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QUOTEDDATA

AN INDEPENDENT GUIDE TO QUOTED INVESTMENT COMPANIES

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AN INDEPENDENT GUIDE TO QUOTED INVESTMENT COMPANIES

This guide is arranged in two parts. Part One is designed to give you all the basic information you need to start using investment companies. Part Two explains some of the more technical aspects of how they work.

PART ONE

3. What is a quoted investment company?
4. What makes investment companies different to other funds?
5. Comparing investment companies to open-ended funds
6. Types of investment company
9. Investment objectives and policies
10. Choosing an investment company
11. Research before you invest

PART TWO

16. How is your money managed?
17. Investment company structures
23. The role of the board and shareholder rights
24. Net asset values (NAVs)
25. What is a discount?
26. Managing the discount
28. Analysing past performance
31. Thinking about risk
34. Income, dividends & yields
35. Fees & expenses
37. Our sponsors
39. Distribution Partners
41. About QuotedData
42. Further reading
43. Disclaimer

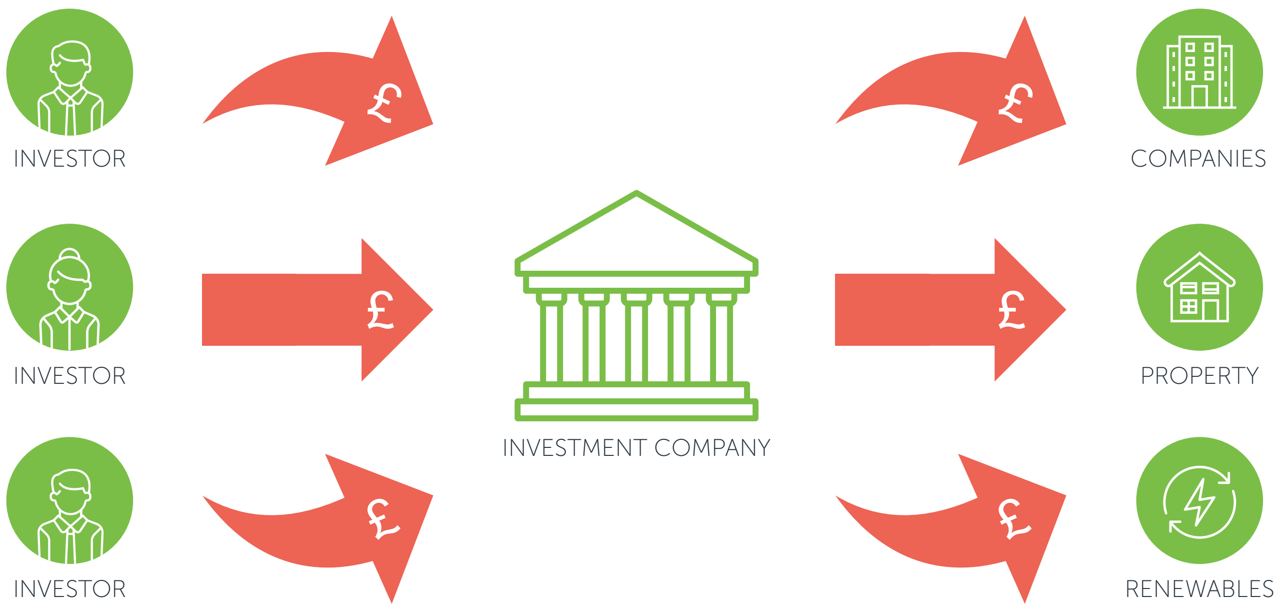
WHAT IS A QUOTED INVESTMENT COMPANY?

Quoted investment companies, traded on a stock exchange, are set up to make investments on behalf of their shareholders (they are also called Closed-Ended Funds and, in specific circumstances, Investment Trusts or Real Estate Investment Trusts - REITs).

Investing in an investment company (or any other type of pooled/collective fund such as a unit trust) is a useful way of passing the job of managing some of your investments to an expert – the investment manager.

Investment companies let you invest in a spread of different types of investment in an easier and more efficient way than buying a collection of individual investments, saving you money in dealing charges and letting you invest relatively small amounts of money.

Buying a spread of different types of investments to diversify is important. All things being equal, it reduces your risk, as it lessens the chance that one specific problem will have a major impact on your entire wealth.

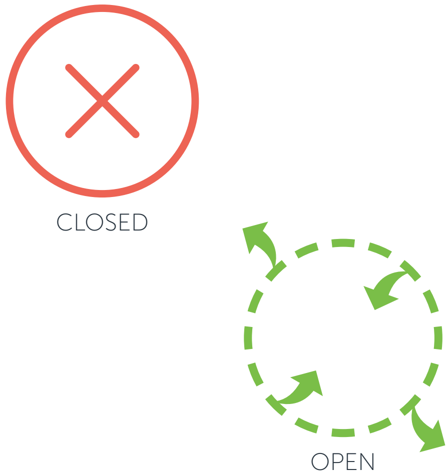


WHAT MAKES INVESTMENT COMPANIES DIFFERENT TO OTHER FUNDS?

Investment companies differ in several aspects from other types of companies and funds. Open-ended funds such as unit trusts, OEICs and UCITs expand and contract when people want to invest in them or take money out of them.

Managers of open-ended funds must be able to turn investments into cash in a hurry if investors decide they want their money back. Some people think this encourages a mentality of short-term thinking.

The board of directors of an investment company can choose to issue new shares or buy them back but, because this is optional, they can also take a genuinely long-term view about the merits of an investment. Investment companies can also operate with low levels of cash and can even borrow money to invest – improving performance when returns exceed borrowing costs.



Board On Your Side

Each investment company has a board of directors whose job is to look after your interests. The vast majority of these boards are independent from the fund manager and so they can exert pressure to keep running costs down and keep the manager on the right path, or even replace the manager.

You Have A Vote

As a shareholder, you have a say in how your company is run. You get to vote on important issues. You can attend meetings and ask questions.

Wider Choice

With the freedom not to worry about short-term cash flows, investment companies are more free to invest in things that cannot be sold in a hurry (like property and private equity).

Net Asset Values

Investment companies publish net asset values - HOW often they do this usually depends on how easy it is to value the company's investments. The net asset value (NAV) is the value of all the company's investments, including cash, less the value of all the money it owes and is usually expressed as a number per share. This is the same calculation that is used to work out the price of an open-ended fund.

Discounts & Premiums

The value of your shares in an investment company is determined by supply and demand. If there are more shares than people want to buy, the price falls; if there is demand for more shares than are available, then the price rises – in each case reaching a level where demand and supply are matched. This means that the share price can be lower than the net asset value – a discount – or higher than the net asset value – a premium.

