# INVESTMENT TRUSTS: BLUEPRINT TO LISTING

**Mobilist Product Platform**

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# 1. PREAMBLE

A flagship UK government programme, Mobilising Institutional Capital Through Listed Product Structures (MOBILIST) supports investment solutions that help deliver the Global Goals for Sustainable Development and the climate transition. MOBILIST competitively sources and selects dedicated emerging and frontier market investment products.

Through its research and policy activities MOBILIST strives to create an enabling environment for the proliferation of new listed products. This Blueprint to Listing report is designed to provide prospective issuers with clear and practical guidance on what is required to put together and list specific product structures.

# 2. INTRODUCTION

There exists a historical preference on the part of asset managers, project promoters, and businesses seeking to raise capital for sustainability themed funds, projects, and businesses in developing countries to do so through the private markets. There are good reasons for this, including the illiquid nature of the underlying assets in question, the underdeveloped state of public markets in many developing countries, and a general lack of familiarity on the part of major global public markets investors. Accordingly, specialist private markets investors, including especially the DFIs and MDBs, have generally been looked to for capital raising purposes.

At the heart of MOBILIST, and by extension its Source, Select, Support (S3) Process, is an understanding that public markets are vital to the SDG financing gap.

As part of MOBILIST's mission to stimulate SDG-aligned investment through the utilisation of public listed markets the programme seeks both to proactively make the case for public markets through its research activities, and to provide practical educational materials that can close some of the common knowledge gaps and misperceptions around the costs and complexities involved in listing on stock exchanges.

The MOBILIST Blueprint to Listing report is therefore intended as a practical, execution-focused document that provides clear guidance to product promoters who might otherwise be deterred by the perceived costs and complexities of the listing process. The report presents specific, up-to-date, and useable information, including step-by-step guides to completing a new listing.

The first chapter of the report focuses on the investment trust structure. Investment trusts, with their ability to provide liquid access to illiquid underlying assets, have seen great success in the last decade in channelling capital and especially for generating investment returns in the renewable energy sector. Thus far the focus has been on UK and European underlying assets but there is increasing evidence of appetite for similar exposure in developing countries, as exemplified by MOBILIST's first investment in the successful Thomas Lloyd Energy Impact Trust IPO.

The Investment Trust chapter of the report should be read as a practical guide that provides an overview of the structure and covers the key stakeholders and steps to market for any investment trust listing. The chapter complements the investment trust sector research note already published by MOBILIST.

# 3. INVESTMENT TRUSTS

## 3.1. What is an Investment Trust?

An investment trust is a form of listed closed-end investment company (CEIC) most prevalent on the London Stock Exchange (LSE). The structure pools investor capital into a permanent structure that invests in shares, debt products, property and other real assets, or a combination of each, to generate capital growth and income for shareholders.

They are known as "closed-end" investment vehicles (as opposed to "open-end" funds such as ETFs) because the volume of investment capital is fixed by the number of shares in issue. Investment trusts appoint an investment manager responsible for investment and portfolio management activities. The manager, and indeed all operations of an investment trust, is overseen by an independent board of directors that is elected by shareholders to monitor performance and protect their interests.

## 3.2. Benefits of the Investment Trust Structure

Investment trusts share some key features with open-ended structures such as low minimum investment sizes and the accessibility, familiarity, and regulatory protection provided by major stock exchanges. In the UK some of the protection comes through regulation of investment trusts through the Financial Conduct Authority (FCA).

In comparison to open-ended structures, there are several characteristics of investment trusts that make them a particularly appropriate structure for sustainable assets in the developing world. These characteristics are common to all listed CEICs and are covered in greater detail in the MOBILIST investment trust research note. They include:

- **Ability to invest in illiquid assets**
  - The closed-end nature of investment trusts means that assets do not need to be sold to provide liquidity for shareholders, which is accessed through the exchange of shares on a public market.
  - In open-ended vehicles it is necessary to liquidate underlying assets in order to facilitate investors selling their positions. In private vehicles there is, in most instances, no way in which investors can exit until the end of the life of the fund. However, as the shares of investment trusts are listed and traded, there is no requirement to sell underlying assets to allow investors to exit their position.
- **Active and independent governance**
  - Unlike most open-ended structures, an investment trust's independent board is fully independent from its appointed investment manager. It acts on behalf of shareholders to protect the company's mission, as enshrined in its prospectus.
  - This is an important additional layer of investor protection, specifically in markets with concerns around corruption or the rule of law.
- **Ability to use gearing**
  - Although most typically used at low levels, investment trusts can and do use gearing to move their offer up the risk/return spectrum.
- **Ability to retain earnings**
  - Investment trusts are able to retain a portion of their income, which allows them to protect income consistency to investors during times of higher market volatility.

