RSMR

Investment Trusts

2015

GUIDE

RSMR INVESTMENT TRUST

Experienced. Professional. Trusted.

Contents

About us

Established in 2004 RSMR provides research and analysis to firms working across the UK's personal financial services marketplace.

Our work is made with total impartiality and without any conflict of interest and delivered to a high professional standard by a team of experienced and highly qualified people.

Working with advisers

We provide specialist research, analysis and support to a diverse range of financial advisers and planners helping them to deliver sound advice to their clients backed by rigorous and structured research and due diligence.

The main regulatory body in the UK, the FCA, states that personal recommendations made by advisers should be 'based on a comprehensive and fair analysis of the relevant market' and this has led to closer scrutiny of the whole advice process. Our solutions are designed to help advisers meet these challenges whilst recognising that advisory firms require a range of flexible options that best meet their own business needs and those of their clients.

Working with providers

We work with all the leading fund groups, life and pension companies and platform operators across the financial services sector offering straight forward and pragmatic advice to help add value and improve their business performance and efficiency whilst treating customers fairly in line with FCA requirements.

Ratings

Our innovative range of ratings are now recognised as market leading and cover a broad area of investment solutions including single strategy funds, SRI funds, Multimanager and multi-asset funds, and investment trusts. Our familiar 'R' logo is now recognised as a trusted badge of quality by advisers and providers alike and a 'must-have' when selecting funds. Our ratings are founded on a strict methodology that considers performance and risk measures but places a greater emphasis on the ability of fund managers to continue to deliver performance in the years ahead based on our in-depth face-to-face meetings with fund managers across the globe.

We understand financial services and we will work alongside you to deliver tailored solutions that are right for your clients and your business.

We are: Experienced. Professional. Trusted.

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RSMR RATED FUND · RSMR SRI RATED FUND · RSMR FUND RANGE · RSMR INVESTMENT TRUST

Introduction

In the aftermath of RDR, regulatory pressure has become increasingly complex. One particularly important question that all advisers are asking is – 'how can I successfully demonstrate my independence by offering a full range of retail investment products to my clients?'

In this environment, it's important that you think carefully about the range of solutions that you are offering your clients – and the use of investment trusts has become an increasingly important issue. Whilst investment trusts have always been an option for advisers, lack of access via platforms and underlying complexity has often been a deterrent. Although the issue of complexity still remains, access is improving and wider use by retail investors is beginning to increase demand.

In response to these issues and as part of our ongoing commitment to helping you choose the most appropriate investments for your clients, RSMR is expanding its research into this important area of the market.

This guide is designed to help you consider the pros and cons of investment trusts and decide when it's appropriate to consider including them in a client portfolio. It will also introduce you to the new RSMR Investment Trust Rating and explain the methodology that we use to generate this rating.

"If a firm cannot or will not advise on a particular type of retail investment product, and that product could potentially meet the investment needs and objectives of its new and existing clients, then its advice will not meet the standard for independent advice."

(Retail Distribution Review: Independent and restricted advice, Finalised guidance 2.15)

Continuing Professional Development (CPD)

This guide has been created to help advisers better understand the area of Investment Trusts. The content can be considered for both structured and unstructured CPD hours, depending how this activity addresses each individual's personal development needs.

Structured CPD is the completion of any formal learning activity designed to meet a specific learning outcome (this is what an individual is expected to know, understand or do as a result of their learning).

Unstructured CPD is any activity an individual considers has met a learning outcome, but which may not have been specifically designed to meet their development needs.

Overall Learning Objectives

To understand the Investment Trust market.

To understand the main features of Investment Trusts and the investment risks involved.

To understand how Investment Trusts can be considered as part of an investors' needs.

To understand the circumstances in which investment trusts can have a place in investors' portfolios.

To understand the RSMR methodology as it applies to the rating of Investment Trusts.

Online test

We suggest that you can spend around 45 minutes reading this guide and then complete our online test accessible at - www.rsmgroup.co.uk/CPD

If you pass with 70% or over, you will get a CPD certificate and this can be included as one hour towards your CPD requirements.