Traded

The shares of investment companies are traded on a stock exchange.

Gearing

Investment companies can borrow money. This is often referred to as gearing (or leverage) because, just like the gears on a bicycle, it multiplies the returns (either positive or negative). This is a two-way street, however, as gearing can magnify losses in falling markets, as well as enhancing returns in rising markets. Generally highly geared funds are more risky but most investment companies use gearing sparingly and many don't use it at all.

COMPARING INVESTMENT COMPANIES TO OPEN-ENDED FUNDS

INVESTMENT COMPANY		OPEN-ENDED FUND
Fixed number of shares	STRUCTURE	Expands and contracts with demand
Not worried about short-term cash flows	LONG-TERM VIEW	Needs cash to meet possible redemptions
Can invest in illiquid assets	CHOICE OF ASSETS	Needs to be able to cash in investments quickly
Based on supply and demand	PRICES	Based on asset value
Quoted on a stock exchange	TRADING	Bought and sold from manager
Independent and representing you	BOARD OF DIRECTORS	No independent board
You get a vote	VOTING	Very exceptionally
Can borrow to enhance returns	GEARING/BORROWING	Some funds can borrow up to 10%

You can also choose what type of assets you want to invest in. Some funds invest in everything – these are multi-asset funds. Others focus on a particular niche such as renewable energy, or companies that pay high levels of income etc.

Investment companies allow you to invest just about anywhere in the world. You can choose to spread your investment across the globe or focus on a single region or country.

Comparing Funds

To make it easier to compare funds, The Association of Investment Companies (AIC) classifies investment companies into sectors just as the Investment Association does for open-ended funds. Investment company sectors are usually defined by what type of assets the investment company is invested in, where the investments are and what the investment company is trying to achieve. For example, growth, growth & income or income. QuotedData has a page for each sector so you can compare similar funds.

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We choose our own investment path, seeking out new market-beating returns

Jupiter in brief

Jupiter is a focused, active fund manager with a well-known brand and an established track record.

We aim to deliver investment outperformance to our clients over the medium to long term. The breadth and depth of our expertise as well as our expanding presence enables us to provide a variety of investment solutions to our clients.

We allow our managers to follow their convictions which means they can invest in what they consider to be the best opportunities in the market.

Our history

Jupiter was founded in 1985 and has since become an established fund management group within the UK. From our origins as a manager primarily of investment trust companies and private client portfolios, we expanded into institutional fund management before mutual funds became the key engine of growth. In 2007, Jupiter's employees bought the Jupiter Group from its parent company Commerzbank through a management buyout supported by private equity firm TA Associates, and other minority investors. In June 2010 Jupiter listed on the London Stock Exchange. Many of our fund managers and other employees continue to hold shares in the Company. In addition, we encourage our fund managers to invest their own money into their own Jupiter funds, helping to create what we believe to be a stable environment in which the interests of our fund managers and employees are aligned with those of our clients.

Genuine active management

Jupiter's sole business is the active management of the money invested with us. We do not engage in banking, life assurance or other activities and our principal focus is to manage investors' money always aiming to generate medium to long-term outperformance without taking undue risk.

Attracting and retaining talent

At the heart of our success is our people. Some of the UK's most renowned and respected fund managers are employed at Jupiter. While our fund managers work as a team, sharing investment ideas and debating market prospects, each manager has individual responsibility for his or her own portfolios. It is through our successful formula of allowing our managers to follow their convictions that we have built and retained a stable and highly regarded team.

Meeting the management

Jupiter's fund managers pride themselves on being active fund managers. Instead of simply tracking a market index, their time is spent assessing the investment environment. They rigorously analyse companies on our clients' behalf to select the businesses they believe will produce superior returns over the medium to long term. Meeting companies face-to-face is one of the most important elements of our research process.

Our fund managers meet hundreds of companies each year in order to assess the quality of their management teams and business strategies, enabling them to decide which companies they believe are capable of producing strong growth and superior returns for our clients.

Our investment trust business

While we manage multiple asset classes (such as shares and bonds) across a wide range of products including UK and Luxembourg-domiciled funds, within the investment trust space investing in shares is central to our strength and reputation.

Jupiter's investment trust companies invest in a variety of equity markets, as listed below:

Jupiter's range of investment trust companies

Investment Trust Company	Manager
Jupiter Emerging & Frontier Income Trust Plc	Ross Teverson / Charles Sunnucks
Jupiter European Opportunities Trust Plc	Alexander Darwall
Jupiter Green Investment Trust Plc	Charlie Thomas
Jupiter UK Growth Investment Trust Plc	Steve Davies
Jupiter US Smaller Companies Trust Plc	Robert Siddles

Please note market and exchange rate movements can cause the value of an investment to fall as well as rise, and you may get back less than originally invested. We recommend you discuss any investment decisions with a financial adviser, particularly if you are unsure whether an investment is suitable. Jupiter is unable to provide investment advice. Investment companies are traded on the London stock exchange, therefore the ability to buy or sell shares will be dependent on their market price, which may be at a premium or discount to their net asset value.

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INVESTMENT OBJECTIVES AND POLICIES

Investment Objective

Each investment company has an investment objective that states what it is trying to achieve for investors and the investment area that it is going to focus on. An example might be "outperform the MSCI World Index over the medium term by investing in a global multi-asset portfolio" ('portfolio' is the collective term for all the investments that the fund holds). Here the MSCI World Index will be the fund's **benchmark** – a measure against which you can judge the performance of the company.

Investment Policy

The investment policy or investment strategy describes how the manager will go about managing the **portfolio**. Within this, the directors may set restrictions on things like how many investments the fund holds, how big the largest investments are or how much of the fund is invested in a particular country. The investment policy will also include any parameters around dividend payouts

Predictable

The investment company cannot change its investment objective without asking shareholders to vote on whether that is acceptable. QuotedData's daily news service, available on our website, includes stories on events such as changes to investment policies.

What is the difference between growth, growth & income and income?

Growth

Growth funds try to generate all of their return through an increase in the capital value of their investments. They may be invested in assets that do not produce an income, such as companies that are not paying dividends or paying only small dividends, companies that are reinvesting all their profits to expand their businesses or property under construction.

Generally, though not always, growth funds are riskier than average because the value of their investments is more dependent on 'hope' value – what the investment might be worth in the future if everything goes to plan– and plans do not always turn out the way you anticipate.

