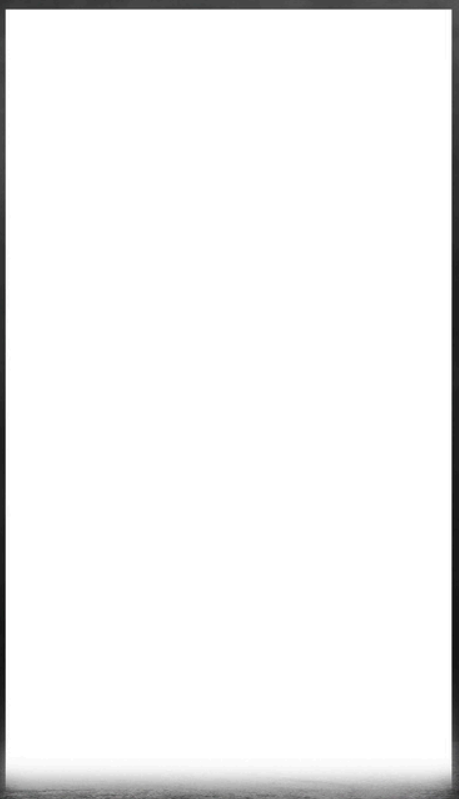
Asset Risk | Consultants

Monthly macro focus

October 2026

Investment trusts - the price of permanent capital





Macro focus

Investment trusts: the price of permanent capital

> *Capital returns can undermine long-term ownership, but a painful exit price does not mean the structure has failed*

Pressure to return capital can gradually erode the investment trust structure that makes long-term ownership possible. Investment trusts protect long-term portfolios from investor exits: shareholders can sell without forcing the manager to sell assets. That makes the structure well suited to private equity, infrastructure, property and private debt.

The recent evidence is mixed: fundraising recovered, but buybacks far outweighed it. Existing trusts raised £575m in the first half of 2026, compared with £221m a year earlier, although there were no initial public offerings. Buybacks reached £4.1bn, with large tender offers providing further exits. That followed £10.2bn of buybacks in 2025. Meanwhile, the Association of Investment Companies' September update reported narrower average discounts and improving sentiment among surveyed discretionary managers who already use trusts. Demand has not disappeared; the question is which vehicles can retain a viable investor base.

When buybacks become retreat

Buying back shares below net asset value (NAV) can benefit remaining shareholders. It also shrinks the capital base. Unless portfolio growth offsets that shrinkage, fixed costs weigh more heavily and attracting buyers who need meaningful trading capacity can become harder. Size does not guarantee liquidity, and small specialist trusts can thrive. But repeated capital returns need to be judged as a strategy, not simply celebrated as NAV accretion. Cash may be better used to repay debt, meet investment commitments or strengthen the portfolio.

For private assets, boards must test delayed distributions, falling valuations and more expensive refinancing. Equally, preserving scale cannot justify retaining capital that shareholders could receive on better terms. Permanent capital is not a permanent mandate.

Different wrappers, the same exit problem

Partners Group illustrates the limits of both structures. Its listed private equity trust suffered poor performance and traded at roughly a 40% discount to NAV. Demand for an exit led to the withdrawal of a proposed dual-class reorganisation; shareholders approved a managed wind-down on 7 October 2026. The discount was not simply a verdict on the wrapper: results mattered, alongside possible concerns about valuations, costs and realisation times.

Its €6.6bn Global Value SICAV faced a different expression of dissatisfaction. In June, the flagship evergreen private equity fund capped withdrawals at 5% of NAV per quarter after requests reached an estimated 9.8%. Third-quarter requests hit the cap again. Partners Group subsequently proposed separating older assets into a distributing fund and newer investments into a compounding fund, subject to shareholder approval.

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Bloomberg also reported proposed fee reductions and a cut in the net redemption threshold from 5% to 2.5% of NAV for new share classes from 30 October. Shareholder approval for the restructuring was due to be sought in November.

These are different portfolios, not a controlled comparison of identical assets. Nevertheless, the contrast matters. Trust investors seek an exit through the share price and pressure for capital returns; evergreen investors request redemptions under the fund's dealing terms. Changing the wrapper does not make private assets liquid. One puts the friction in the price, the other in the queue.

Patience needs a plan

Discounts can reflect doubts about the manager, valuations or the asset class, as well as too few buyers. Boards need to identify the cause before choosing the remedy. For private assets, compare realised proceeds with prior carrying values and examine what remains after the easiest assets are sold. One successful disposal does not validate the whole portfolio.

Set clear triggers for a manager review, a compatible merger search or an orderly return of capital. To inform those decisions, track cash generation, leverage headroom, costs and share-trading depth alongside the discount.

Where a trust cannot sustain sufficient scale, a merger deserves consideration, but only on fair terms with a credible combined strategy. If no transaction improves shareholder outcomes, orderly realisation may be preferable. Preserving the structure does not require preserving every trust.

Investment trusts protect portfolios from routine redemptions, not shareholders from a painful exit price. That protection deserves a fair comparison with the gates, queues and changing terms of semi-liquid alternatives. Not every discounted trust is a bargain. But an openly quoted cost of exit is not, by itself, evidence that the structure has failed.

Investors should judge the credibility of the route to shareholder value, not just the size of the discount or the promise of an easier exit.



Dr James R Cooke, CFA
Director of Research
james.cooke@assetrisk.com

Investment trusts involve risk. Share prices and NAVs can fall, discounts can widen, and investors may receive back less than they invested. Gearing and exposure to illiquid or privately valued assets can increase volatility and losses.

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Market commentary

October proved difficult for equity investors, with returns weakening across several regions.

Technology shares lost some momentum as questions around the scale of AI investment came into greater focus, while weakness was also evident across a number of emerging markets. Bond markets provided a more positive backdrop, with government bond yields declining from the elevated levels reached in September.

Elsewhere, energy prices also increased, as renewed tensions in the Middle East pushed Brent crude oil to $118 per barrel. With considerable refining capacity damaged, the spread between crude and refined prices will now likely remain elevated for years to come.

In the US, inflation rose by 0.6% in September and by 3.7% over the previous 12 months. The Federal Reserve held interest rates unchanged at its October meeting, following the 25bp increase in September. US government bonds performed strongly, as Treasury yields fell back from their September highs. Political attention also turned towards the US midterm elections on 3 November, with control of both the House and Senate at stake.

Bonds rallied as Treasury yields retreated, despite inflation remaining elevated.

In the UK, the government's first budget maintained the existing fiscal rules and left £15bn of fiscal headroom in 2029 to 2030, broadly in line with market expectations. The response from UK gilts was relatively muted following the announcement. However, the budget was delivered against a backdrop of rising inflation, with CPI at 3.5% in the 12 months to September, up from 3.1% in August. UK equities were among the better performing major equity markets during October, driven by energy, consumer staples and healthcare sectors.

UK equities held up well as the Budget produced little reaction in gilt markets.

In the eurozone, inflationary pressures continued to increase, with annual inflation estimated at 4.0% in October, its highest level in three years. The European Central Bank maintained its deposit rate at 2.5% during October, following the increase in September. French government bonds did not participate in the wider bond market rally, as concerns over the country's fiscal position and political outlook continued to weigh on French debt and sentiment likely damaged by continuing rioting in Paris.

Inflation continued to rise, while French fiscal and political concerns weighed on its bond market.

In emerging markets, equities experienced a challenging month, with some of the largest declines occurring across Asian markets with significant exposure to the technology sector. Brazilian equities also fell sharply following Lula's unexpected presidential election victory.

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