The Investment Trust Market

Investment trusts are the world's oldest form of collective investment and have been in existence for over 150 years. Despite being around for longer, they haven't proved as popular with investors as open-ended funds. Figures from the Investment Association (IA) show that there are 2500 open-ended funds, holding £806bn under management. This compares to figures from the Association of Investment Companies (AIC) – the representative body for the investment trust industry – showing £119bn under management in around 400 investment companies.

	AUM	Funds/Companies
Open Ended Funds	£819bn	2500
Investment Trusts	£119bn	450

Source: Data from IA and AIC as at October 2014

Investment trusts are a form of collective investment that provide investors with a diversified pool of assets. They are commonly referred to as 'investment companies' and are listed on the stock exchange. Investment trusts raise money by issuing shares, much like the IPO of a newly-listed public company, with the sole purpose of making money for their shareholders by investing in a variety of assets.

Shares in investment trusts are typically only issued once, when the company is first launched. This means that the number of shares and the amount of money raised is fixed at the outset and this is the reason why they are commonly referred to as closed-ended investments. An investment trust can subsequently buy back shares or issue new shares, but this is not done on a regular basis.

Investment Trust Sectors

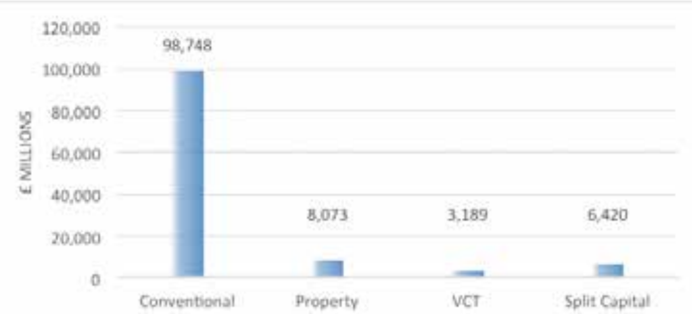
Investment trusts are categorised into various investment sectors. The AIC is increasingly renaming and aligning its sectors with the IA sectors, with 14 sectors currently common across the IA and the AIC. Over half of the total assets managed under the investment trust structure are managed in the overlapping sectors.

Sectors are split into 4 broad groups, which include separate subgroups. The constituents are as follows:

Conventional	Global equity, regional equity, sector equity, infrastructure, hedge funds and private equity.
Property	UK, European and Asia Pacific property.
Venture Capital Trust (VCT)	Generalist VCT and sector specialist.
Split Capital Companies	Debt, zeros, ordinary, capital.

Around 85% of classified assets are in the conventional sector which, aside from equity trusts, includes some non-traditional asset classes such as infrastructure, hedge funds and private equity. Property is the second largest sector, which includes property trusts on a global basis. The VCT and Split Capital categories offer asset market exposure that is not available in an open-ended fund wrapper, but represent only a small part of the overall trust universe.

AUM in Investment Trust Sectors: September 2014



Within the conventionals sector, global equity funds are the largest component. Equity funds make up around 80% of the sector, with alternative investments such as private equity, hedge funds and infrastructure making up the remaining 20%.

Although some investment trusts within the conventional sector may also be available as open-ended funds, there are some important factors for advisers to take into account when considering the investment requirements of a client – such as gearing, liquidity and the discount factor.

Share Classes

The majority of investors will hold ordinary shares in conventional investment trusts; however split capital investment trusts are an alternative type, which issue more than one class of share.

Split capital investment trusts (splits) represent only a tiny share of the overall investment trust market. The majority of splits have a defined lifespan, with the date of wind up pre-determined at the launch date. This means that at a specified date, the company will need to realise a specific value from the underlying investments, to distribute to the shareholders of the limited life shares.

Each share class has specific rights and entitlements to the income and/or the capital returns of the portfolio. Each split is unique so advisers need to ensure they fully understand the split capital investment structure, as this affects the ability to generate returns both in terms of income and capital.

When splits were initially launched in the 1960s, there were only two classes of shares available: income shares and capital shares.

