The Association of Investment Companies

A guide to getting started

Find out what makes an investment trust tick

To find out more, read our other guides

Saving for your children's future?

Looking for more income?

A guide to ISAs

A guide to SIPPs

Available at www.theaic.co.uk or by calling 020 7282 5555

Time to consider investment trusts for your portfolio?

Investment trusts are listed companies that exist solely to invest. They allow you to make a single investment which gives you a share in a much larger portfolio.

Investment trusts are a type of collective investment which allows you to spread your risk and access investment opportunities that you wouldn't be able to invest in on your own.

Introduction

The Association of Investment Companies has more than 300 members, many of which have existed for more than 50 years. They include:

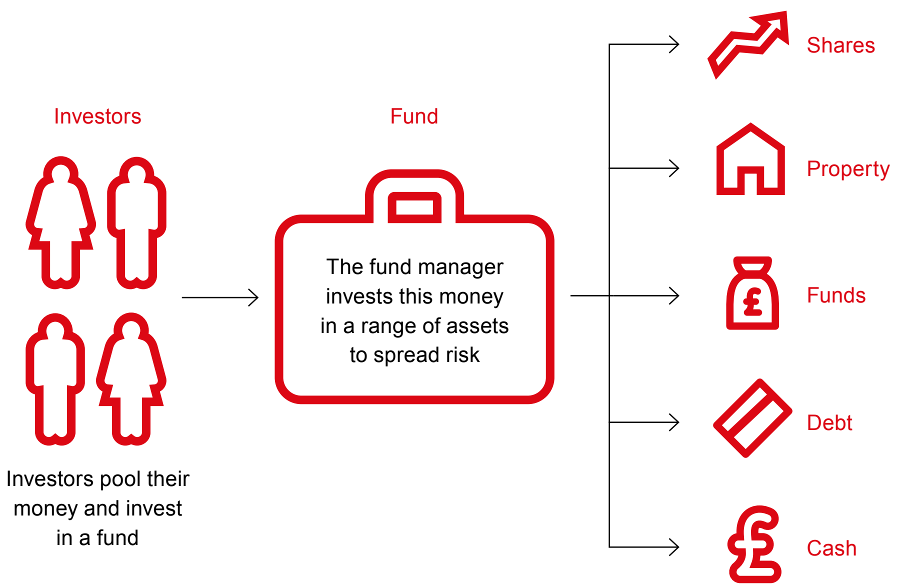
- investment trusts
- non-UK investment companies
- venture capital trusts (VCTs)

What are investment trusts?

All investment trusts are collective investment funds. A collective investment fund is an investment vehicle that pools together investors' money and invests it in a portfolio of assets to spread risk.

Investment trusts are primarily intended as long-term investments and can be higher risk. You should be prepared to hold them for at least five years, and preferably ten or more. You should not invest money that you cannot afford to lose.

How a collective fund works



Be prepared to hold on to your investments for the long term

The benefits

Investment trusts, like other collective funds, give you:

A way to spread your risk

Investment trusts own a range of investments, so you get access to a diversified portfolio. As you are not dependent on the success of just one or two investments, this spreads your risk.

Economies of scale

Managing your own portfolio can be expensive, as you have to pay dealing costs and other fees which can eat away at the value of your investment. With investment trusts, all money is pooled together so investors benefit from economies of scale.

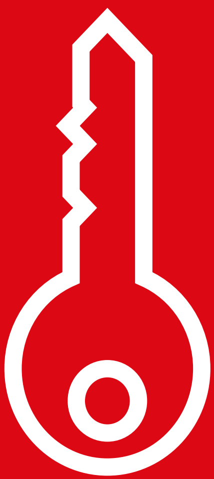
Expert management

Investment trusts use professionals to manage their portfolios. Most use an external fund management group to do this, but a few employ their own staff.

Flexibility and convenience

You can invest lump sum amounts or drip feed money on a regular basis, from as little as £50 a month, and stop and start at a time that suits you.