### 3.3. Limitations of the Investment Trust Structure

In a sense, investment trusts are not dissimilar to listed corporates in that their market capitalisation can detach from their net asset value (NAV). This occurs due to the fact that share prices are driven by market sentiment and the relative demand for shares, which is in turn driven by the market's estimation of the future performance of a given sector or trust. It is also a result of lags in NAV reporting cycles, particularly when underlying assets are difficult to value.

The advent of a persistent share price discount to NAV can be cause for concern and investment trust boards adopt a variety of mitigating mechanisms. For example, should the discount breach a certain threshold over time, a commitment to buy back shares and/or provide shareholders with the option to undertake a continuation vote are common measures.

A further challenge is the relative liquidity available in the investment trust sector, particularly for newly issued trusts that typically launch in the £100-£300m range. Investing at these levels can be difficult for many institutions due to their own size and liquidity requirements. However, the LSE investment trust sector has a long-established market maker system, whereby brokers and investment banks agree to hold portions of an investment trust's shares which they sell into the market. This system facilitates the ongoing liquidity requirements of buyers and sellers and mitigates liquidity concerns to a considerable extent.

# 4. KEY STAKEHOLDERS

The creation of an investment trust from inception to listing requires considerable collaboration between its various stakeholders and service providers. As a first step it is crucial that its promoter has a firm grasp on all elements of the structuring project. This Blueprint provides potential promoters with a detailed list of required stakeholders and a step-by-step guide to managing the project.

Key stakeholders include a deal sponsor, independent board members, a full suite of service providers, and a source of funding to cover the structuring and launch costs. Of the service providers, the investment manager is the most crucial. It is based on their capabilities and track record that the investment trust will primarily be evaluated by investors and the broader market, and it will be through their services that returns will primarily be derived.

Below is an inventory of the key stakeholders necessary to structure an investment trust (IT) and details on the roles and responsibilities of each before and after the IPO:

### 4.1. Board of Directors

The IT's independent board acts on behalf of shareholders to ensure the company's mission, as built into the prospectus, is immune to drift.

- **Pre-IPO:**
  - Approving the creation of the IT and admission to the stock exchange.
  - Engagement with various service providers to understand roles and responsibilities, as the board will delegate most of its operational and investment management functions to the third party service providers described below.
- **Post-IPO:**
  - Focusing on delivering the highest level of governance and acting on behalf of shareholders to ensure the company fulfils its investment mandate.
  - Taking ultimate responsibility for approving all investments for the portfolio, incorporating the advice given by the investment manager.

- Managing the liquidity and issuance of stock in conjunction with the broker.
- Conducting board meetings, either annual or extraordinary meetings as required by regulators.
- Managing cash flows within the company.

- **Requirements:**
  - A high-profile independent chairman with solid credentials and experience of public, listed companies' boards will enhance investors' confidence.
  - Independent board members with relevant emerging and frontier market credentials and independent directorship experience.
  - Independent board members with relevant IT trading and financial markets experience.
  - At least one independent board member with audit committee experience.

- **Remuneration:**
  - Independent board members' remuneration should not be linked to the size and economics of the IT, ensuring their oversight responsibilities are not conflicted.
  - Each director is paid a modest fixed annual salary and the chairman and chairs of key committees could receive small premiums to account for additional workload.

### 4.2. Investment Manager

The investment manager (or "adviser" depending on the structure) is the most important service provider. They will source investments, carry out due diligence on behalf of the board, manage investee relationships, and help manage and monitor the IT's portfolio.