Income

Income funds tend to be invested in assets that are generating an income, usually higher than the income from a growth and income investment, but often there is a low or no chance of generating capital growth (like investing in debt). With no capital growth to fall back on, any fall in the income is bad news and so income investments can look as though they are low risk but can catch you out. Also income investments are valued in relation to what you could get by doing something safer with your money, like buying a government bond or putting your money on deposit in a bank. If the return you can get from a safer investment rises then the return on the income fund is relatively less attractive and its value may fall. It is worth checking whether the returns on an income fund are sensitive to moves in interest rates.

One of the good things about investment companies is that they can salt away money in revenue reserves in the good times and use that money to maintain or even grow dividends in the bad times. This can make dividends from investment companies more reliable than those from equivalent open-ended funds which is a comfort, if you are relying on the income.

Growth & Income

Growth and income funds tend to be invested in assets that are generating an income (like a company paying dividends or a property that is rented out) but where there is also a chance of capital gain. These kind of investment assets tend to be, but are not always, less risky than average because even if capital values are falling, at least you can rely on the income to tide you over until things recover.

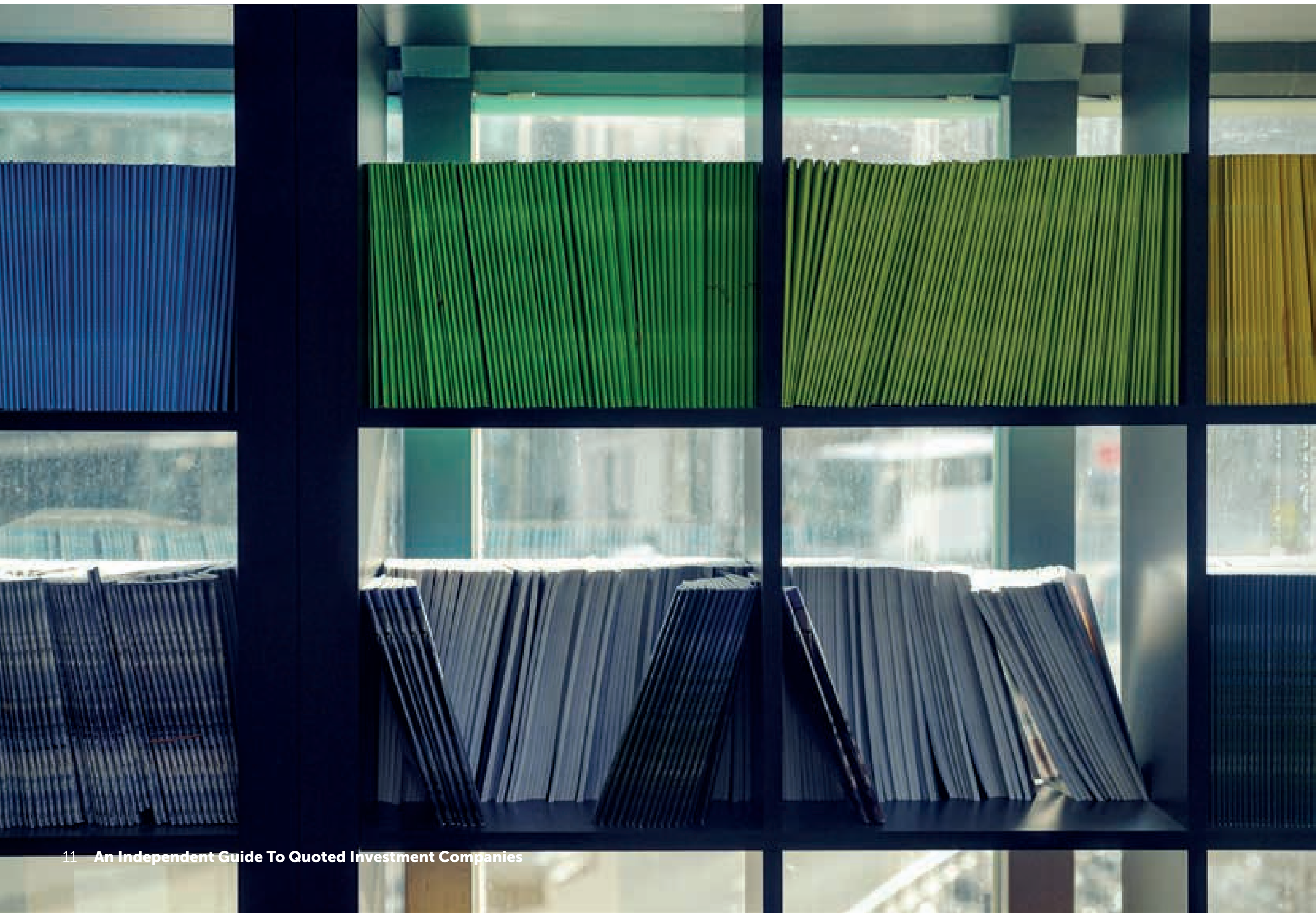
In recent times, more funds have adopted a policy of paying some or all of their dividend from capital gains. This blurs the line a bit between what is a growth fund and what is an income fund.

RESEARCH BEFORE YOU INVEST

To judge how well a fund is doing it is best to compare it to similar funds – so look at it against funds in the same sector. Look at measures such as its discount and premium and how that has changed over time; yield (the income it pays divided by its share price); performance record, charges; how much borrowing it has and how volatile its share price has been. Look at other information too – for example: how long has the manager been running the fund? Does the investment strategy/policy make sense to you?

Wherever you can, we recommend that you find out as much about the fund as possible. You can do this using research websites like QuotedData or by visiting the fund's own website. QuotedData's sponsored research, while paid for by the client, aims to be balanced and comprehensive. It will consider the good alongside the bad and will help you identify the key points and parameters by which you can analyse the fund.

We suggest you take other people's opinions on the fund with a pinch of salt. It is best to make your own judgements, consulting an independent financial professional if you aren't sure. One very good rule of thumb is not to invest in anything you don't understand – it is a maxim that even some professional investment managers need reminding of from time to time.



We strive to explore further.

Aberdeen Investment Trusts ISA and Share Plan

We believe there's no substitute for getting to know your investments face-to-face. That's why we make it our goal to visit companies – wherever they are – before we invest in their shares and while we hold them.

With a wide range of investment companies investing around the world – that's an awfully big commitment. But it's just one of the ways we aim to seek out the best investment opportunities on your behalf.

Please remember, the value of shares and the income from them can go down as well as up and you may get back less than the amount invested. No recommendation is made, positive or otherwise, regarding the ISA and Share Plan.

The value of tax benefits depends on individual circumstances and the favourable tax treatment for ISAs may not be maintained. We recommend you seek financial advice prior to making an investment decision.