- Income shareholders are entitled to income generated from the investments held by the company during its life, in the form of dividends. Companies distribute the income according to their dividend distribution policy which could be a target income, or a percentage of the income the company generates. Some income shares also entitle shareholders to part of the company's capital on wind-up. Usually they get top priority for the income and a predetermined capital amount. There would be an income tax liability on income received from the dividends from income shares.

- Capital shareholders are entitled to the capital value of the company including any capital growth achieved by the company at wind-up. They have the lowest priority on companies' asset and are one of the highest risk types of share, providing the possibility of a high level of capital gain. There would be a potential capital gains tax liability on a gain generated from these shares.

In more recent years, additional share classes have become available through splits, for example ordinary income and zero dividend preference shares.

By the end of this section you will be able to describe how the Investment Trust market operates, the sectors and understand the structures and differing share classes involved.

Investment trusts are one of many options available to those who wish to pool their money with other investors, but whilst they have some similarities with other collective investments such as OEICs and Unit Trusts, there are important differences:

Closed-ended structure

When an investor buys or sells units in an open-ended fund such as a unit trust or OEIC, they are dealing directly with the fund management company who must create or redeem units at the current unit price. Units are created or redeemed at the Net Asset Value (NAV) of the fund, which represents the appraised value of the investment less any liabilities.

In the case of an investment trust, the number of shares is fixed from the outset and in order to make transactions, the investor must buy or sell from another shareholder, as is the case with other listed instruments.

Given that investment trust transactions usually only occur between secondary shareholders, redemptions and subscriptions do not impact on the running of the fund. The investment manager is free to concentrate on long-term performance, without the disruption of short-term inflows and outflows. So holding other factors constant, investment trusts should be a better vehicle than open-ended funds for illiquid investments.

Due to their closed end structure, investment trusts can be fully invested and so tend to have less cash drag on performance. Open-ended funds need to hold cash positions for liquidity reasons, to meet redemptions or to manage large inflows. Closed-ended funds do not need to carry immediate liquidity in their portfolios to meet investor redemptions. Whilst a lack of liquidity could still cause delays when buying or selling shares in investment trusts and lead to higher discount volatility, investment trusts can hold onto their best positions without the need to react to outflows.

Pricing

An investment trust, like any other public limited company, is traded on the stock exchange and its share price is determined by supply and demand. This means that the share price will not always reflect the underlying value of the assets held within the trust (as reflected by the NAV) and in such cases, the investment trust is referred to as trading at either a discount or a premium. There are several reasons why shares trade at a premium or discount – such as positive or negative sentiment towards the assets that are held within the trust.

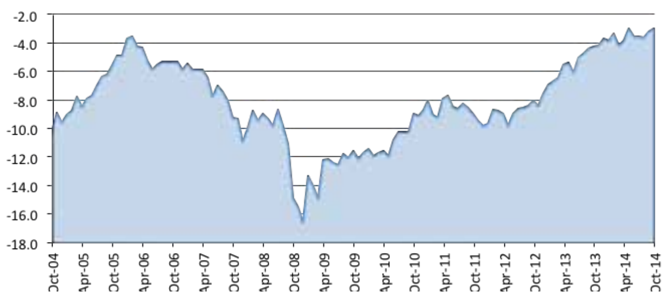
The premium or discount reflects the price that investors are prepared to pay for the share – either above or below the underlying value of the assets or the NAV per share. This is usually quoted as a percentage – for example if the NAV is 100p per share and share price is 105p then the premium is 5%. Conversely, if the NAV is 100p and the share price is 95p then the discount is 5%.

A premium or a discount is a clear method of measuring the demand for a particular investment trust, although it's important to note that trading at a discount is typical in the world of investment trusts due to the many factors that can influence discounts. The reliability of NAV may be an issue particularly where the underlying assets are not market tradeable.

The average discount of investment companies tends to vary over time. When the discount narrows, there is potential to enhance returns. Conversely, a widening discount will detract from returns.

Looking at the investment trust market as a whole, the current level of discount is small relative to historical standards; currently around the 3% level, which represents a narrowing from a high discount of around 16% in 2008.