- **Pre-IPO:**
  - Conducting test marketing meetings, where the IT's strategy is highlighted and its approach can be scrutinised by potential investors.
  - Determining responsible investment strategies in conjunction with the board and deal sponsor.
  - Managers often provide a seed portfolio of aligned assets for the IT before its launch.

- **Post-IPO:**
  - The IT will enter into an investment advisory agreement with the investment manager, giving it a detailed investing mandate and leading to the construction of a bespoke portfolio.
  - Managing relationships with and conducting due diligence on prospective investees, and facilitating the IT's investments.
  - Presenting the board with in-depth quarterly reports on the portfolio.
  - Working with the investor relations adviser to publish a quarterly letter to shareholders and the annual impact report.
  - Managing the IT's cash position and investment and reinvestment cycle.

- **Requirements:**
  - Lengthy track record of investments in executing similar mandates to the IT's.
  - Institutional level of assets under management, and a proven ability to deploy meaningful amounts of capital and reinvest proceeds.
  - Experience in working within similar governance structures, i.e. reporting to an independent board of directors.

- **Remuneration:**
  - Fixed annual investment management fee as a percentage of the IT's NAV. Fee level will depend on the investment strategy and required capacity.
  - Performance fees are heavily scrutinised by investors and should only be considered if it can be clearly shown that the investment manager has the clear ability to add value to returns.
  - Managers are also often incentivised through the ownership of shares in the IT to ensure alignment between the manager and investors.

### 4.3. Sponsor and Broker

The sponsor and broker roles are typically carried out by the same institution. The sponsor role is to assess the IT's suitability for listing, while the broker function includes the placing of shares.

- **Pre-IPO:**
  - Acts as the sponsor and placing agent during the company's listing process and IT creation
  - Responsible for conducting test marketing, compiling marketing material and planning a roadshow.
  - Completes the fundraising process by making all necessary submissions and required stock exchange announcements.
- **Post-IPO:**
  - Manages the relationship between the IT and the stock exchange and regulatory authorities.
  - Advises the company's board on market movements and how to manage the company's share price.
  - Expected, in conjunction with other brokers, to make a market in the IT's shares.
  - Responsible for delivering ongoing roadshows in conjunction with the investor relations adviser.
- **Requirements:**
  - A dedicated IT sales team with strong connections to target investors.
  - Strong corporate broking functionality, including the production of marketing material, interactions with regulatory bodies, and working with the legal counsel.
  - A healthy balance sheet to provide investors with comfort that they will be able to support secondary market liquidity.
  - A strong brand to provide the IT's IPO with added credibility.
- **Remuneration:**
  - The broker's corporate finance fee is generally charged on a success basis. The sponsoring broker will also expect their legal counsel's costs to be covered, subject to an abort fee.
  - The placing fee for monies raised should also be on success and will be in the region of 1.5%.

## 4.4.Legal Counsel

The legal counsel's guidance on regulatory and compliance elements is crucial in the pre-IPO structuring phase. This includes drawing up the prospectus and the various contractual documents which are ultimately relied on by potential investors.

- **Pre-IPO:**
  - Formalise the relationships with all service providers through the provision of engagement letters and material contracts.
  - Draft, submit and publish the company's prospectus, along with the sponsoring broker and its separate legal adviser.
- **Post-IPO:**
  - Advise the board with regard to its tax, regulatory and legal compliance duties on an ongoing basis.
- **Requirements:**
  - In depth understanding of, and experience in, advising IT listings.
  - Good working relationships with the various service providers and regulatory bodies.
- **Remuneration:**
  - Generally a fixed fee with a maximum abort amount should the IPO be unsuccessful.
  - A proportional success fee associated with a lower fixed fee can be negotiated.

## 4.5. Administrator

The administrator's primary function is to calculate the IT's NAV on a quarterly basis.

- **Pre-IPO:**
  - Manage a timely set up process to ensure smooth transition post-IPO.
- **Post-IPO:**
  - Responsible for fund accounting and maintenance of the IT's accounting records.
  - Calculating the NAV for the IT on a regular basis.
  - Treasury services including the settling of investment activity and the payment of the IT's expenses.
- **Requirements:**
  - Strong experience in providing administrator services to other ITs investing in similar asset classes.
- **Remuneration:**
  - Typically a fixed annual fee and/or a basis points consideration subject to a minimum.
  - Certain variable and additional activity fees such as tax advice and desktop publishing may also apply.

