

Your guide to investment trusts



An introduction to investment trusts

Investment trusts have been around for many years. In fact, the first one was launched back in 1868. They are a stock market listed investment, otherwise similar to unit trusts and open ended investment companies (OEICs). An investment trust pools together the money received from thousands of investors. The trust's manager then invests this money across a wide selection of shares or other investments they think will perform well.

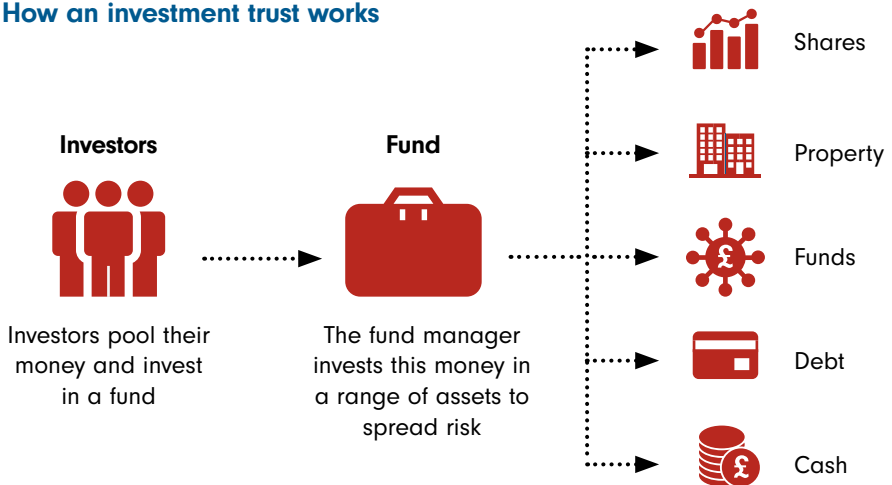
An investment trust is a diversified investment providing you with a ready-made portfolio of shares. You also benefit from the expertise of a professional investment manager. As an investment trust invests in the stock market, its value can go down as well as up. They are long-term investments and, as your adviser will explain to you, they should typically be held for a period of five years or more.

Within this guide we'll let you know more about how investment trusts work and how they differ from other stock market funds.

Please note that the value of investments and the income from them can go down as well as up, so you may get back less than you invest. It is therefore very important to take advice before investing.

Because they pool together money from thousands of different investors, investment trusts, unit trusts and OEICs are sometimes referred to as 'collective investments'.

How an investment trust works



The main features of investment trusts

While investment trusts are very similar to other fund investments, they have a number of distinct features. Over the next couple of pages we explain these differences in more detail.

Publicly traded on the Stock Exchange

The word 'trust' is misleading. Investment trusts are actually public limited companies (PLCs) listed on the London Stock Exchange. They are owned by the shareholders (the investors). As a PLC, an investment trust must have a board of directors independent of the fund manager. The directors ensure the trust is managed in the best interests of the shareholders. Every investment trust must hold an Annual General Meeting for shareholders and publish annual accounts.

The share price changes in real time (intraday) as based upon demand and this predominantly reflects the value of the trust's investments. If you want to buy shares in an investment trust, your adviser can arrange this for you through Fidelity.

The number of shares is fixed

Unlike other funds, investment trusts have a fixed number of shares in issue. This means there needs to be a corresponding seller or buyer if you want to buy or sell shares in a trust.

Having a fixed number of shares means an investment trust's manager can take a long-term view. This is because they know the trust has a stable capital base – money is not constantly flowing into and out of the trust. In contrast, a unit trust or OEIC manager has to sell investments if there are more sellers than buyers in the fund.

As investment trusts have a fixed number of shares, they are called 'closed-ended' investments. Conversely, unit trusts and OEICs can create and cancel shares according to demand and so are known as 'open-ended' investments.

It also means an investment trust's share price is influenced by market demand:

- If demand is high, shares can trade at a price above the value of the trust's investments. When this happens, a trust is said to be trading at a 'premium'
- Conversely, when demand is low, shares can trade at a price below the value of the trust's investments. This is known as trading at a 'discount'

This is an important difference to unit trusts and OEICs – their share prices simply reflect the value of the investments held within the fund.

The ability to borrow money

Investment trusts can borrow money to make additional investments. This is known as 'gearing'. Unit trusts and OEICs are more limited with the option of borrowing money to invest.