Average Discount of Investment Trust Market: Oct 2004-Oct 2014



Source: Data from AIC

Many investment trusts are run by recognised fund managers, who run similar products in open-ended structures. In some cases, it may be possible to pick up an almost identical portfolio within the investment trust structure at a discount relative to the open-ended equivalent.

Of course, it is possible this discount may widen further during the course of the investment. In this regard, attention should be focussed on the Z-statistic to form an opinion of the current discount relative to its historical average.

The Z Statistic

The Z-statistic is a measure designed to help assess whether an investment trust is cheap or expensive relative to its historical mean (average) discount. Investment trusts have a greater tendency to converge to their mean discount than to actual NAV.

The Z-statistic shows the number of standard deviations the current discount is from the historical mean discount. A positive Z-stat indicates the investment trust is currently expensive relative to its mean discount, whereas a negative Z-stat indicates the investment trust is cheap relative to its mean. Wide discounts should narrow over time as sentiment towards the investment trust normalises.

Discount Volatility

A large discount can seem advantageous when assets are purchased at a discount, but this can be problematic when investment trusts need to be sold.

There is evidence that the discount factor tends to move in line with market sentiment. As the chart below shows, the discount tends to widen during equity bear markets and narrow during bull markets.

Investment Trust Discount Versus FTSE All Share

Source: Data from AIC

The discount can often widen during difficult times for the portfolio as whole, further increasing volatility for the investor. When combined with the impact of leverage, investment trusts can look significantly more volatile than the equivalent open-ended fund and provide less protection during market downturns than one might expect.

Discount volatility has been a reason for advisers to avoid investment trusts, but now many investment trusts have discount control mechanisms to smooth out discount volatility and as a result this has reduced some of the risk for investors. This usually involves a share buyback or share issuance, whenever the discount or premium reaches a certain threshold level. Larger investment trusts with more liquid investments are particularly well placed to make use of such a mechanism, if they choose to do so.

Performance fees

The management fees charged on investment trusts have historically been lower than those on comparative open-ended funds. With the implementation of the RDR and the introduction of a clean share class, the charges between the two types of investments are now much closer.

A performance fee is sometimes paid on top of a management fee, if an investment company outperforms its benchmark or meets other conditions such as the hurdle rate. The AIC publish ongoing charges and performance fees. As at end of January 2014, 243 out of 390 Association of Investment Companies (AIC) member companies have some form of performance fee arrangement in place.

Currently some of the conventional investment companies are removing performance fees and reducing their management fees enabling them to compete on a level playing field with open-ended funds and so to attract investments from a previously untapped adviser market.

Gearing

Investment companies can borrow to purchase additional investments. The idea of gearing, or leverage, is to exploit the available opportunities by borrowing at a lower cost than the expected return on the investment. As long as the return on the investment exceeds the cost of borrowing, the overall return to investors will be improved.

Gearing can be a double-edged sword in that it magnifies returns both during the good years and the bad years. For an investment that is expected to increase in nominal terms over time, the impact of leverage should be positive, provided that the return is higher than the cost of capital. With interest rates currently at record low levels, it could be argued that this is an excellent time to consider geared funds.

