cat

ASKS THE QUESTIONS

NUMBER 1

ANDY PARKES

FINANCE SHOP
Independent Financial Advisers

In collaboration with the AIC, the lang cat has produced a series of factsheets to highlight how a selection of advisers have adopted investment companies (or investment trusts) into their investment propositions. With our Dictaphones fully charged, we were curious to discover how advisers are researching investment companies, their opinion of how investment companies are accommodated on platforms/with providers and also the role regulation plays in their processes.

the lang cat

1. Why do you recommend investment trusts to your clients?

We have model portfolios and discretionary portfolios and we tend to use investment companies on the discretionary managed side of the business. Investment companies can have some difficulties in terms of liquidity. The bulk of this money would be pension money, so is longer term. Investment companies will often give us the opportunity to look at more niche areas and we can take a view that the investment is there for a good number of years.

the lang cat

2. Do you have any specific examples where you find investment trusts have advantages over some other investment types?

Examples might be private equity or infrastructure and specialist property. Some of these assets are more suited to a closed-ended structure rather than an open-ended structure.

the lang cat

3. Do you have a centralised investment process (CIP)? If so, how do investment trusts fit in?

Fundamentally, we're looking for the same ideas, so we don't significantly change the process. There are some different issues, however. Ultimately what we're trying to do is look for high quality managers, and to provide clients with exposure to areas that we believe will outperform over the longer term. For that side of things, the process of looking at open-ended and closed-ended funds is much the same.

That said, we can isolate areas which we think are more likely to outperform. We can look at discounts on investment trusts, or areas where we see long-term value, but don't lend themselves to being in the model portfolio. On the discretionary side as well, we can manage this on an individual basis and can work around elements such as discounts and premiums. When we want to personalise portfolios and bespoke them, that's where using investment companies can be useful. It doesn't work as well in a model portfolio landscape where we need to add money on a regular basis or take it out.

the lang cat

4. How, if at all, does your research process for investment trusts differ from open-ended funds? Do you have sufficient tools available?

I guess it does differ. We piggyback with groups such as Raymond James and we get research from the underlying investment companies. We use that as part of the process, whereas in the open-ended space, we're looking at analytics to measure performance. It's easier to compare open-ended. Also, with investment companies, we're often adding money when they're raising, whereas we can buy open-ended funds at any point in the cycle. We would also look at liquidity to make sure we're

> *Ultimately what we're trying to do is look for high quality managers, and to provide clients with exposure to areas that we believe will outperform over the longer term. For that side of things, the process of looking at open-ended and closed-ended funds is much the same.*

> *When we want to personalise portfolios and bespoke them, that's where using investment trusts can be useful.*

comfortable and we feel that they're going to raise enough capital to get to a size that's big enough to run across the portfolios.

the lang cat

5. Do you think that investment trusts present some challenges that don't apply to open-ended investments such as gearing, premiums or liquidity? Or do you view some of these aspects as offering additional advantages? Does this influence your process at all?

Absolutely, there are both challenges and advantages with investment companies. I think you've just got to do your research and understand how you think they're going to perform and the liquidity constraints that can come with owning them. Elements such as gearing clearly offer the opportunity for performance to be stronger than their open-ended equivalent. There's also the opportunity to buy something at a discount to the net asset value. But, again, liquidity can be an issue. We generally try and use investment companies where the money is longer term, and we're not going to need to pull down on the cash with any urgency. We also manage position sizes carefully; generally, the position size will be smaller in the investment companies than we would have in an open-ended fund. On top of that, we'll have a diversified mix of investment companies.

the lang cat

6. Are your choices of platform or product influenced by the fact that you recommend investment trusts?

100%, I think they need to be. If we are going to use the full array of assets out there, we need a provider that can accommodate that. It's important to find someone that does a fair amount of trading in these types of assets, because otherwise it becomes difficult to manage. They have dealers with experience of trading these things, that have good relationships with the underlying market makers, and they know where to go to buy and sell.