Gearing allows the manager to take advantage of additional opportunities in the market, although to be successful the return must outweigh the cost of borrowing the money. It can enhance the returns you make but it can also increase risk. So while gearing can boost gains, it can also magnify losses.

How can I find out if an investment trust has any gearing?

Simply view the trust's factsheet on our website ([fidelity.co.uk/clients](https://www.fidelity.co.uk/clients)). Alternatively, you can ask your adviser whether a trust has borrowed any money or not.

Dividend income can be more consistent

Investment trusts pay out the dividends they receive from their investments to shareholders. However, unlike unit trusts and OEICs which pay out the full amount they receive, investment trusts have more flexibility. They have the ability to retain up to 15% of the income they receive in any given year. This allows the manager to boost dividends in future years when dividend payments may be lower, resulting in a smoother income for shareholders from year to year.

What income options do I have?

You have three income options for our range of investment trusts:

- Taking dividends as income
- Automatically using the dividend to buy more shares in your chosen trust
- Moving dividends to your cash account to facilitate fees and charges

What charges and fees will I pay?

There are some charges and fees to pay when you invest in an investment trust:

- **An ongoing charge** – this varies from trust to trust and includes the fund manager's Annual Management Charge and other expenses such as legal and audit fees
- **Stamp Duty** – you pay Stamp Duty of 0.5% when you buy a UK investment trust listed on the London Stock Exchange (you do not pay this when you sell shares)*

*Financial Transaction Tax (FTT) applies to purchases of some European exchange-traded instruments, including some domiciled in Europe and traded on the other exchanges, such as the London Stock Exchange (LSE). It is charged as a percentage of the transaction value, and may vary between countries.

- **A bid-offer spread** – as investment trusts are traded on the stock market, a 'bid-offer spread' applies when you buy and sell shares. This varies depending on the volume of shares being traded at any given time and is typically in the range of 0.05% to 2.5%

Some investment trusts also have a performance fee, which is only charged if the trust performs well. In addition, platform charges and advice fees may apply (your adviser will explain these to you in more detail).

How do I find out the charges for an investment trust?

The charges are shown on the trust's factsheet on our website ([fidelity.co.uk/clients](https://www.fidelity.co.uk/clients)). Alternatively, your adviser can give you all the information you need.

Investment trusts and Fidelity

We offer over 190 investment trusts from leading investment managers. These include trusts investing in the UK, Europe, US, Asia or Japan. Global options are available too as well as ones with a focus on dividend income. They can be held within our Pension, ISA or Investment Fund Accounts and you can view them alongside all your other investments in your online account.

This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to your adviser. Please note that withdrawals from a pension product will not normally be possible until you reach age 55 (57 from 2028). Eligibility to invest in our Pension or ISA and tax treatment depends on personal circumstances and all tax rules may change in the future.

Before investing, please ensure that you read the key information document relevant to your chosen investment so that you understand the objectives and risks.

For more information, simply talk to your adviser or visit our website (fidelity.co.uk/clients).

Investment trusts versus unit trusts/OEICs

	Investment trust	Unit trusts/OEICs
Shares listed	Yes, on the London Stock Exchange	No, they are unlisted investments
Number of shares	Fixed – they are ‘closed-ended’ investments	Variable – they are ‘open-ended’ investments
Cash flows	The number of shares is fixed and so the capital base is stable. This allows the manager to make long-term investment decisions	As the number of shares is variable, the manager has to buy or sell investments as money flows into and out of the fund
Pricing	Can be priced above or below the value of the trust’s investments if demand is high or low	The price always reflects the value of the fund’s investments
Gearing	Yes, the manager can choose to borrow money to invest	Limited options
Dividends	Can retain up to 15% of the dividend income received in a year (this is kept in reserve for future years)	All dividend income must be paid out to investors (although investors can reinvest this in the fund)

Getting the help you need

Like all stock markets funds, investment trusts come with certain risks. The value of your investment, and any income taken, can go down as well as up and you may get back less than you invested. It is therefore very important to take advice before investing. Your adviser will explain the risks to you and, after considering your needs and circumstances, will recommend whether they are right for you.

Need to know more?

If you have any questions or simply want more information, please speak to your adviser.