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WHY IT PAYS TO BE ACTIVE IN EMERGING MARKETS

Devan Kaloo is Global Head of Equities and Head of Global Emerging Markets Equities for Aberdeen. Devan joined Aberdeen in 2000 as part of the Asian equities team in Singapore, before later transferring to London where he took up the position of Head of Global Emerging Markets Equities in 2005. In 2015 he was promoted to Global Head of Equities and joined Aberdeen's Group management board.

One of the first decisions any investor has to make is whether to invest with an active manager or seek to track an index. This is no different for emerging markets. However, we believe the decision is more complex for emerging markets, which have a number of idiosyncratic characteristics. Investors need to take this into account when making a choice.

The factors that influence the performance of emerging markets are often as much about external events as they are about internal events, and this is important when considering how to invest. Emerging markets will go up and down depending on what is happening globally as much as their domestic situation. For example, the global financial crisis had profound effects on emerging markets, even though it was largely a developed markets problem.

There is no question that these markets are more volatile than developed markets - around 1.5x, although there is some variance around that in individual markets and stocks. There are clear reasons for this: turnover is lower in most stocks. Equally, the free float for most emerging market companies is around 30-40% compared to 60-70% for developed markets. The free float is the number of shares available for sale to private investors, as opposed to – for example – company executives, or the government. Lower turnover and free float means that a pound going in and out has a greater impact on the share price of an emerging market company.

When examining net inflows into emerging markets, the money taken to move these markets up and down is not particularly large. These markets are driven by global investors because most do not have a well-developed domestic investor base. This means greater volatility because foreign investors will be influenced by sentiment in their own markets. These are technical markets and as investors, we need to be conscious of how flows can influence share prices and act accordingly.

Another consideration for investors deciding between active and tracker funds is that the indices on which tracker funds are based change all the time, and they have changed quite significantly in recent years. From 2010 to 2017, there has been a substantial increase in technology – by 30-40%. There has also been a substantial decrease in commodities, for example, and an increase in the weighting towards China over the period. When people talk about emerging markets, they suggest it is a warrant on global growth, but in fact the cyclical elements have been a declining force for some time in emerging market indices.

These changes have occurred because emerging markets are far more dynamic than developed markets – new companies come in, regions move in and out of favour. One of the big differences between emerging and developed markets is that in emerging markets, stock markets are still considered a way to raise capital. New companies are coming to the market all the time and there is a lot of dynamic change.

Perhaps more worrying for passive investors would be the increasing exposure to China within indices – it is now around 30% of the MSCI index and likely to increase - at the same time as the country appears to have heightened risk. Debt is rising, and the main component of that debt is the corporate sector. This is a concern – particularly as economic growth is slowing and with it, the ability to service that debt. While there may be no imminent danger, a tracker fund cannot make an active call on the right time to exit.

State-owned enterprises remain some of the largest companies within emerging markets. To our mind, these companies have a conflict at their very heart – who do they work for? The government or minority shareholders? Many are less profitable as a result. A key example might be Chinese banks, where – in spite huge growth in loans in China - yields have come down substantially. The relative weakness of some of the large companies in the indices needs to be taken into account when running an emerging markets portfolio.

Governance has been improving in emerging markets, but there are still lots of issues. In emerging markets, there is typically a controlling shareholder

WHY IT PAYS TO BE ACTIVE IN EMERGING MARKETS

– either the state or a family - and investors need to make sure they are on the same side, because often they are not. In addition, there is a danger of related party transactions and investors may not be achieving the diversification they think they are. There are fewer checks and balances in emerging market companies, particularly at board level, and the information that available to make decisions can be less transparent.

These issues all need to be considered when investing in emerging markets. As an asset class, it has high potential rewards, but it is also more volatile, more changeable, there is more state ownership and there are still governance issues. In our view, this necessitates an active approach to picking companies and markets rather than simply tracking an index.

Aberdeen is one of the leading active managers of emerging markets trusts. Our trust range incorporates general emerging markets trusts, such as the Aberdeen Emerging Markets Investment Company Limited, but also more specialist trusts, such as Aberdeen Frontier Markets Investment Company Limited, Aberdeen Latin American Income Investment Company Limited, Aberdeen New India Investment Trust PLC and Aberdeen New Thai Investment Trust PLC, helping investors to take selective exposure to the region.

RISK WARNING

The following risk factors should be carefully considered before making an investment decision:

- The value of investments and the income from them can go down as well as up and you may get back less than the amount invested
- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. This may mean your money is at greater risk.

Author: **Devan Kaloo, Global Head of Equities, Aberdeen Asset Management.**

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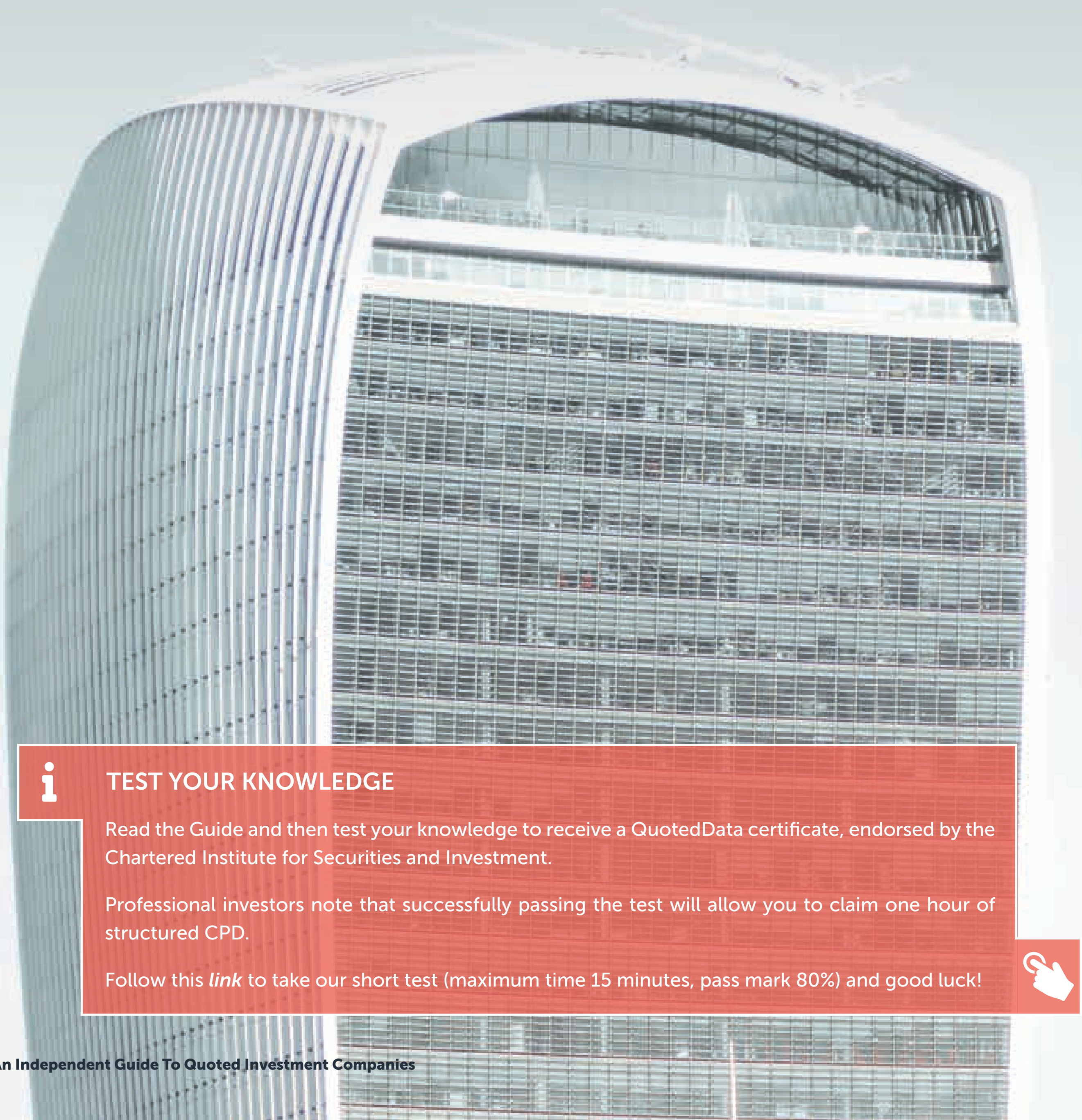
In the second part of this guide we look in more detail at some of the more technical aspects of using investment companies. We've tried to keep the language simple, building upon the concepts introduced in Part One, but if you come across a word or phrase that you are stumped by, try entering it in the search box on our website – the QuotedData glossary should help.