We tend to have a lower charging model, because it suits our management style better. Once we've invested, the amount of trades that we're likely to do on an ongoing basis is fairly low. We're at a size now where the trading costs are largely immaterial. It suits us to have a lower ongoing charge and pay for the trades because, again, we are generally looking to build a longer-term model that isn't going to get traded a massive amount.

> *If we are going to use the full array of assets out there, we need a provider that can accommodate that.*

the lang cat

7. How well do you think investment trusts are accommodated in some of the other technology and processes that support your research and recommendations – such as risk profiling and risk ratings?

We try and have a fairly flexible approach because I think it's possible to trip up and constrain our ability to use different assets by having too many control parameters in place. Investment companies provide plenty of information and are often independently researched. It's more about understanding what we're buying and doing the research at a grassroots level. We need to establish how we expect it to behave, the best- and worst-case scenarios and the blend with the other constituents in the portfolio. It's about trying to diversify the portfolio by understanding what we own, and it doesn't necessarily matter whether it's the investment companies or an open-ended fund. The first building block is to say: "Are we properly diversified? Do we feel that the mix of assets is right and what's the worst-case scenario now? How do we manage that and how do we blend that with other assets within the portfolio?"

Given the markets have had such a strong run for 10 years, we need to be careful. In a more normalised environment, how are some of these assets going to react? That's key to building a portfolio, particularly looking to the future where the

> *Elements such as gearing clearly offer the opportunity for performance to be stronger than their open-ended equivalent. There's also the opportunity to buy something at a discount to the net asset value.*

likelihood is, at some point, this whole central bank, low interest rate model might break down. I wish I had all the answers. It's just looking at and trying to make sure we understand how the assets that we hold might perform in different scenarios.

the lang cat

8. How do you describe and explain investment trusts to your clients? How does this conversation differ from those about open-ended funds?

It doesn't really make any difference. Sometimes, they may be slightly more specific, such as a private equity trust so that can make it easier. In that case, we'd say we bought it for these reasons. With open-ended funds, they're more generic.

the lang cat

9. The PROD rules encourage a segmented approach to customer needs and ultimately their product and investment choices. How do you feel that your use of investment trusts fits into your suitability processes? For example, is there a specific customer type or set of needs that you think investment trusts are more suitable for?

Again, coming back to the idea of longer term, where there is less likelihood of funds moving in and out – so pension money particularly – investment trusts fit very well because there is an agreed timeline. We know we're likely to be managing the money over 20 years plus – hopefully longer – so we can make decisions where, again, liquidity is much less of an issue. For us, it's more about the attitude to risk. It's about having a blended, diversified approach. I don't think investment companies or open-ended companies individually have all the answers. It's understanding what you're buying, or why you're putting it into the portfolio and whether it meets the client's needs.

FINANCE SHOP
Independent Financial Advisers

Finance Shop is a locally owned independent company that offers a range of wealth management, financial and tax planning services, on an advisory and discretionary basis. The company has grown, predominately through word of mouth referrals, to become one of East Anglia's largest advisory and wealth management practices.

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the lang cat

ASKS THE QUESTIONS

NUMBER 2

SIMON MUNDAY

Prosperity IFA

In collaboration with the AIC, the lang cat has produced a series of factsheets to highlight how a selection of advisers have adopted investment companies (or investment trusts) into their investment propositions. With our Dictaphones fully charged, we were curious to discover how advisers are researching investment companies, their opinion of how investment companies are accommodated on platforms/with providers and also the role regulation plays in their processes.

the lang cat

1. Why do you recommend investment trusts to your clients?

As independent financial advisers, we feel it's our duty to have analysed all types of investment when putting together portfolios for our clients, considering unit trusts, investment trusts, ETFs and whatever else is out there as part of building a suitable client recommendation.