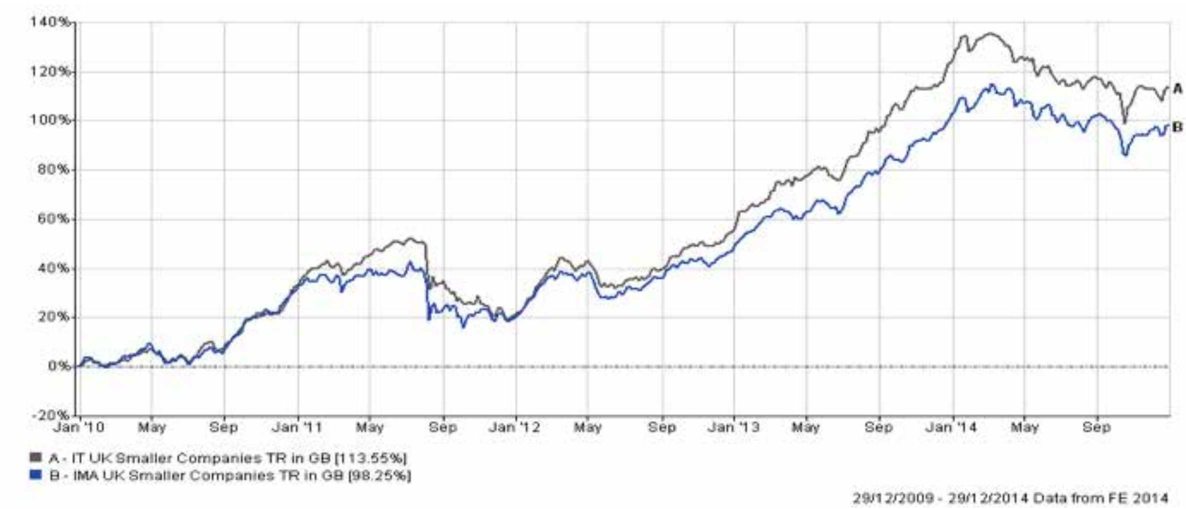
As an example, an investment trust with £100 million in assets that borrows an additional £20 million (i.e. 20% gearing) will invest £120 million in total in the equity market. If the market rises by 20%, the return on the original investment would be £24 million less any financing costs (£120m x 20%), which is £4 million more than the ungeared investment could have achieved (£100m x 20%). But if market falls by 20%, the loss on the original investment of £100 million would be £24m plus financing costs, due to the loss on the investment and the associated cost for financing.

Popular methods of gearing are through bank overdrafts, fixed-term bank loans, contracts for difference (CFDs), debentures, convertible bonds and floating rate notes. The average gearing level for the investment company sector is 7%, but not all investment companies utilise this option and levels of gearing can vary a great deal between different sectors and different companies.

The fund manager, in conjunction with the board of directors, is responsible for making decisions regarding the use of gearing in accordance with the company's gearing policy. It is good practice to fully understand a trust's gearing policy prior to advising on an investment trust – historical gearing, current gearing, and the gearing range.

During the equity bull market of the last 5 years, it has been beneficial to gain access to the market through the investment trust wrapper, rather than through an unlevered open-ended fund. For example, in the UK smaller companies sector below, the investment trust UK smaller companies sector has outperformed the IA sector by a cumulative 20% over the last 5 years.

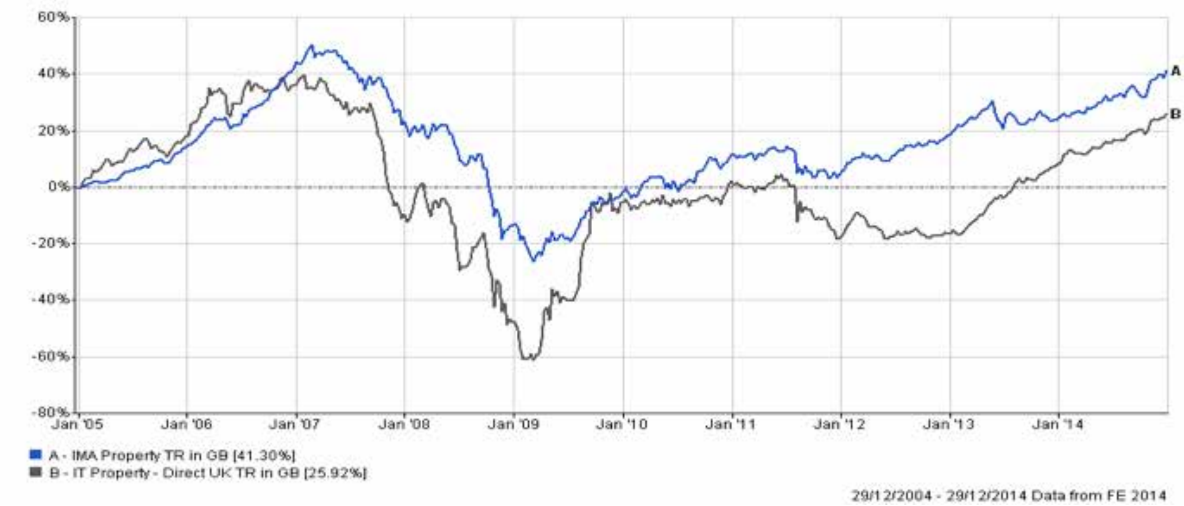
IA versus AIC UK Smaller Companies Sectors: 5 Year Performance