## 4.6. Company Secretary

The company secretary maintains the corporate calendar and provides the official record of board meetings and decisions taken by the IT.

- **Pre-IPO:**
  - Incorporation of the IT as a public company.

- Arrangement of board meetings and establishing board papers procedures
- Advice on establishing board and committee governance structures and processes.
- Liaising with other providers in connection with IPO process.

- **Post-IPO:**
  - Maintenance of the corporate calendar and meeting coordination.
  - Attending Board and Committee meetings in a minute taking or advisory capacity.
- **Requirements:**
  - Strong experience in providing administrator services to other, similarly structured, ITs.
- **Remuneration:**
  - Fixed annual fee.

## 4.7. Custodian and Depositary

The custodian bank is responsible for the safekeeping of the IT's assets. Where the IT falls under the full Alternative Investment Fund Managers Directive (AIFMD) regime, the bank is required to play the compliance driven depositary role.

- **Pre-IPO:**
  - Managing a timely set up process to ensure smooth transition post-IPO.
- **Post-IPO:**
  - The depositary's duties include the monitoring of the IT's cash flows, and the verification of the ownership of its assets.
  - The depositary can act as global custodian and delegate the safekeeping of the assets of the IT.
- **Requirements:**
  - Strong experience in providing custody services to other ITs investing in similar asset classes.
- **Remuneration:**
  - A depositary fee is typically calculated as an annual percentage of NAV. Minimum fees may apply for smaller ITs.
  - In the event that the custodian also fulfils the depositary function an additional fee will also apply, dependant on NAV.

## 4.8. Investor Relations

Reporting on the activities of a development-focused IT to the broader public is essential. This is the responsibility of the investor relations service provider.

- **Pre-IPO:**
  - Working with the deal sponsor and broker to ensure that the IT has maximum investor exposure through the pre-IPO fundraising window.
- **Post-IPO:**
  - Maintaining the IT's website and managing investor communications.
  - Participating in new investor roadshows in cooperation with the corporate broker.
- **Requirements:**

- An ability to communicate the commercial and impact case effectively to different audiences.
- Experience in working with listed ITs and a deep knowledge of the investor base, especially their expectations around reporting.

- **Remuneration:**
- **Depending on the level of responsibility a fixed fee or a calculated percentage of NAV may apply.**
- **Some or all of these services may be provided by the investment manager and included in its fee structure.**

### 4.9. Reporting Accountants and Auditors

The reporting accountant and auditor functions are typically carried out by the same firm.

The reporting accountant role is forward looking and ensures investors that the IT's financial projections are sound.

- **Pre-IPO:**
  - Responsible for confirming the IT will have sufficient initial working capital post-IPO.
  - Confirming that the IT has established procedures that enable the board to make proper judgments as to the financial position and prospects on an ongoing basis.
- **Post-IPO:**
  - Conducting regular, at least annual, audits of the IT's accounts to reassure existing and potential investors.
- **Requirements:**
  - A firm with experience and credentials in the sector, preferably with a strong brand.
- **Remuneration:**
  - Reporting accountant and audit fees are typically fixed amounts that are dependent on an IT's proposed activities and complexity.
  - A one-off pre-IPO fee to be expected for reporting accountant services.
  - Annual audit fees vary according to the IT's size and strategy.

# 5. STEPS TO MARKET

Any prospective promoter of a new investment trust should be aware of the established set of steps that must be followed to a successful IPO. This section outlines these in simple, practical terms referencing the involvement of the various stakeholders at each point.

### 5.1. Step 1 – Build a Team

- **Purpose:**
  - A promoter is necessary to drive the structuring process, retain the services of the necessary providers, and undertake due diligence on, and appoint, board

members.

- An IT promoter should ideally be independent of the investment manager, as this creates a strong additional layer of governance in facilitating the implementation of a truly independent board.
- As they will ultimately be responsible for directing all necessary elements of the structuring and launch, team members must have abilities across several functions.
  - These include legal design and structuring, contractual negotiations, the functioning of public markets, marketing, PR, and investment sales.