Investment trusts have to be part of the review process. After the EU referendum in 2016 we saw most property unit trusts close their doors to trading. Clients trying to take an income from those property funds lost the ability to maintain the goals of their portfolio. Investment trusts offer a point of difference here in having better liquidity. Yes we have to be aware of premiums and discounts, but it's important to consider investment trusts. If we didn't then we wouldn't be independent.

the lang cat

2. What advantages do you feel investment trusts have over some other investment types?

The liquidity – being able to get in and out of an investment trust very quickly – is key, as already mentioned. The other advantages are that they are run in a different way. For instance, the fact that we can buy at a discount can be beneficial at certain times. In the unit trust world, we are fixed to the unit price.

the lang cat

3. Would you say that you have a centralised investment process (CIP)? If so, how do investment trusts fit in?

We have a CIP. We have seven advisers across the firm and it's very important that a client should get a similar outcome regardless of which of those advisers they come to see.

We have an in-house investment committee – me, the other director, Andrew Brady, and Mark Grunwell, our most senior adviser, who is a chartered planner. The three of us have a monthly investment committee meeting where we use FE Analytics to analyse all the funds, ETFs and investment trusts across the ABI sectors we want to include in our clients' portfolios. From that, we generate a list of around 100 different unit trusts and investment trusts.

Advisers then use the portfolio optimiser in the client back office system to asset allocate from those funds on the basis of the client's attitude to risk, time horizon and goals. The process is exactly the same for every client who comes to the firm.

This maps into model portfolios, with around 50 risk profiles. It's a matrix approach. If a client is risk profile five but with a 25-year investment horizon, their asset allocation will be completely different to someone who is also risk profile five but only has a seven-year time horizon. While they are essentially model portfolios, they are more bespoke because we also take time into consideration.

> *We have enhanced risk profiling questions built into our fact-finds, one of which looks at gearing and how the client feels about an investment of borrowed money. If they are adamant that they don't want that additional risk in a portfolio then we would eliminate investment trusts from that client's optimisation and their asset allocation.*

the lang cat

4. Do you think that investment trusts present some challenges that don't apply to open-ended investments such as gearing, premiums or liquidity? Or do you view some of these aspects as offering additional advantages? Does this influence your process at all?

I think that depends on the client. We have enhanced risk profiling questions built into our fact-finds, one of which looks at gearing and how the client feels about an investment of borrowed money. If they are adamant that they don't want that additional risk in a portfolio then we would eliminate investment trusts from that client's optimisation and their asset allocation.

Where clients are accepting of that gearing, we cap borrowing at a level we think is acceptable. We're a fairly conservative firm and won't have gearing above 20%, but in the current markets we're looking at the potential benefits of allowing a higher level of gearing.

Premiums and discounts are just an extra level of due diligence when putting together the client's portfolio, so a small premium might not be an issue. You always have to ask if it's worth paying it or whether it pushes you back to a unit trust alternative.

> *Yes we have to be aware of premiums and discounts, but it's important to consider investment trusts. If we didn't then we wouldn't be independent.*

the lang cat

5. Is the fact that you invest in investment trusts a consideration when you're thinking about where to place business in terms of platforms, product research and due diligence?

Absolutely. One of the biggest platforms in the UK is limited because you can only hold unit trusts there. It's a bit old school. There are so many options now for fully open-architecture platforms that enable us to hold pretty much anything we want. As well as unit trusts, investment trusts, ETFs, direct equities, some are now allow VCTs. If clients aren't interested in gearing and the enhanced suitability questions steer them away from the investment trusts, then it broadens our platform universe a bit.

the lang cat

6. Which platform would you use for a client with investment trusts?

The majority of that business at the moment would probably go to Zurich. We have had a lot of platforms in the past and we're currently going through a replatforming exercise as part of our annual due diligence, so that could change in the not-too-distant future, but at the moment that would be our preferred option. However, Zurich charges for investment trust trading. We give clients the total cost for the year, but the platforms that allow you to hold investment trusts these days are very good at reporting and showing everything, down to the penny, that the client has spent.

the lang cat

7. Do you feel there is sufficient technology to support your recommendations, such as risk ratings and risk profiles?

I think that's down to how you use the information that is available to you. Mark, the chartered planner who sits on our investment committee, is registered on the AIC website so he gets all sorts of information that he brings along to the meetings, such as updates on investment trusts that we're using.