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HOW IS YOUR MONEY MANAGED?

The boards of some investment companies decide that the company will manage its own investments. These are called self-managed companies. Most though decide to outsource the job of managing the portfolio to specialist investment managers. These are called externally managed companies.

The board will set out an **investment objective** for the investment company. These are all worded differently but often say something along the lines of "delivering a return to shareholders in excess of the **benchmark**".

Benchmarks vary according to what the fund is invested in and what it is trying to achieve but they are often:

- equity index
- a fixed rate of return
- the rate of return on a government bond
- an interest rate.

The **manager's** job is to achieve the investment objective. For this they need to devise an investment strategy – this could be a job they do themselves or something they do in conjunction with the board. The investment strategy describes the practical aspects of selecting investments for the portfolio.

Often the board will set some parameters that the investment manager needs to work within. This could be things like:

- the size of the largest investment
- how concentrated the portfolio is allowed to be
- the maximum exposure to a country or an industry sector
- how much borrowing the manager is allowed to use
- or whether they are allowed to use derivatives (options and futures).

The manager will choose investments based on their view of how attractive they are. Some managers select individual investments that they like and assemble these into a portfolio – this is called **bottom-up stock** selection. Others may decide first what geographies, industry sectors and investment themes they like – this is called **asset allocation** – and then decide what investments will fit within those criteria. This is called **top-down stock selection**.

Some managers will make investments based on the constituents of the benchmark. They will look at the size of each member of the benchmark and then decide whether to underweight or overweight that investment. A portfolio that exactly matched the benchmark in terms of constituents and weights would be an **index-tracker**. The degree to which the portfolio differs from its benchmark is the **active share**.

The manager may like to hold companies for the long-term or might want to trade (buy and sell investments). **Portfolio turnover** is a measure of how much of the portfolio the manager is buying and selling. This is usually worked out as the value of purchases plus sales divided by the average value of the portfolio.

Companies need money to fund their activities and to do this they use a mix of permanent capital in the form of shares (equity) and borrowed money (debt).

Investment companies and investment trusts have the ability to borrow money and issue different types of shares. The objective in doing this is to enhance, or "gear up", the return earned by the ordinary shareholders.

In this part of the guide, we explain how various capital structures work and the benefits and pitfalls.

Ordinary Shares

The simplest companies have just one type (or class) of share, usually called **ordinary shares**, and no debt. The owners of these ordinary shares are entitled to receive a share of the profits that the company makes and so can receive income in the form of dividends. If the owners decide to wind up the company, the company's assets (after paying any money it owes) are distributed amongst the ordinary shareholders. The ordinary shareholders tend to call the shots. While the directors run the company on a day-to-day basis, significant decisions affecting the company will need the approval of the ordinary shareholders. This means that it is important to check whether someone has control of the company by virtue of them owning more than half of the ordinary shares. This is rare with investment companies but it could mean that they can insist that the company is run for their benefit rather than yours.

A dwindling number of companies have both **voting** and **non-voting** shares. Non-voting shares get all the risks and rewards of owning shares in the company but have little or no say in the way it is run.

A few companies have **restricted voting** shares – the way these work can differ from company to company. It might be that they have a fraction of a vote compared to an ordinary share or that they can only vote on certain matters.

Companies can shrink themselves by **buying back shares**, subject to certain conditions. These shares can be cancelled or, if shareholders have approved it, held by the company in **Treasury**. Treasury shares are not in circulation have no votes and are not entitled to dividends, but they can be reissued and that process is much simpler than creating brand new shares.

Borrowing Money

The most common way that companies alter their capital structure is by borrowing money. For an investment company the appeal of borrowing money to invest is that, as long as you earn more than the cost of paying the interest, you can boost the return earned by shareholders.

Companies can borrow from a variety of sources including banks. Bank lending can be provided via a **revolving credit facility** that allows the borrower to decide, within limits, how much to borrow and when to make repayments, or as a **term loan** where the loan either **amortises** (is paid off gradually over the life of the loan), has predefined repayment dates or is paid back on one fixed day in the future (also called a **bullet repayment**).

Lenders may ask that the loan is **secured** on a specific asset or assets so that, if the company can't pay back the loan or the interest, they can get their money back by taking possession of the asset and selling it. To get their money back on an **unsecured** loan however, they might request that the company is put into **liquidation** (selling off all the company's assets to repay its debts).

For a company looking to borrow money, one way of arranging your capital structure to suit secured lending is to set up special purpose vehicles or SPVs. Selected assets are put inside the SPV and then the SPV borrows money secured against those assets. This debt may be non-recourse to the main company – which means that if the SPV can't pay its debts, the lender has no right to come after the main company for the money.

As a way of protecting themselves, lenders sometimes insert **covenants** into the terms of the debt. These can be triggers for an early repayment of the debt, a higher rate of interest or some other penalty.