Source: Data from FE Analytics

The downside of gearing should also be considered, as the negative impact of gearing can outweigh other advantages that investment trusts may have. Looking at the IA Property sector versus the AIC Direct UK property sector, the investment trust sector has underperformed on a 10 year basis. This is because the investment trust sector was too leveraged going into the property market correction of 2008 and since then it has been unable to make back the large losses.

IA Property versus Investment Trust UK Property: 10 Year Performance



Source: Data from FE Analytics

Being over-geared in a bear cycle and under-geared in a recovery may mean that investment trusts underperform unit trusts, even in a net positive market environment, as the losses may be so large during the downturn that the trust is unable to apply the same amount of leverage in a subsequent upturn to reap the benefits.

Income

Investment trusts have an advantage over open-ended funds when it comes to paying a regular income in the form of dividends. Unlike open-ended funds which have to distribute all their income, investment trusts can retain up to 15% of the income they receive to create a revenue reserve which they use to maintain or boost dividends in leaner years. As a result of this, a number of investment companies have increased their dividends each year for twenty years or more.

Correlation

Closed-ended funds can provide effective access to alternative asset classes such as hedge funds, debt, infrastructure and private equity. Exposure to these more esoteric asset classes provides diversification to traditional client portfolios, made up solely of equities and bonds, and has the potential to increase the risk-return efficiency at the overall portfolio level.

Correlations: 10 years to September 2014

Index	Bond Index (Barclays Global Aggregate)	Equity Index (FTSE All-World)	Investment Trusts: Hedge Funds	Investment Trusts: Infrastructure	Investment Trusts: Private Equity
Bond Index (Barclays Global Aggregate)	1.00	0.06	-0.02	-0.15	-0.02
Equity Index (FTSE All-World)	0.06	1.00	0.32	0.20	0.55

Source: Data from FE Analytics

Other Factors to Consider

The correlation between traditional asset classes (bonds and equities) and esoteric asset classes is low. For example, the correlation between hedge funds and bonds is slightly negative and between hedge funds and equities is only 0.32. This low correlation means that the overall portfolio characteristics could be enhanced through exposure to these asset classes.

It should be noted that as investment trusts are market traded, some of the potential correlation benefits from esoteric asset classes are lost. As the correlation data below shows, when property is held inside the investment trust wrapper, it is typically more correlated to the equity market than property held in an open-ended wrapper. This is because investment trusts are priced on the equity market and liable to move up or down due to swings in market sentiment, along with equities in general, and this increased correlation between assets held in investment trusts reduces the potential diversification benefits available.

Index	Property Index (IPD UK All Property)	Investment Trusts: Property
Equity Index (FTSE All Share)	0.3	0.46

Source: Data from FE Analytics

By the end of this section you will be able to:

– describe the differences between Investment Trusts and OEICs
– describe how Investment Trusts are priced
– explain the significance of performance fees within the overall pricing structure
– explain the positives and negatives of gearing
– outline some of the benefits for an investor seeking income or access to alternatives.

Board of Directors

Investors in investment trusts become shareholders in the company and have the right to vote at the Annual General Meetings (AGM), provided shares are held in their name, and to table motions for discussion. Investment trusts are regulated by the Stock Exchange and Company Law and must have an independent board of directors in place to protect the interests of investors. The independent board of directors monitor the performance of a trust and its manager. Shareholders can vote for a new board of directors if they are not happy with the current one.