The information that we get from FE is pretty comprehensive and it's then up to us how we use that with our asset allocation and risk profiling for clients, which is currently provided by Evalue. I don't think there's a lack of information, if I'm honest.

I know there is a perception among advisers that the industry is geared towards open-ended funds. I don't want to tar everyone with the same brush, but with a lot of advisers out there there's an element of 'we've always done it this way' and 'it's easier this way'.

We have time on a monthly basis to run an analysis and make sure all of our clients' portfolios are doing what they should be doing, but we can't do it on a daily basis and I think probably for a lot of advisers, it's just easier to pick unit trusts.

the lang cat

8. How do you describe investment trusts to your clients? To what extent is the conversation different to discussing open-ended funds? Do you feel like you have to go into more depth to explain them?

There are differences in terms of the content, but generally I think it's the same. Our job is to educate our clients. Of course more clients would have heard of or used unit trusts at some point. It's not a different conversation, it's just explaining to them the slightly different structure of an investment trust. We would only be having that conversation if we thought it would be beneficial to that client anyway. I had a conversation recently about what clients want when you report to them on their portfolio. We're moving away from 'your portfolio has achieved x%' and it's becoming much more about where they are in relation to their goals. Once you've explained the investment trust structure to the client, how it benefits the portfolio and how it helps to achieve their goal, it's not a different conversation, it's just part of being an adviser.

the lang cat

9. PROD rules encourage a segmented approach to customer needs and ultimately their product and investment choices. Looking at your suitability process, is there a specific customer type or set of needs that you think investment trusts are less or more suitable for, and how does that fit into your view of customer segmentation?

Good question. We take a case-by-case approach rather than segmenting our clients. I know that's not what the FCA wants to hear, but I'm a great believer that everyone's entitled to financial advice.

We have the enhanced suitability questions built into our fact-find and therefore risk profiling process; we don't have segmentation. Of course it would be very difficult to make a recommendation to an elderly client who perhaps has limited funds to invest and is looking for a 100% reliable income. Would you go on to recommend a highly geared investment trust? Definitely not. You have to assess the needs and goals of the individual in front of you. That's why we always find it difficult to segment our clients.

> *We give clients the total cost for the year, but the platforms that allow you to hold investment trusts these days are very good at reporting and showing everything, down to the penny, that the client has spent.*

The danger of segmentation is that it can be simplistic and generic, and potentially you get shoehorning. Where PROD helps is alongside a CIP. We do all the due diligence on all the platforms and come up with what we feel is best for the client. Now that would be down to a multitude of things such as the technology, reporting, what the client sees and costs. Then we take an overall view of what we think is the best platform on the market.

If we're doing that at company level, we would expect to ensure that all clients receive the same advice from all advisers and then theoretically get the same outcomes. So PROD can possibly help there operating alongside a CIP.

As a multi-adviser firm, from a compliance and from a client outcome point of view, we can't have advisers going here, there and everywhere, doing as they please, because most advisers again don't have the time to run the proper research.

I think there's still a myth around using investment trusts and ETFs in order to class ourselves as

> *Once you've explained the investment trust structure to the client, how it benefits the portfolio and how it helps to achieve their goal, it's not a different conversation, it's just part of being an adviser.*

independent advisers. We take into consideration all investments in the market. That doesn't mean you can't have a preferred platform. At the end of the day, the platform is just the custodian – it's the investments that give you independence. You'll never get a product that would fit 100% of clients, but over time we expect that our CIP and what then goes under the bonnet should fit nine out of ten clients. I think that's when you know you're getting there in terms of a good client proposition.