Investment trusts offer a wide range of investment opportunities



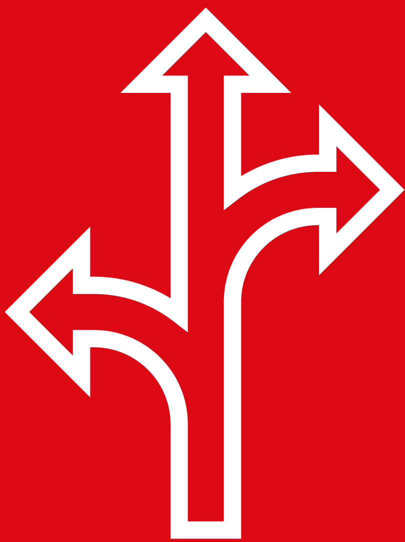
Easy access through the stock market

You buy shares in investment trusts on the stock market. Online dealing services, often known as platforms, mean you can buy and hold investment trust shares easily and cheaply.

A wider range of investments

Because the shares of investment trusts are traded on the stock market, the portfolio manager does not have to hold cash, or sell investments, to give you your money when you decide to sell.

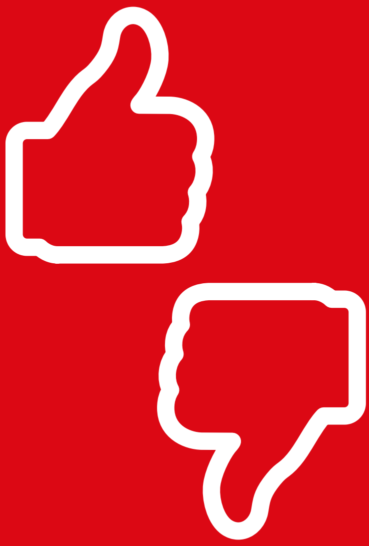
Being ‘closed-ended’ means investment trusts can invest in less liquid asset classes that other funds cannot offer, such as private equity, infrastructure and commercial property. These have the potential to deliver better long-term returns or higher levels of income.



More choice for a higher income

Investment trusts have a number of advantages over other types of fund when it comes to paying a regular income in the form of dividends. They can keep some of their income back in good years to maintain or boost dividends in leaner ones. Investment trusts can also invest in a far wider range of income-producing investments.

Though higher levels of income can come with increased risk, many investment trusts have been able to increase their dividends for decades.



Looking after your interests

Investment trusts have independent boards of directors who look after your interests as an investor. The directors meet several times a year and monitor the trust's performance. They can even replace the fund manager if the performance of the company is not satisfactory.

Magnifying performance

Investment trusts can borrow money to make additional investments ('gearing'). The idea is that the additional investments make enough money to meet the costs of the debt and make a profit on top. If it works, the more the company borrows, the more profit it makes. If the investments fall in value, however, the more the company borrows, the more it loses.

Gearing offers the potential for higher profits, but also increases the risks. However, not all investment trusts use gearing and most only use modest levels.

Market sentiment

An investment trust's share price is mostly driven by the value of its portfolio. However, it can also be affected by general sentiment towards the trust and other factors. As a result, the share price may be higher ('at a premium') or lower ('at a discount') compared to the value of the underlying investments. So, depending on when you buy or sell your shares, the returns you get may be better or worse than the returns on the underlying investments.

How to invest

With or without advice

If you are not sure whether, or which, investment trusts might be suitable for you, you should consider talking to a financial adviser. They can talk over your personal circumstances and recommend appropriate investments. Though you will need to pay the adviser for their time, it could save you a lot of money in the future.

If you invest without advice, you will need to select and buy your own investment trusts. You can do this by buying shares through an online share dealing service, also known as a platform.

Advice could end up saving you a lot of money in the future

ISAs, Junior ISAs and Self-Invested Personal Pensions (SIPPs)

These are not investments in themselves, but are types of accounts in which you can hold shares and other investments and receive tax breaks. The government offers these tax breaks to encourage people to save and invest.

Many online share dealing platforms offer ISAs, Junior ISAs and SIPPs. More details are available in the 'Invest & engage' section of the AIC website.

