

INVESTMENT TRUSTS – A BOARD RESPONSE

FIDELIO OVERTURE



ACTIVISM AT THE GATE: HOW INVESTMENT TRUST BOARDS MUST RESPOND

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The UK investment trust sector is facing an unprecedented wave of activism, with Saba Capital at the forefront. In an initial phase, the firm requisitioned Extraordinary General Meetings (EGMs) to replace Boards at seven trusts—shareholders overwhelmingly rejected these proposals in recent weeks. Now, Saba is advocating for the conversion of trusts into open-ended funds.

Persistent Net Asset Value (NAV) discounts and governance concerns have created an environment ripe for disruption—an activist’s market. This analysis examines the challenges confronting the sector, unpacks Saba’s strategy and demands, and provides a roadmap for investment trust Boards to strengthen governance and regain investor confidence ahead of their Annual General Meetings (AGMs).

THE INVESTMENT TRUST SECTOR’S CHALLENGES

BACKDROP

Investment trusts are a significant part of the UK financial market, with around 300 trusts managing approximately £266 billion in assets as of December 2024. These closed-ended funds invest across a broad range of asset classes, from equities to alternatives, offering investors a structure that allows managers to take a long-term investment approach without

concerns about redemptions. Unlike open-ended funds, investment trusts trade on stock exchanges, with share prices fluctuating at a premium or discount to NAV.

The sector faces multiple headwinds, contributing to persistent NAV discounts, which averaged 15% at the end of 2024. Key challenges include:

- **Macroeconomic Pressures** – Higher interest rates and inflation have dampened investor appetite for certain asset classes.
- **Market Outflows** – UK equity markets continue to experience fund outflows, affecting both investment trusts and open-ended funds.
- **Performance & Fees** – Many trusts face criticism over prolonged investment underperformance and high fees.
- **Regulatory Disclosures** – FCA fee disclosure rules create an unfavourable comparison with open-ended funds, making investment trusts appear more expensive.
- **Governance Scrutiny** – Institutional shareholders are pushing for stronger Board independence and enhanced diversity.

While some of these pressures affect both open-ended and closed-ended funds, others are unique to investment trusts. In response to sustained NAV discounts, 2024 saw a record 10 mergers and £7.5 billion in share buybacks, as Boards sought to enhance shareholder value and liquidity.

Despite these efforts, the sector is at a crossroads, with some describing its challenges as existential. The involvement of activist investors—most notably Saba Capital—has intensified governance scrutiny, raising fundamental questions about how investment trust Boards operate.

THE ACTIVIST ATTACK ON THE SECTOR: SABA'S STRATEGY AND PROPOSALS

PHASE 1: EGMS AND BOARD REPLACEMENT ATTEMPTS

In December 2024, Saba launched Phase 1 of its campaign, requisitioning Extraordinary General Meetings (EGMs) at seven investment trusts where it holds around £1.5 billion in assets. It sought to replace entire Boards with two of its own nominees and introduce liquidity measures such as tender offers and share buybacks, enabling shareholders to exit their positions. Saba also proposed changes to investment mandates and manager arrangements, including positioning itself as a potential investment manager and advocating for fund consolidation.

This approach raised concerns over conflicts of interest and whether its proposals aligned with long-term shareholder value. The targeted investment trust Boards urged shareholders to reject Saba's resolutions, warning of risks related to abrupt shifts in investment strategy, management, and fees.

All seven EGMs have now taken place, and Saba failed to secure a majority on every occasion, gaining only limited shareholder support. This outcome was unsurprising, given the regulatory concerns surrounding its approach. Attempting to replace entire Boards with its own nominees while simultaneously positioning itself as an investment manager conflicted with UK regulatory requirements on Board independence, including FCA listing rules and the AIC Corporate Governance Code.

PHASE 2: A SHIFT IN STRATEGY

Following the failure of its Phase 1 strategy, Saba launched Phase 2 of its campaign on 10 February, urging shareholders at four investment trusts to support resolutions seeking the conversion of trusts into open-ended funds.

CONCERNS ABOUT BOARDS AND GOVERNANCE

Investment trust Boards wield significant authority, overseeing key decisions such as appointing investment managers, determining share buybacks and dividends, and assessing mergers or wind-ups. However, their effectiveness and independence have come under increasing scrutiny.