the lang cat

ASKS THE QUESTIONS

NUMBER 3

PETER ADCOCK

adcock financial

In collaboration with the AIC, the lang cat has produced a series of factsheets to highlight how a selection of advisers have adopted investment companies (or investment trusts) into their investment propositions. With our Dictaphones fully charged, we were curious to discover how advisers are researching investment companies, their opinion of how investment companies are accommodated on platforms/with providers and also the role regulation plays in their processes.

the lang cat

1. Why do you recommend investment trusts for your clients?

We think they can be more flexible than mutual funds. They can be cheaper too and can offer more specialisation. In certain sectors we will use them in preference to funds, for example in the global equity sector where performance is often better than the equivalent fund.

the lang cat

2. In terms of how your firm operates, do you have a centralised investment process (CIP)?

We don't yet have model portfolios, but we do have asset allocations where we would use our recommended list of funds to create portfolios suited to our clients. The list of funds is reviewed bi-monthly by our investment committee. So, in the sense that we are continually reviewing the fund list and operate asset allocations, then yes, we do operate a CIP.

> *There's got to be some account taken of these 'challenges' but the main criteria I'd consider are track record, charges and volatility, with a check on gearing, premium or discount.*

We use a few different research sources to help define our asset allocations, but the main one at present is Defaqto. We use a combination of Defaqto, Morningstar and we also review the Wealth Management Association portfolio asset allocation quite regularly. We don't slavishly follow what these tools tell us though; we might step outside these allocations if we see something in the market that we think we need to react to.

the lang cat

3. How, if at all, does your research process for investment trusts differ from open-ended funds? Do you have sufficient tools available?

Our research process isn't hugely different, although you have to look at slightly different things because of the nature of investment trusts; the gearing and discounts. I suppose the standard tool we use is Morningstar, but we also use FE Trustnet. Citywire, New Model Adviser and the AIC are also good sources of information. We tend to use independent tools because model portfolios on platforms ignore exchange traded funds (ETFs) and investment trusts because they assume everyone is going into funds.

> *Quite often if you want a model portfolio, you'll find a lot of providers exclude investment trusts and ETFs. It can cause problems and we've had to adapt our processes for that.*

I think the tools that are available are broadly similar. Morningstar has a very good tool where you can compare individual trusts against individual funds. That's quite useful. FE Analytics or Trustnet also offer very good online research tools. I use them both really.

the lang cat

4. Investment trusts present some challenges that don't apply to open-ended investments, like gearing, discounts, premiums and liquidity. What is your view? Does it influence your processes? Do you actually view some of those as advantages?

I don't mind because the discounts can be positive or negative. I'd probably be worried if gearing was over a quarter. That's the benchmark we have but I don't suddenly buy because it's gone to a discount. Most clients are in it for the long term. You know the saying, 'It's time in the market, not timing the market'.

It influences me but not to a huge extent. It's tricky because I can think of one particular trust which has had ridiculously good performance, so its premium has gone through the roof. I'm not buying that trust at the moment because it's just too expensive.

We've not had any liquidity issues so far, probably because we look at specific sectors. In fact, investment companies can avoid many of the issues that their mutual fund counterparts face. This issue is important in some sectors, as we have recently witnessed with Neil Woodford's woes and the suspension of his mutual fund. An investment trust normally remains tradeable in volatile markets, even if you don't like the price being offered for your investment.

There's got to be some account taken of these 'challenges' but the main criteria I'd consider are track record, charges and volatility, with a check on gearing, premium or discount.

the lang cat

5. Which platforms and providers do you use, and does the fact that you recommend investment companies influence your selection process?

Yes, it does at the moment. We've used a few platforms over the years and we're using four just now, though this will shortly reduce to three. Our favourite platform is Transact and has been for about four or five years. We place new clients and new business on this platform. Using more than one platform means we can place clients in the one most appropriate to them. So, long-standing clients who don't need the extra flexibility of Transact, we would leave in FundsNetwork, where our legacy business is held. We also use Standard Life, but if it's set up as pension-only and I want to invest in a trust or an ETF, there's an extra charge applied, which is really frustrating. The result of that is that most of the client portfolios with a value under £500k will be moved to Transact, if the portfolio includes a pension fund.