Covenants typically look at how indebted the company is using measures of **loan- to-value** (the size of all the company's debts relative to the value of its assets) or the company's ability to pay its debts using **interest cover ratios** (the relationship between the company's interest bill and its earnings) but can also include any other factor the lender thinks is important, such as stipulating that the key personnel in the company stay working in the business.

Some investment companies use **contracts for difference** (CFDs) for gearing purposes. This is a derivative contract with a bank relating to a security, a collection of securities, or an index.

As an alternative to bank finance, the company can issue a **bond** (sometimes also referred to as a **debenture** or **loan stock**). Although bond issues can be sold to just one buyer, they provide an easy way for a company to raise finance from multiple sources.

Although some loan agreements might stipulate that the debt cannot be **assigned** to anyone else (can't be traded), it is usually possible for lenders to sell on the loans they have made. This is true even of bank loans (and there are some funds that buy loans the banks have made), but it is easier in the case of bond issues – these can even be listed on a stock exchange.

The value of debt to the buyer and seller depends mainly on:

- the relationship between the interest rate (sometimes called the coupon) on the debt;
- the market interest rate;
- the time to maturity (repayment); and
- the perceived riskiness of the debt – how likely it is that the borrower will not pay the interest and/or repay the debt (**credit risk**).

Most companies will borrow in their home currency but they don't have to and some investment companies will make an asset allocation decision to borrow in a foreign currency as a way of offsetting the currency exposure they have in their portfolio.

Some companies borrow money in a foreign currency without having assets in that country to support that debt. This can be a risky strategy as changes in exchange rates could make the value of the debt in the company's home currency rise.

Typically companies pay **floating rates** of interest on the money they borrow (i.e. the interest-rate changes with reference to market rates of interest – many rates are linked to LIBOR or central bank base rates). When they believe that interest rates might rise however, investment companies may choose to **fix** the cost of their borrowings. As the market rate of interest moves in relation to this fixed borrowing cost, there is an impact on the fund's net asset value, to factor in the cost of repaying the debt early.

People who lend companies money at fixed interest rates can generally rely on a predictable level of income until the loan is repaid.

They could sell the debt on to someone else but, if the market rate of interest has changed since they lent the money, the debt is more (if interest rates have fallen) or less (if interest rates have risen) valuable in the eyes of the buyer. The **fair value** of the debt adjusts the transaction so that it generates the market rate of interest.

For example, say I lend £100 for a year at a fixed 10% interest rate, then say the market rate of interest immediately halves to 5%. If I now sell the loan, a buyer is going to get £110 from owning my loan compared to £105 for making a loan in the open market. My loan is worth more to the buyer so he or she should pay me more. The price they should pay is (110/105) x 100 = £104.76.

Seniority

Companies may borrow from more than one source and issue other classes of shares in addition to ordinary shares. One of the critical things to think about when analysing a company's capital structure is **seniority** – where each type of borrowing and class of shares ranks when it comes to receiving a share of income or getting paid in the event that the company is being liquidated. The higher up the ranking you are, the safer your investment. For that reason interest rates on senior ranking loans tend to be lower than interest rates on junior ranking loans. Ordinary shares tend to rank at the bottom of any capital structure.

Preference Shares

Preference shares have most of the characteristics of a bond – the capital must be repaid on a predefined date and they tend to generate a predetermined rate of income for holders. They tend to rank above the ordinary shareholders both in terms of the right to receive income (preference share dividends must be paid in full before ordinary share dividends can be paid) and the right to be repaid in a liquidation.

Warrants and Subscription Shares

Warrants and subscription shares give the holder the right but not the obligation to buy ordinary shares at a predetermined price (the **strike price** or **exercise price**) on a given date or within a range of dates.

The value of warrants and subscription shares varies in relation to the price of the ordinary shares and the length of time left to exercise them. Each month QuotedData publishes some basic information on the warrants and subscription shares that have been issued by investment companies.

Convertibles

Some other classes of capital are convertible into ordinary shares at a predetermined conversion price on a certain date or within a range of dates. Convertible bonds and convertible preference shares take on some of the characteristics of bonds and preference shares and some of the characteristics of warrants. This can make them complicated to value but, simplistically, they can be thought of as like a bond when the ordinary share price is less than the conversion price and like a warrant when the ordinary share price is higher than the conversion price. If, at the maturity date, the ordinary share price is less than the conversion price, holders of the convertible will be paid back the amount borrowed. If the ordinary share price is higher, holders of the convertible will convert into the ordinary shares.

Split Capital Companies

Split capital companies try to take advantage of the flexibility of capital structures to create new investment opportunities with different risk and reward characteristics than ordinary shares.

Zero Dividend Preference Shares

The most common type of split capital company is one that includes **zero dividend preference shares (zeros or ZDPs)** within its capital structure. Zeros are shares that will be redeemed at a fixed price at some defined point in the future (provided that sufficient assets are available). Their entitlement to the assets of the company rises in a straight line between their entitlement on issue and their redemption value. They are not entitled to receive dividends and rank ahead of the ordinary shares in the event of a liquidation.

It is possible to calculate a **gross redemption yield** or **GRY**. This is a measure of the rate of return offered by an investment up until the date it matures. It is usually expressed as an annualised percentage - a bit like an interest rate. It is worked out by annualising the total "interest" cost. ZDPs are usually priced by reference to their GRY. Companies publish a **cover ratio** – how many times the assets exceed the final cost of the zero. A low cover ratio represents a riskier investment and investors usually demand a higher GRY for a low cover ratio, and they will also want to be paid more for an issue invested in volatile assets (as there is a higher chance that the assets will not cover the zero when it matures).

Income & Capital Shares

Some other split capital companies have two types of share – **income shares** and **capital shares**. The idea is that the income shareholders get all or most of the income and the capital shareholders get all or most of the growth in the value of the assets. The income shares may be worthless in the event of a liquidation or they may get back a fixed capital entitlement.

Geared Ordinary Shares

Geared ordinary shares, also called ordinary income shares, get a dividend and what is left of the assets in the event of a liquidation.

Package Units

Combinations of the various classes of share capital (i.e. all the elements of the capital structure apart from the debt) are put together to form package units. Package units give you the same effective exposure as you would have had if the company had only issued ordinary shares.

TESTING NAPPIES. THE LENGTHS WE'LL GO TO FOR A BETTER INVESTMENT.

LET'S TALK HOW.

It may sound odd that nappy absorption could have an impact on one of the investment trusts from our global range, but it did. When researching two manufacturers in Asia, we questioned why one of them had declining sales. Management told us it was a marketing issue, but was it something more fundamental?

