Complex Investment Trusts Disclosures

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Before considering investing in Complex Investment Trusts, please read this important information carefully.

- Your capital is at risk. You may not get back the amount you invested.
- Certain investment trusts are classified as complex due to their structure or underlying investments. This may include the use of derivatives, borrowing (gearing), or exposure to assets that are difficult to value or sell. These features can increase risk and make returns harder to predict.
- Investment decisions should be based on the full details set out in the relevant product documentation.
- The value of Complex Investment Trusts can change over time and may require closer monitoring by the investor.
- You should consider seeking independent financial advice before investing.
- You should only invest if you fully understand how the trust works and the risks involved.

What are Complex Investment Trusts?

Certain types of investment trusts may be considered complex instruments. This may be the case where they:

- Use derivatives or structured financial techniques
- Invest in illiquid or hard-to-value assets, or combine assets in ways that make risk and performance difficult to assess
- Rely on bespoke or opaque indices rather than widely recognised market benchmarks
- Have fixed investment terms or limited exit options, for example due to a limited secondary market
- Have complex or conditional return structures
- Offer partial or conditional capital protection, which may be withdrawn if certain events occur

Investment trusts may also hold shares in treasury and can buy back shares from shareholders. Buy-backs may be used to manage the supply and demand for shares, but they do not guarantee liquidity or protect against losses.

Share prices, discounts and premiums

The share price of an investment trust is determined by market demand and supply and does not always move in line with the value of its underlying investments (net asset value, or NAV). As a result, investment trusts may trade at a discount or premium to NAV.

Factors that can influence discounts or premiums include:

- Investor sentiment towards a particular market or sector
- The reputation and track record of the investment manager
- The availability of savings plans or ISA eligibility
- Share buy back programmes or new share issuance
- The use of gearing and the structure and cost of any debt
- The presence of warrants or other complex features

While buying at a discount can enhance returns if the discount narrows, discounts can also widen or persist for long periods, which may increase losses if the investment is sold.

Risks Associated with Complex Investment Trusts

Market risk
The value of an investment trust can rise or fall depending on the performance of its underlying investments and overall market conditions.

Gearing risk
Some investment trusts use borrowing (known as gearing). While this can enhance returns when markets rise, it can also increase losses when markets fall.

Liquidity risk
Investment trusts are traded on a stock exchange. Low trading volumes may make it harder to buy or sell shares quickly or at the price you expect.

Counterparty risk
Where an investment trust uses derivatives or enters into contracts with other parties, there is a risk that the counterparty may fail to meet its obligations, which could result in losses.

Currency risk
Where an investment trust invests in assets priced in a currency different from your own, changes in exchange rates can affect the value of your investment.

Tracking error risk
For investment trusts that seek to track a particular index, performance may differ from that index due to factors such as fees, trading costs or investment approach.

Concentration risk
Investment trusts focused on a particular sector, asset class or geographical region may be more affected by poor performance in that area than more diversified investments.

Volatility risk
Investment trusts exposed to volatile markets may experience sharp and frequent price movements, which can increase the risk of losses, particularly over shorter time periods.

Closure risk
If an investment trust fails to attract or retain sufficient investor interest, it may be wound up or merged. This could result in your investment being sold at an unfavourable time and may give rise to additional costs.