Regular saving

Depending on the type of platform you choose, you can opt to save regularly – from as little as £50 per month. Regular savings are an excellent way of reducing the risks of stock market investment. You can put away a little each month to smooth out stock market fluctuations or ease into riskier investments.

Regular saving helps smooth out ups and downs in the market

ISAs, Junior ISAs and SIPPs can be a valuable way to protect your investments from tax

Costs

Costs are an important consideration when investing. The greater the costs, the harder your investments have to work to deliver you a profit. There are a number of different costs you might incur depending on how you choose to buy investment trusts.

Dealing costs

- **Brokerage**
  You buy investment trust shares through the stock market, typically using an online platform. Dealing charges vary, but are often around £10 per deal with discounts for regular trading. More information is available in the 'Invest & engage' section of the AIC website.
- **Dealing spread**
  The dealing spread is the difference between the price you can buy and sell investment trust shares for. The bigger the spread, the more the price has to rise for you to make a profit.
- **Stamp duty**
  If you buy shares in UK based investment trusts, you will normally have to pay 0.5% stamp duty on the value of the shares. There is normally no stamp duty on overseas based investment companies. There is no stamp duty on the sale of shares.

Platform costs

In addition to dealing costs, platforms have other charges as well, for example a quarterly or annual charge for holding investments on the platform. More details are available on the AIC website.

Costs of running the investment trust

You can find out about all the costs incurred by an investment trust in its annual accounts, including any fees paid to the portfolio manager.

To help you compare investment trusts more easily, the AIC also provides 'ongoing charges' information for all its members on its website. This is a measure of the regular running costs of an investment trust, expressed as a percentage.

You can buy investment trust shares easily and cheaply online

Remember that costs will affect your investment returns

Key things to remember

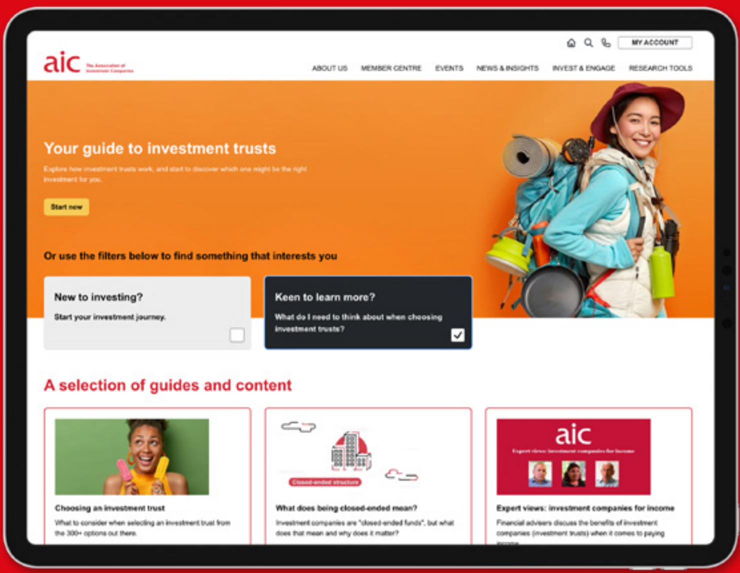
- Investment trusts offer you access to a wide range of different investments, some of which you can't access through other types of fund.
- Though investment trusts can deliver strong returns over the long term, they can be risky, particularly in the short term.
- Investment trusts have some unique advantages when it comes to delivering a regular income, but should not be considered a substitute for cash savings.
- Investment trusts are primarily intended as long-term investments. You should be prepared to hold them for at least five years, and preferably ten or more.
- With investment trusts, your income and capital is at risk and may fall as well as rise. You may not get back the full amount invested and, for higher risk investment trusts, you may get back nothing at all.
- If you are uncertain about whether, or which, investment trusts might be suitable for you, you should take financial advice.

Don't forget
If you are uncertain about whether, or which, investment trusts might be suitable for you, you should take financial advice

Be prepared
Make sure you understand the benefits and risks of investment trusts before you invest

Visit the AIC website to learn more about investment trusts

www.theaic.co.uk



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