UNDERSTANDING INVESTMENT TRUSTS

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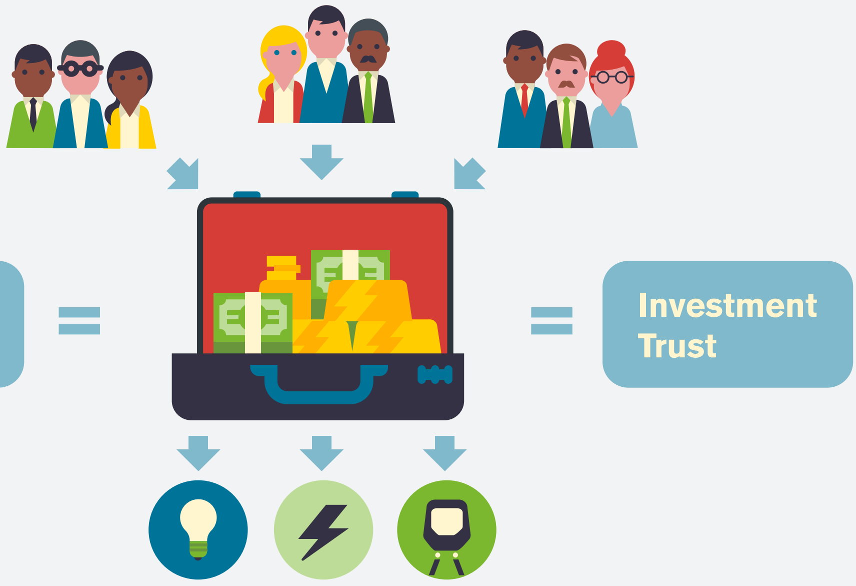
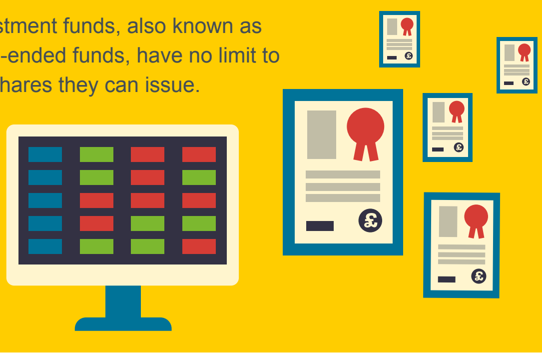
WHAT'S DIFFERENT ABOUT INVESTMENT TRUSTS?



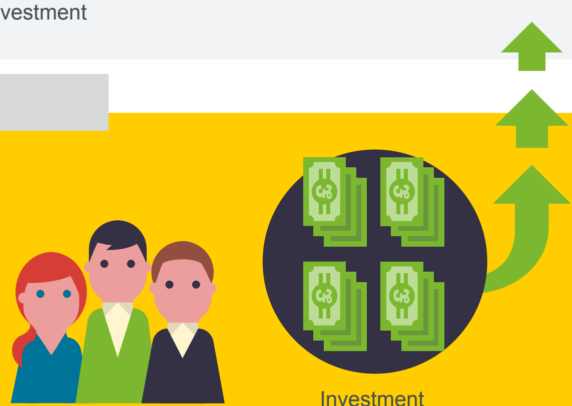
Both investment trusts and investment funds pool together money from different investors - they are both pooled or collective investments.

INVESTMENT FUNDS

Investment funds, also known as open-ended funds, have no limit to the shares they can issue.



When someone invests, more shares are created and the money raised from selling them is used to buy other assets.



INVESTMENT TRUSTS

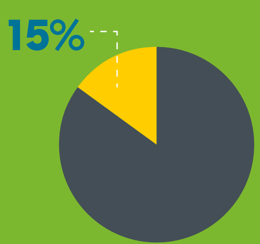
Fixed number of shares

Investment trusts, or closed-ended funds, issue a fixed number of shares, which gives the fund manager greater control over the fund's assets and creates long term stability.

They can also borrow money to acquire more assets, and can put aside revenue so dividends can be paid in tougher times.

WHAT ADVANTAGES DO INVESTMENT TRUSTS HAVE?

INCOME MANAGEMENT



- Unlike investment funds, an investment trust does not have to pay all of its income each year.
- It can retain up to 15% to smooth out income payments over time.

LONG-TERM VIEW

Trust managers are able to take a long-term view of the companies they choose to invest in, as investors investing in the trust are more likely to invest their money for longer periods of time.

GEARING

- An investment trust is allowed to borrow to enhance returns in rising markets to take maximum advantage of opportunities. This is known as gearing or leverage.
- If a trust uses gearing in a falling market, losses will be magnified.