Critics argue that many Boards are composed of individuals with similar backgrounds, often referred to as "City types," which can limit diversity of thought and result in governance complacency.

KEY RESEARCH FINDINGS

Research by institutional investors highlights key concerns:

- **Board Composition:** [Quilter Cheviot's 2023 report](#) on 41 equity investment trusts concluded that most have room for governance improvement. It raised concerns about Board composition—most notably in terms of diversity and fresh perspectives. The study found Directors serving beyond the recommended nine-year tenure without plans to address this and flagged the presence of non-independent directors as a potential conflict of interest
- **Responsiveness and Transparency:** Newton Investment Management's 2024 research found a lack of responsiveness to shareholder concerns and called for greater transparency in decision-making, particularly regarding NAV discount management. The study also advocates for more diverse Board backgrounds, increased independence, and deeper operational expertise to strengthen governance.

These findings underscore the urgent need for investment trust Boards to reassess their composition and governance practices to better serve shareholders.

THE ACTIVIST OPPORTUNITY AND BOARD VULNERABILITY

Activists target situations where valuation concerns, investment underperformance, and governance weaknesses converge. When these factors erode investor confidence, both retail

and institutional investors grow impatient, creating conditions where activists can more effectively push for change by rallying other shareholders.

While Saba failed in Phase 1 due to the nature of its proposals—and is likely to fail again in Phase 2 given the high majority threshold required for conversion—an activist with a more constructive and nuanced approach could succeed. Persistent NAV discounts, weak performance, and governance concerns at several investment trusts create fertile ground for future activism.

WHAT BOARDS CAN DO NOW TO ADDRESS GOVERNANCE CONCERNS

With activism and governance scrutiny intensifying, investment trust Boards need to take decisive steps to enhance governance and rebuild shareholder confidence ahead of AGMs.

KEY ACTIONS

A. Strengthening Board Composition and Effectiveness

- Conduct meaningful Board evaluations: Tailored reviews can provide insights into Board composition, dynamics, and effectiveness, with a focus on investment manager oversight and NAV discount management.
- Ensure independence and accountability: Proactive Board refreshment prevents excessive tenures, sector over-Boarding, and potential conflicts of interest, maintaining credibility and providing effective oversight.
- Enhance diversity of thought and expertise: Moving beyond a compliance-driven approach to independence, Boards should seek directors from a broader talent pool, ensuring a mix of skills, perspectives and industry expertise to strengthen decision-making.

B. Proactive Shareholder Engagement

- Improve transparency and communication: Engaging consistently with both institutional and retail shareholders via various channels, including direct dialogue and digital outreach, fosters stronger relationships and deeper understanding of shareholder concerns.
- Demonstrate responsiveness: Boards should clearly articulate how they are addressing governance concerns, reducing NAV discounts, and monitoring investment manager performance, with regular updates on progress against key targets.

HOW CAN WE HELP BOARDS

As investment trusts navigate growing activist pressure and heightened governance expectations, a proactive and strategic approach to Board effectiveness and shareholder engagement is essential. Boards that embrace transparency, accountability and structural improvements will be best positioned to withstand activism while delivering long-term value.

Boards facing governance scrutiny and shareholder activism can benefit from specialist support in the following areas:

- **Board Performance Reviews** – Comprehensive evaluation of Board composition, structure, and effectiveness, ensuring alignment with best practices within the trust's specific context and maximising value contribution.
- **Board Search** – Identifying and securing high-calibre candidates with diverse expertise, fresh perspectives, and a governance skill set to enhance strategic oversight and decision-making.
- **Advice on Shareholder Engagement** – Helping Boards develop proactive engagement strategies, foster constructive dialogue, strengthen relationships and anticipate investor concerns, before issues escalate.

Fidelio is committed to helping Boards enhance performance and maximise their contribution to long-term value.

To learn more about how Fidelio can support your investment trust Board to increase its effectiveness and support valuation, including arranging a conversation with Hans-Christoph Hirt, please get in touch.

ABOUT FIDELIO

[Fidelio Partners](#) advises and supports Chairs to build and develop high performing Boards. We have an international track record in advising Chairs, building Boards, creating value for shareholders and stakeholders and effecting change through:

- **Chair Advisory**
- **Board & Executive Search**
- **Board Review**
- **Development & Succession**

For further information about how Fidelio can support your Board, please contact Gillian Karran-Cumberlege.

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