

INVESTMENT TRUSTS AND UNIT TRUSTS

If the funds with which you are concerned are not large enough to obtain this spread of investments which I regard as so essential to be sure of a satisfactory result, you need not necessarily be denied the advantage of investment in equities. This can be achieved by investing in Investment Trusts or Unit Trusts which, as you know, do themselves invest in a fairly wide spread of securities so that an investor in this type of investment does, in fact, spread his own risk.

The record of Investment Trusts and Unit Trusts in the past has been extremely satisfactory and I see no reason why they should not continue to do so in the future. I am often asked the question which do I prefer, the Unit Trust or the Investment Trust. My preference is for the Investment Trust. It is true that in a Unit Trust the whole of the dividends secured on the investments are distributed as income to the shareholders, whereas with Investment Trusts only a proportion (generally a generous proportion) is distributed and the balance carried to reserve. This latter process, however, has had the effect of producing increased income from the investment of those reserves, so that the effect of this conservatism is only evident in the early years of a Trust so that if one invests in a well established Trust, which most of them are, this point is of little consequence. The great advantage which Investment Trusts have over Unit Trusts is the question of gearing. They have in the past, when the market position has been favourable, been able to borrow money on debenture at reasonably low rates of interest and the excess income from the investments which they have made with this money accrues to the Ordinary shareholders.

Another important factor in favour of Investment Trusts is the

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very high cost of advertising and attracting members to join Unit Trusts, which is not a feature of Investment Trusts.

Unit Trusts also have a tendency to become a little gimmicky and, for example, we had a few years ago a Unit Trust set up to invest in shares concerned with the entertainment industry and the sponsors thought it necessary from a publicity angle to have Richard Dimbleby as one of the directors. Outstanding personality though he was in his own particular sphere, I have no evidence that he was an expert on investment, which is what the directors of an Investment or Unit Trust should be.

In a similar way another Unit Trust was set up with a special appeal to female investors, and there again it was thought proper to have Lady Barnett on the board.