Investment trusts are an unregulated investment under the FCA framework. Investment trusts will not come under the Financial Services Compensation Scheme (FSCS) arrangements, nor will investors be able to complain to the Financial Ombudsman Service. Traditional open-ended funds such as OEICs and unit trusts are classed as regulated collective investment schemes and are part of the compensation arrangements.

(The compensation scheme is not in place to compensate investors for poor investment performance, due to their own lack of due diligence, and so the circumstances in which it would pay out are quite limited.)

Availability on Platforms

One practical issue for investment trusts has been the lack of availability on the bigger fund platforms. Some investment platforms already offer a comprehensive selection of investment trusts as part of their service, but some only offer a limited selection, or do not offer them at all. Demand for investment trusts is growing and with the RDR requiring advisers to select from across the retail fund market, the availability of closed-ended funds on platforms is set to increase. The FCA specifies that a lack of platform access should not be considered as a limitation to advice on investment trusts.

The RSMR process for rating investment trusts is essentially the same as that used for our open-ended funds with some notable additional factors specific to the aspects of investment trusts discussed earlier.

This process results in a list of RSMR rated investment trusts which are the trusts that we feel have a robust, repeatable process and the ability to deliver strong performance in the future. In addition, other trusts may also be suitable, but this will depend on the risk profile and specific needs of clients.

Our Evaluation Process

We take account of both quantitative and qualitative measures in our evaluation process, yet we accept some factors have the ability to influence future performance to a greater extent than others. The qualitative assessment of any trust is there to enable us to have some idea of how the trust will perform in the future; whilst the quantitative element is used to assess past performance and present trust characteristics. Once the trust has passed the quantitative assessment; qualitative analysis is undertaken to ensure that the trust has a robust fund management processes in place, a strong fund management team, a supportive business environment and strong product characteristics.

In our process we look at the following:

Quantitative Evaluation

- Premiums, discounts, and Z stats: We are wary of trusts trading at large discounts or premiums and would look to establish the underlying reasons for this. In some cases, large discounts or premiums are permanent, whereas in other cases they may be caused by short-term investor sentiment. This can be established through examination of the Z statistic.

- Performance Fees: Where the charging structure is clearly superior in an equivalent open-ended fund structure, we will not rate such trusts unless the investment trust vehicle is differentiated enough to justify the higher fees.

- Gearing: We will not usually rate conventional equity trusts that have more than 30% net gearing. In addition, we examine the method of financing to ensure it is secure and borrowing rates are competitive.

- Type of share capital: Conventional and property investment trusts represent more than 90% of the market. Our aim is to rate trusts within the conventional sector, followed by the property sector. We currently do not rate split capital trusts or venture capital trusts, which represent only a small share of the overall market.

- Liquidity: Some investment trusts are small in market capitalisation terms and can be subject to a large bid-offer spread. We will not typically rate an investment trust under £50m in market cap and will also take account of other liquidity measures such as the bid-offer spread.

- Listing: Investment trusts are classified as unregulated collective investment schemes by the FCA. We ensure that any investment trust we recommend is listed in the UK and subject to UK stock exchange listing rules.

- Performance – By assessing performance on a discrete yearly basis, we gain a good understanding of how the trust has performed, and therefore the strength of the team in different investment conditions. Whilst performance is a useful filter, we are conscious of the range of trusts in each sector and we recognise that we need a range of styles in order to provide some diversity.

Qualitative Evaluation

The qualitative evaluation allows us to look in more detail at the how the fund actually operates.

- Fund Management Business – The resources that the fund manager has available to them can be important in the success of the fund. We look at the ownership structure of the underlying fund management business, along with their focus and capacity management policies. In addition, we assess the culture amd morale of the business and their reputation in the marketplace.

- Strength of fund management team – We need to ensure that the fund management has sufficient expertise in the area in which it is operating. This involves making a judgment on the relevant experience of the team and also the roles and responsibilities within the team. An understanding of these roles and responsibilities ensures that, if a fund manager leaves, we can make a reasonable assessment of how this will affect the fund management by knowing who will take over and their relevant experience.