We ran an independent test and found their nappy just didn't hold water, which put them out of the running. Hands-on local research helped us make a better investment decision.

Our 390 investment professionals across the globe always dig deeper by cross-checking facts, asking the difficult questions and sometimes even testing nappies. We believe this gives us stronger insights across the regions and markets our investment trusts cover.

Fidelity's range of investment trusts

- Fidelity Asian Values PLC
- Fidelity China Special Situations PLC
- Fidelity European Values PLC
- Fidelity Japanese Values PLC
- Fidelity Special Values PLC

The value of investments and the income from them can go down as well as up and you may get back less than you invest. Past performance is not a reliable indicator of future results. Overseas investments are subject to currency fluctuations. Investments in small and emerging markets can be more volatile than other overseas markets. Some funds invest more heavily than others in small companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies. Resources figures reflect those of FIL Limited. Source: Fidelity International, 30 September 2017. Data is unaudited.

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ALEX DENNY, HEAD OF INVESTMENT TRUSTS – FIDELITY INTERNATIONAL

Keeping up in changing times

In today's world of innovative tech startups, disruptive business models, Uber, Airbnb - a world where Facebook is now for parents and cars can drive themselves - it might seem strange to be writing about a type of investment fund which has been around for 150 years.

What relevance can investment trusts have to investors today and how have they kept up with the changing times?

In good company

A history lesson on investment trusts would start with the launch of the Foreign & Colonial in 1868. Its purpose was "to give the investor of moderate means the same advantages as the large capitalists in diminishing the risk of spreading the investment over a number of stocks". This statement could still apply to all funds irrespective of their structure, today.

Of course, investment trusts aren't just funds. They are also publically listed companies and it is this structure which has not just allowed, but encouraged, them to develop and adapt as the world and its markets have changed.

Investment trusts are of course run for the benefit of investors. They are run by Managers, and Boards, which are accountable to those investors as real shareholders. The Board of Directors is subject to annual reappointment and the Board's pay and the policies governing the trust are also subject to approval. In turn, the Board appoints a manager to look after the assets of the trust - and if they do not deliver performance to meet shareholder expectation the Manager can be removed. This is a key differentiator to Open Ended fund structures.

The power of creative destruction

This power to remove managers is not just theoretical - real changes can be, and are, made. Action is normally taken after long term underperformance or to address negative sentiment toward a particular strategy, or market, where a wide discount is persistent. One need only look at the recent history of some of the oldest investment companies to see this effect. In January 2017, for example, Alliance Trust PLC (established in 1888) appointed a new external manager having been self-managed for decades. This marked a radical change in approach - adopting a multi-manager approach with Willis Towers Watson allocating assets amongst a range of external managers.

Similarly, the trust formerly known as British Asset Trust (established in 1898) has undertaken a series of changes of management in the last few years, undergoing a change of strategy each time, most recently becoming the Aberdeen Diversified Income and Growth Trust, approved by shareholders in March 2017.

These changes of strategy and manager could not happen in open-ended funds - where so-called "dog funds" can continue underperforming for years as savvy shareholders sell out, leaving an unsuspecting few languishing. Of course, if an investment trust continues to underperform or a discount persists shareholders can actually vote to terminate the strategy completely - with assets returned to shareholders at their book value (after costs) thereby negating any remaining discount.

Incentivised managers

There are other ways that investment trusts reinvent themselves. The mere prospect of a change of manager can incentivise a large management company to take action. The individual portfolio manager or strategy can be changed to ensure performance remains strong. After all, losing the management contract for an investment trust doesn't simply result in a loss of revenue for the manager - it hands that revenue directly to a competitor. With many investment trusts within the FTSE 250 this represents some very significant assets - a real incentive to asset managers to act.

At Fidelity, we are keen to ensure that we allocate our best individual managers and strongest strategies to the investment trusts that we look after. We have made several changes in recent years, not because we were failing to deliver on shareholders expectations but because we want to make sure we continue to make best use of the structure, and what it allows our managers to do. I firmly believe we, and other managers, will continue to do this and investment trusts will still be an excellent way of accessing different asset classes in the decades, or even centuries, to come.

This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. The value of investments and the income from them can go down as well as up so investors may get back less than they invest. Issued by Financial Administration Services Limited, authorised and regulated in the UK by the Financial Conduct Authority. UKM1217/21094/CSO8595/1218.

THE ROLE OF THE BOARD AND SHAREHOLDER RIGHTS

Every company needs a board of directors – they are the people that make the decisions for the company on behalf of the shareholders. Directors have a duty to look after the interests of shareholders (the owners of the company). This is a "fiduciary" or legally enforceable duty – directors can get into serious trouble for breaching this.

Directors are often referred to as "non-executive" or "executive". Non-executive directors play no role in the day-to-day management of the company. Their job is to make sure that the executive directors or managers, the people running the company, do their job properly. Most directors of investment companies are non-executive and investment companies do not need to have any executive directors if all of the day-to-day running of the company is outsourced.

The board meets regularly to review how the company is doing. They check up on the activities of the executive directors and the various people supplying services to the company (such as fund managers, accountants, bankers and brokers) and hire and fire them if necessary. They preside over the publication of reports to shareholders. They also have responsibility for the strategic direction of the company and for thinking about how to handle the risks that the company faces.

They setup various subcommittees to handle specific jobs – like the audit committee which looks after the company's accounts and internal financial controls and manages the relationship with external auditors.

New directors are usually chosen by the existing directors. They might set up a nominations committee just to carry out this function. Other people can suggest that they should be elected to the board. However, the ultimate decision rests with shareholders who approve all appointments.

Shareholders can get in touch with directors at any time but they get a chance to question directors in person at the company's annual general meeting (AGM). If you can attend the AGM, we suggest you do so. It is a good chance to meet the directors. Usually, the investment manager will be there too and will give a presentation on what they have been up to.

Anything that needs shareholders' approval, like the annual report & accounts, has to be voted on at a general meeting of all shareholders. If the directors do something that shareholders disagree with, there are rules that allow individual or groups of shareholders (you need 5% of the company or 100 of you) to put proposals to a meeting of all shareholders. That could include firing the existing directors – Your vote counts.

NET ASSET VALUES (NAVS)

The net asset value, (usually abbreviated to NAV), of the company is worked out by adding up the value of everything the company owns and deducting anything it owes. It is usually quoted as an amount per share.

The NAV is the most important bit of information you need to help you decide whether an investment company is attractive or not but unfortunately not all investment websites have NAV information. It pays to come to a specialist website such as QuotedData or go to the investment company's own website.