> *"The jury's still out on whether we can deal in trusts for clients with portfolios of £200k or less, for example. It's something we'll keep an eye on and adapt our processes to if it becomes easier and/or more cost-effective.*

the lang cat

6. How well do you think investment trusts are accommodated in other technology and processes that support your research and recommendations – such as risk profiling and risk ratings?

They're not accommodated as much as they should be. We're taking a suite from Defaqto at the moment on risk profiling and it doesn't cause us a huge problem because the risk profiling is divorced from the portfolio asset allocation, although you can do both together. Quite

often if you want a model portfolio, you'll find a lot of providers exclude investment trusts and ETFs. It can cause problems and we've had to adapt our processes for that.

the lang cat

7. How do you explain investment trusts to your clients? Does it differ from how you describe open-ended funds or is that not an issue at all?

Not really. We have a generic report which we send to all new clients which sets out the difference between open-ended funds, ETFs and investment trusts.

the lang cat

8. The PROD rules encourage a segmented approach to customer needs and ultimately their product and investment choices. How do you feel that your use of investment trusts fits into your suitability processes? For example, is there a specific customer type or set of needs that you think investment trusts are more suitable for?

We wouldn't use investment trusts for all of our clients because we have to consider things like the discount and the gearing. For example, if we've got particularly cautious clients, they'll probably tend to not have as much in equities. Therefore, to get full exposure to fixed interest securities we'd stick with mutual funds, especially passives.

The jury's still out on whether we can deal in trusts for clients with portfolios of £200k or less, for example. It's something we'll keep an eye on and adapt our processes to if it becomes easier and/or more cost-effective.

> *We've not had any liquidity issues so far, probably because we look at specific sectors. In fact, investment companies can avoid many of the issues that their mutual fund counterparts face.*

the lang cat

ASKS THE QUESTIONS

NUMBER 4

COLIN LOW

Kingsfleet Wealth

In collaboration with the AIC, the lang cat has produced a series of factsheets to highlight how a selection of advisers have adopted investment companies (or investment trusts) into their investment propositions. With our Dictaphones fully charged, we were curious to discover how advisers are researching investment companies, their opinion of how investment companies are accommodated on platforms/with providers and also the role regulation plays in their processes.

the lang cat

1. Why do you recommend investment trusts to your clients?

Providing the choice of investing in an investment trust is part of being an independent adviser. We feel they should be offered or considered alongside any open-ended funds. We don't see why they should be any different when it comes to comparisons.

the lang cat

2. Do you have any specific examples where you find investment trusts have advantages over some other investment types?

The ability to leverage is obviously there but I know that can be a plus and a minus. The ability to retain income and not pay everything out within a 12-month period. Obviously, we're very much aware of liquidity as an issue, but at least there's always a price for the trust. It will be whatever price people think it's worth.

the lang cat

3. Do you have a centralised investment process (CIP)? If so, how do investment trusts fit in?

Yes we do. I wear two different hats – one is the DFM business, which feeds into managing the underlying funds with the underlying client holdings, and the other is the IFA business. We use the DFM service for managing some clients and multi-manager and multi-asset for many others. We rarely recommend specific funds in the IFA business anymore.

We think investment trusts should be considered in any recommendation. The reason we outsource from the IFA business is exactly for that purpose; when we ran our own funds and portfolios we incorporated investment trusts, but we took the view that we need someone who could do that research for us.

the lang cat

4. How, if at all, does your research process for investment trusts differ from open-ended funds? Do you have sufficient tools available?

We outsource, but this does still come up in due diligence. For multi-manager we tend to work with smaller firms, so we know the process well and we know that they use investment trusts within their solutions, and that's one of the compelling reasons for using them.