- Fund management processes – Much of the qualitative research is around how the trust operates, and how robust the fund management process is. This involves gaining a full understanding of how the trust is managed, what would trigger the manager to buy or sell a particular stock, what they are looking for in the stocks that they hold etc. We also look at how they monitor the fund holdings on an ongoing basis and how decisions on the fund are made.

- Trust Characteristics – At this stage we would examine the trust characteristics in more detail such as how the gearing policy has been implemented and whether past performance is consistent with the stated investment process of the manager. We would also examine the composition and structure of the board to ensure its independence and establish that it will act in the best interest of the underlying shareholders.

CONTINUED PROFESSIONAL DEVELOPMENT CPD

By the end of this section you will be able to describe the RSMR rating process.

Choosing Trusts & Accessing our service

An adviser needs to consider the benefits and drawbacks of investment trusts carefully in relation to their clients. For some clients, investment trusts may not be a suitable choice and in this situation, the adviser could be well served with the existing range of open-ended funds, or alternative wrappers such as ETFs.

Other clients may be attracted to and have a risk preference for the more alternative exposures available through investment trusts or the potential to gear returns. Should the adviser determine that investment trusts are suitable for a client, a clear selection process should be established.

Rated list & factsheets

As previously stated we have created a list of rated Investment Trusts that have met our quantitative and qualitative methodology.

This list can be accessed via our website and is supported by detailed factsheets which provide our comments and opinions, plus performance data. The list will evolve over time and initially is focussed on those managers that we know from their involvement in the open-ended space.

Our process involves us obtaining a detailed questionnaire for each company considered and is followed by an in-depth meeting with the manager involved. The final decision is then approved by our own internal Investment Committee. It is only at this stage that a rating is confirmed and the list will be revised at that time.

Access to our Investment Trust list and the supporting factsheets can be obtained by emailing us at **enquiries@rsmgroup.co.uk** and is subject to payment of a monthly subscription details of which will be sent in our email response.

Factsheets

Factsheets are available for all RSMR rated investment trusts.

Portfolio Construction

Investment trusts could be included as part of a client's overall portfolio, bringing diversification benefits and the potential for enhanced returns through features such as gearing.

We also provide support in creating bespoke portfolios for advisory firms and if you are interested in hearing more about this and our other services please email us at **enquiries@rsmgroup.co.uk**

Conclusion

Investment trusts can widen the choice and the range of assets for clients, providing access into areas such as private equity, property, hedge funds, and infrastructure, and therefore opportunities for a wider type of client base. Investment trust managers can take a longer-term view to investing, can potentially benefit from gearing, and can provide reasonable shareholder protection through independent boards.

When using investment trusts in financial planning it is important to remember that, as with any investment solution, they must be suitable to the needs of a client. Whilst the FCA requirements for independent investment advice requires that the adviser considers investment trusts for their clients, this does not mean that trusts will be suitable for all clients.

The adviser can refer to the investment trust characteristics section in this guide to familiarise themselves with the features of investment trusts. Features such as gearing and discount volatility need to be considered carefully in context of a client's overall risk profile. For lower risk clients, investment trusts that do not include gearing or derivatives may be suitable; whereas higher risk clients may benefit from a trust holding more esoteric assets or with geared returns.

Once it has been determined that trusts are suitable for a client, trust selection becomes a pressing concern. This guide should aid your understanding of investment trusts and the factors that must be taken into account when considering them for clients. As discussed in the section Choosing Trusts, RSMR has produced a rated trust list and detailed factsheets for each rated trust, which can provide the information you require to make the right choice.

Investment trusts can play a key role in a client's balanced investment portfolio, although rigorous research is required, as establishing the suitability of the investment trust is more complex due to gearing, liquidity issues and discounts and premiums. Our rated investment trusts represent those within the relevant sectors that meet the demands of our rigorous investment process.

We hope you have found this guide useful.

RSMR
January 2015

CPD

If you are confident that you have a full understanding we now suggest that you complete our online test accessible at - www.rsmgroup.co.uk/CPD

If you pass with 70% or over, you will get a CPD certificate and should then be included as one hour towards your CPD requirements.

Experienced. Professional. Trusted.

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