Understanding Investment Trusts

Investment Trusts
An Investment Trust is a collective investment fund which pools together money from many investors. This pool of money is structured as a company with shares quoted on the stock exchange.

A professional fund manager invests the funds in shares of a wider range of companies than which most people could practically invest individually.

As a quoted company, an Investment Trust is 'closed ended', with a fixed number of shares issued. Conventional Investment Trusts issue only one class of ordinary share, usually offering shareholders a right to dividend distributions and the potential opportunity of capital growth.

Each Investment Trust sets out its investment policy when launched and this is reiterated in its annual report.

Investment Trusts can be structured to offer high income, whilst others focus on growth or a mix of both. Some Trusts specialise in certain countries or regions, whilst others target specific industry sectors.

Investment Trusts can gear or borrow to invest. This can magnify capital appreciation in good investment conditions, but increases the risk of capital loss in poor investment conditions.

A Trust can request its shareholders to agree a change in investment policy. Others specify a date on which they will be wound up, returning the proceeds from the sale of investments to its shareholders, whilst others ballot shareholders regularly to vote for the continuation or winding up of the Trust.

Because Investment Trusts are "closed ended companies" with a finite number of shares, the value of the shares can trade at a premium or at a discount to the Investment Trust's net asset value. The price you pay for shares in an Investment Trust will vary, depending on how popular the trust is. Too few buyers may cause the share price to drop, irrespective of how well the individual Trust holdings may have performed.

A widening discount can magnify capital losses and a narrowing discount can enhance capital appreciation.

Taxation
Income generated by an Investment Trust is taxable.

Dividend payments are made without deduction of tax with effect from 6 April 2016. Interest distributions are made without deduction of tax with effect from 6 April 2017.

Individuals have a £2,000 dividend allowance each year. Dividends in excess of the allowance are subject to income tax at the prevailing dividend tax rates; this is normally paid under the self-assessment regime although there are alternative payment methods available where dividend income is below £10,000. Further information can be found at https://www.gov.uk/tax-on-dividends .

On encashment, Capital Gains Tax is payable on any profit in excess of any Capital Gains Tax exemption.

Important Information
Our advice has been prepared based on our company's understanding of the current law and HM Revenue and Customs' practice. Whilst we believe the interpretation is correct we cannot guarantee it.

Tax treatment may change in the future.

PLEASE REFER TO OUR SEPARATE DOCUMENT 'GENERAL AND INVESTMENT RISK WARNINGS' FOR ADDITIONAL INFORMATION RELATING TO THE RISKS OF INVESTING.

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