"Providing the choice of investing in an investment trust is part of being an independent adviser. We feel they should be offered or considered alongside any open-ended funds. We don't see why they should be any different when it comes to comparisons.

> *It's about looking for opportunities as well – there can be some very good trusts out there trading at big discounts, but opportunities are being missed because of laziness and a lack of understanding. Too many advisers find reasons not to go down a certain route just because they don't understand it.*

the lang cat

5. Do you think that investment trusts present some challenges that don't apply to open-ended investments such as gearing, premiums or liquidity? Or do you view some of these aspects as offering additional advantages? Does this influence your process at all?

The net result over time is that it makes no difference; these things even themselves out. There are short-term issues to be managed, but that's what you employ a manager to do. Just a bit of extra understanding of how trusts work can illustrate how these various issues are handled by investment trust managers.

It's about looking for opportunities as well – there can be very good trusts out there trading at big discounts, but opportunities are being missed because of laziness and a lack of understanding. Too many advisers find reasons not to go down a certain route just because they don't understand it.

the lang cat

6. Are your choices of platform or product influenced by the fact that you recommend investment trusts?

Yes, absolutely. We carry out annual platform due diligence and one of the first questions we ask is whether you can buy investment trusts on the platform. And not just a handful, but all the trusts on the market and how easy it is to buy them.

It's my responsibility as an adviser to get the best for my clients. We have cautious, balanced and adventurous clients, but some will look at the adventurous portfolios and think they are not sufficiently adventurous for them, so we will use investment trusts within more bespoke arrangements so we can add risk and pursue extra opportunities.

If we weren't able to offer investment trusts we'd be working with one hand tied behind our back. We're great believers in not overlooking investment opportunities just because they are extra work. But fund groups have been very slow to get feet on the ground for investment trusts and many advisers are still not prepared to do the extra work or take the extra risk.

the lang cat

7. How well do you think investment trusts are accommodated in other technology and processes that support your research and recommendations – such as risk profiling and risk ratings?

We don't rely massively on tools like Dynamic Planner. When we first used investment trusts we decided to do so only in adventurous portfolios, because we were aware they could have a distorting effect on portfolio volatility. We wanted to understand them properly before we brought them into other portfolios.

In terms of technology, it's not ideal. We have to take an educated position and allow more leeway from a risk perspective. The various tools often don't really cater for investment trusts, which means that we are then having to make something of a judgement call.

the lang cat

8. How do you describe and explain investment trusts to your clients? How does this conversation differ from those about open-ended funds?

Our objective is to model risk in a portfolio rather than explain the different components. I use the cake analogy – you don't need to know the ingredients, but when you eat it you do know if there is too much or too little of something. It's about how you put the whole thing together rather than explaining the constituent parts.

Clients don't generally want to interrogate us; most are just not that interested. If clients do want to know, we explain pricing, premiums and discounts, borrowing and how investment trusts tend to behave in rising and falling markets.

Underneath it all, what governs returns generally is how good the manager is.

the lang cat

9. The PROD rules encourage a segmented approach to customer needs and ultimately their product and investment choices. How do you feel that your use of investment trusts fits into your suitability processes? For example, is there a specific customer type or set of needs that you think investment trusts are more suitable for?

We carry out annual due diligence that we apply to every aspect of our business, looking at what we do and how we justify doing it. We've tried our best to get information from firms and platforms to model for PROD. But it's hard to find fund groups who know what we're talking about when we talk about PROD, and the same goes for platforms.

> *We carry out annual platform due diligence and one of the first questions we ask is whether you can buy investment trusts on the platform. And not just a handful, but all the trusts on the market and how easy it is to buy them.*

We model solutions against client needs and their risk profile and PROD is actually a bit too generic, because we want to drill down further into different outcomes.

PROD is easy if you've only got eight or 10 different outcomes, but what we're dealing with is much more fully formed.