- **Who's involved:**
  - A promoter organisation to direct the structuring and launch process.
  - Early partner organisations, such as grant funders and development influencers.

- **How it works:**
  - This toolkit is primarily intended for potential promoters who are interested in better understanding what is required to structure and launch an IT.
  - Such an organisation needs to consider several things at the outset, which include:
    - Who the team members will be and their abilities and time availability
    - How the project will be funded
    - What the broad IT mission and investment strategy should look like
    - Where the IT will be domiciled and listed
    - Where the team members will be based
    - Which organisations will be engaged to assist with conceptualisation
  - The above points must all be given due consideration before progressing to building a prototype ("Step 2") and incurring costs.
  - IT can be assumed that taking an IT from inception to launch will take nine to 12 months and require two or three professionals working full time.

The investment manager can also act as promoter, with the sponsoring broker taking on the additional role of project coordinator, but investors would still expect the board to be independent of the manager.

## 5.2. Step 2 – Develop a Prototype

- **Purpose:**
  - It is crucial for the success of the test marketing phase ("Step 3") that a clearly articulated prototype or blueprint of the intended IT is created.
  - Given that a development-focused IT will be a novel concept to most investors, such a prototype is necessary to elicit meaningful feedback and must therefore be comprehensive and carefully thought through.

- **Who's involved:**
  - Not all service providers need to be retained in order to build a prototype, but it will be necessary for legal counsel and the investment manager to create the initial structuring documentation and formulate the investment mandate respectively.
  - As described in "Step 1" it is useful to engage partner organisations, such as grant funders and industry influencers in defining the key features of the prototype.

- **How it works:**

- The promoter should have a clear initial vision for the nature of the IT and the particular problem it seeks to address.
- The specific investment mandate must be developed in conjunction with key early stakeholders, and in particular the investment manager.
- It may also be useful to get early-stage feedback from potential cornerstone investors at this stage regarding any broad parameters, prior to wider sampling at the test market stage.
- Legal counsel will ensure that all compliance elements are considered up front. It can also be helpful to draw up initial draft structuring documentation to give investors clear insight into the proposed IT, and therefore elicit the best feedback possible.
- Consideration should be given to both launch costs and ongoing costs at this point. To this end it will be necessary to engage with all other service providers outlined previously in order to establish indicative fee levels.
- Prospective brokers should also be engaged at this early stage in order to incorporate their specific market feedback.

### 5.3. Step 3 – Test it

- **Purpose:**
  - The overall costs of listing an IT on a major stock exchange are not significantly greater than those associated with the launch of alternate collective investment structures such as a Luxembourg SICAV or a limited partnership.
  - The binary nature of the IPO outcome does mean that the level of risk is higher. One can, for example, launch a SICAV solely with seed capital and grow the assets over a long period of time, and the first and second close cycle of limited partnerships allows for humble beginnings.
  - For ITs it is crucial to reach critical size at the first attempt.
  - The road to IPO of an IT therefore invariably involves a formal test marketing phase.
- **Who's involved:**
  - The sponsoring broker is responsible for organising this set of meetings, but input from the promoter and the investment manager can be useful in ensuring that the appropriate panel of investors will be approached for test marketing.
  - The investors selected need to have a good relationship with the broker or one of the other parties to ensure that the feedback is honest and constructive.
  - The panel needs to be wide enough to deliver meaningful results, but test marketing should be a snapshot like exercise that does not result in protracted marketing.
- **How it works:**
  - In person meetings are the preferred format, as they allow for a higher quality interaction. The broker and the investment manager need to be present.
  - These meetings should be approached as real-life fundraising meetings. Investors will not expect the legal documentation to be ready but will expect all the crucial aspects of the strategy and the structure to be defined, if not irreversibly so.
  - The goal is to get a concrete indication of interest and constructive criticism from investors. A half-baked plan will not allow them to provide either.
  - The feedback needs to be collected by the broker and should include an

indicative range of investment size, and whether this would take the form of a discretionary lump-sum investment or the aggregation of underlying advisory clients' orders.

