Impact of fund fees revealed

By Alice Ross

Investment managers who run two versions of the same fund are consistently delivering higher returns from the cheaper versions, in a stark demonstration of the impact that fees can have on performance.

Professional investors managing both an investment trust and a unit trust have achieved better performance from the cheaper investment trust over all time periods studied, according to new research by analysts at Lipper.

Often, the portfolios are identical or very similar. But the lower performing unit trust versions of the funds charge investors more. On average, the better performing investment trust versions have fees that are half a percentage point lower – around two-thirds the cost of many unit trusts.

“To see in black and white that the impact of charges can turn around the performance is pretty striking,” said Ed Moisson, head of UK research at Lipper.

Investment trusts are usually cheaper because do not have to use their annual fee to pay commission to financial advisers.

Lipper’s research studied 34 fund managers over three, five and 10 year periods, comparing the mid price of investment trust shares with open-ended fund prices. Investment trusts outperformed unit trusts in 70 per cent of the cases studied.

For example, **Aberdeen New Dawn investment trust** returned 480 per cent to investors in the 10 years to the end of May – nearly one and half times the 323 per cent returned by the similar Aberdeen Asia Pacific fund. Both are run by Hugh Young.

Similarly, **Jupiter European Opportunities**, an investment trust, returned 220 per cent to investors over 10 years, compared with 160 per cent from the open-ended Jupiter European fund also managed by Alex Darwall – 38 per cent more.

“If you find that a manager is managing both an investment trust and a unit trust, it’s certainly worth checking out the investment trust, as you could be getting a much better deal,” said Moisson.

But investors were warned that they should check the portfolios of both investment trusts and unit trusts run by the same manager, as sometimes the strategy can vary.

Evy Hambro’s open-ended BlackRock Gold and General has a far heavier weighting towards gold, while he holds more in mining stocks in the BlackRock World Mining investment trust, for example.

Stephen Peters, analyst at **Charles Stanley**, points out that the Value and Income trust, run by Angela Lascelles, is exposed to commercial property, unlike the open-ended CF Olim UK Equity fund.

“If you want plain UK equity income then buy the open-ended fund. If you want the gearing and income from the property then buy the investment trust,” he says.

Investment trusts are also able to borrow money when markets are rising, helping them to outperform. But this can amplify losses when markets fall.