MILESTONE
WEALTH MANAGEMENT

# What are Investment Trusts?

An investment trust is a type of collective vehicle which is a listed company with its shares quoted on the UK Stock Exchange, and invests in the shares of other companies, fixed-interest securities, unquoted securities, property and other types of investments.

There are only a limited number of shares in issue just like any company listed on the stock exchange and the trust has an independent board of directors who are responsible for looking after shareholders' interests. They will in turn appoint an investment manager to manage the underlying investments who at anytime can be replaced should the directors of the company feel that is in the interests of the shareholders.

## How do they work?

As a quoted company, the share price of an investment trust is determined by the supply and demand for its shares on the stock market and therefore an investment trust's share price depends not only on the value of the underlying assets, it's net asset value (NAV) - but also on the demand for its shares.

When the market price of the trust's shares is less than its NAV, it is said to be trading at a **discount**. If its share price is higher than the underlying stock market value of the trust, it is trading at a **premium**. The discount is one of the main advantages of investment trusts, because it offers canny investors the chance to make extra profits. If you buy a trust when the discount is wide and sell when it narrows, you will boost your returns. Of course, you lose out if you get it wrong, which is why some say that the discount makes investment trusts riskier.

Some Investment Trusts continually trade at premium and this maybe for a number of reasons, such as the Investment Trust has only a small number of shares in issue, it is an extremely popular trust or it may offer a unique underlying investment portfolio within the trust that are not normally available. Some trusts also have the facility to be able to control the level of discount and premium their shares trade at, to try and protect investors.

## Gearing

Investment trusts can borrow money to buy more shares, while unit trusts cannot. This borrowing is often referred to as "gearing". If the manager is bullish he may want to 'gear' to buy extra investments which could make a greater return than the cost of the borrowing, this normally happens in rising markets. However, gearing can be a curse in a falling market because it magnifies a trust's losses. Not all trusts use gearing and for those that do, have strict controls in place on the maximum they can borrow.

## Where can you buy them?

You buy the shares in the same way as you would a normal company share, through a stockbroker, bank, via a WRAP provider, the fund management group that runs the scheme or through your adviser. Investments can normally be made on a regular basis or one-off lump sums however minimum premiums will apply.

## Are they expensive to buy?

There is no initial charge, but you will pay a stockbroker's commission on buying and selling which are typically between £10 and £20 per transaction and you will also pay stamp duty of 0.5 per cent on purchases which is applicable on all share prices.

**Notes:**
The information contained within this fact sheet provides a brief overview of this subject and should be considered as a guide and in no way constitutes any type of advice. The information is based on our current understanding of legislation and correct at the time of publication which is 5th April 2014. If you require any further advice on this subject please call us on 01372 464940.

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