### 5.4. Step 4 – Structure the Investment Trust

- **Purpose:**
  - There are a large number of documents required to structure and list an IT. They cover the IT's regulatory and listing authority submissions, marketing materials, service provider engagements, functioning of its board, and accounting sign-offs.
  - The full set of documents are required to:
    - Adhere to the high levels of regulatory oversight placed on a listed IT
    - Reassure all stakeholders and investors that the company's activities will be undertaken as advertised
    - Provide a solid foundation for the smooth operations of the IT post-IPO
  - The IT's prospectus, which is scrutinised and approved by the relevant regulatory body, is the most important document in the process. It is the primary tool used by investors to understand the IT, and it describes in detail the company's governance, service provider relationships, and investment mandate.
- **Who's involved:**
  - Documents are required to record and define all of the IT's engagements.
  - While the legal counsel and sponsor broker hold the pen on the important investor documents, including the prospectus, all service providers are required to either draw up or contribute to the documents underpinning their respective functions.
  - In total, at least 50 documents will need to be compiled. Each of these will either be drawn up, or reviewed in detail, by the legal counsel.
- **How it works:**
  - Having worked with the legal counsel to develop the prototype, the deal sponsor should already have good knowledge of the administrative work required to prepare the IT for its listing.
  - Legal counsel can be relied upon to guide all parties, and the sponsor broker will ensure that interactions with, and submission to, the regulatory bodies are handled.
  - The structuring documents required fall into the following categories:
    - **Preliminary:** Timetable, expense estimates, etc
    - **Marketing:** Presentations and verification notes
    - **Agreements:** Prospectus, placing agreement, service provider contracts, etc
    - **Board:** Minutes of initial and launch meetings
    - **Company:** Director documents, application to trade, etc
    - **Accountants:** Working capital sign off, financial position and prospects procedures memo, etc
    - **Comfort letters:** Supplied by various service providers to the sponsor broker
    - **Other:** Announcements, regulatory submissions, share certificate, etc
- **Output:**
  - Once all of the necessary documents are in place the IT will be in a position to list,

provided that sufficient capital is raised as described in “Step 5”.

### 5.5. Step 5 – Launch the IT

- **Purpose:**
  - The capital formation is a crucial stage of the life of an IT. The secondary market on which the model is based is a function of both the size and the diversity of the shareholder base at the IPO stage.
  - The fundraising process is far more focused and time constrained than is the case for OEICs and LPs – a typical investment trust IPO fundraising window will be around four to six weeks. This means that investors have a lot less time to conduct due diligence and approve an investment. This is an accepted fact in markets, like the UK, where ITs are an established feature of the investment landscape.
  - Because it is necessary to raise a critical mass of assets from a diversified client base, IT IPO roadshows are typically wider exercises than other fundraising processes.
- **Who's involved:**
  - A promoter organisation to direct the structuring and launch process.
  - Early partner organisations, such as grant funders and development influencers.
- **How it works:**
  - The sponsoring broker is responsible for building up the roadshow and acting as liaison with prospective investors.
  - Key investment professionals must attend every meeting. Investors are not satisfied with meeting only sales personnel in addition to the broker.
  - It can be useful to involve top management from the investment manager.
  - The investment manager must provide information on a timely basis.
  - Board members are typically not directly involved in the fundraising process.
- **Which investors to target:**
  - Attracting the correct mix of investors is crucial to the success of an IT post-launch.
  - For a new theme such as development, early cornerstone commitments are crucial to act as a credibility signal to the broader investor market. Such an investor needn't commit to more than 10 or 15% of the total raise.
  - Ideal cornerstone investors for a development-focused IT are foundations, DFIs, and other large institutions that are supportive of the sector.
  - Private banks, private wealth managers, and retail platforms are crucial investors in an IT, as they act as gatekeepers to large numbers of individual investors.
  - These gatekeepers are naturally risk averse when introducing new products and themes to their clients. It is therefore important to build a high-quality IT including an investment manager with a long track record.
  - It is the presence of a large and diverse contingent of investors, each making investment decisions for different reasons at different times, that drives the secondary market liquidity of an IT.

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