Many, but by no means all, investment companies publish their NAVs daily. For some companies though it is harder to value their investments. Investment companies investing in things like property or private equity (companies that aren't traded on a stock exchange), calculate their NAVs less frequently – maybe once, twice or four times a year. Remember to check how old the NAV is before you use it to decide if an investment company's share price looks attractive or not.

The NAV of a fund invested in listed assets is calculated using market bid prices. These reflect the price that a buyer is willing to pay for a security but they don't take into account the price you might get if the manager tried to sell all the fund's shares in one go.

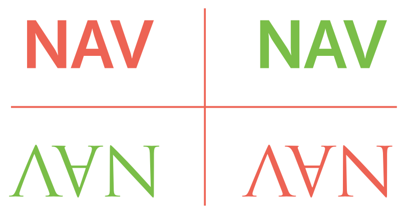
Now here's the confusing bit - investment companies may publish a range of NAVs:

The first two types of NAV are **NAV including current year income** and **NAV excluding current year income**. Historically the usual practice was to publish the NAV excluding current year income (current year income is all the dividends and interest earned by the investment company in its current accounting year LESS all the expenses of running the investment company that are charged against income). The assumption used to be that investors would get paid most of the current year income as a dividend so they were only interested in seeing how the underlying capital (everything that isn't income) value of their investment was doing. However there are times in the year when for some funds the current year income figure is quite large – maybe three or four per cent of the NAV. The powers that be decided that excluding current year income was misleading, so they asked investment companies to publish NAV including current year income. Some investment companies publish both however – so check which one you are looking at.

The next two types of NAV are **NAV with debt at fair** or market value and **NAV with debt at par**. The par value of the debt is simply the amount that the company borrowed. We looked at the concept of the market and fair value of debt on page 16.

NAV with debt at fair value (also called NAV with debt at market value) is a NAV adjusted for an estimate of the cost of repaying the debt today.

Everywhere we can in the QuotedData website we use NAVs calculated including current year income and with debt at fair value. We do this because this is closest to what you would get if the company sold all the assets in the fund today and gave you the money back. BUT remember that in the real world there may be costs associated with selling off the assets and winding up the company and the company may not be able to get bid price, especially if the assets are being sold off in a hurry.



WHAT IS A DISCOUNT?

The discount is the amount by which the net asset value exceeds the share price expressed as a percentage. But, in plain terms, it is just a measure of how popular an investment company is.

Less popular companies trade at a discount to their true value. Really popular investment companies often trade at a **premium** – in other words the share price is higher than the net asset value.

The price of shares in a company, like the price of apples or tomatoes, is determined by supply and demand. On the supply side, the number of shares available to buy in an investment company is usually fixed. If their shareholders have said it is OK, companies can issue new shares to help increase supply or buy back shares to help reduce supply but they don't have to. On the demand side, investors' enthusiasm for shares in a company comes and goes – the demand can fluctuate quite a bit.

Investment companies spend more time worrying about how popular they are than most companies. If an investment company trades at a big discount to the value of its assets for some time, aggressive investors could snap up the shares with the intention of winding the company up – buy at a discount, get out at asset value = nice profit! Clearly big discounts are a danger to the survival of an investment company.

Big premiums are problematic too; they have a tendency of evaporating, so the investment company's shares might do badly even when its assets are doing OK. This can make it look like the company is performing badly which can make it less popular and, hey presto, the investment company is trading on a discount.

Discounts that swing around too much are also bad news. You could catch the swing right – buy at a wide discount and sell at a narrow one. Unfortunately, for many people it doesn't work that way – they get sucked into buying a fund because it is popular and then get disheartened and sell when it's unpopular.

This is why it is important that the investment companies intervene on the supply side of the equation by **issuing** and **buying back** shares, reducing the absolute level of the discount and premium and the volatility.

MANAGING THE DISCOUNT

Issuing and buying back stock can help the asset value as well. Issuing stock at a premium benefits existing shareholders as new investors pay above the odds to get into the fund. The excess they pay over asset value benefits the whole fund. Buying back stock at a discount has a similar effect. Selling shareholders give up some value every time they sell for less than asset value. The amount they give up benefits the investors who still hold the fund as long as the shares are cancelled.

You might ask, should I ever buy a fund trading at a premium? The answer varies on a case by case basis but, as a general rule of thumb, it is best to assume that the premium will not last forever. For most of the past few years funds with high yields have been popular because interest on bank deposits and government bonds has been low. Most of these funds trade on premiums and have done now for a while. Think about what might happen though if interest rates start to rise.

You might then ask, is it always a good idea to buy a fund trading at an extreme discount? The answer to that is a resounding no. Sometimes funds are unpopular for a good reason. It might be that the asset value that the discount is based on hasn't caught up with reality yet. Also the fund might hold illiquid (hard to sell) investments that would fetch less than asset value if they had to be sold in a hurry. That doesn't mean there aren't some bargains out there but, always think about how liquid the underlying investments are and how up to date and real the asset value is.

When an investment company is trying to manage its discount, it can try to influence the demand side of the equation by spending more on marketing the fund or by adapting the investment objective and strategy to something more in fashion or by replacing an underperforming fund manager. However, while effective and important, these are all long-term solutions. In recent times, many investment companies have opted for increasing the dividends they pay as a way of attracting new income investors and narrowing the discount that way.

Investment companies can also manage their discounts by **buying back shares** and control their premiums by **issuing shares**.

Companies that have a persistent discount problem may introduce a **discount control mechanism**.

Discount control mechanisms come in different forms. Many are promises to buy back shares if the discount exceeds a certain level in normal market conditions. Some companies have adopted a **zero discount policy** which means they will issue or buy back as many shares as necessary to keep the share price trading close to asset value. This makes them a lot more like an open-ended fund and it is not something that an investment company can really do unless it holds investments that can quickly be turned into cash.

Some measure the discount over a period and if the average discount exceeds a certain level this may trigger a tender offer, a continuation vote or even a liquidation vote.

Regular continuation votes are a feature of many investment companies. Shareholders are asked if they want to keep the fund going and, if more than 50% of those voting say yes, it does.

Liquidation votes are a vote to wind up the company. Over three quarters of shareholders that vote need to say they want to liquidate the company for the vote to be passed.

Buying Back Shares

Investment companies need to ask their shareholders for permission to buy back shares and to issue them. Commonly, the investment company will put forward a resolution at its annual general meeting (AGM) asking for approval to buy back up to 15% of its shares. The resolution will usually also stipulate the conditions for doing this trade – something like "the price paid for the shares can be no more than 5% higher than the market price".

The shares that they buy back can be cancelled immediately or can be put into treasury. **Treasury shares** still exist legally but they don't get dividends and they usually are not recorded as an asset on the company's balance sheet. They also don't have a vote. The company should tell shareholders what the policy is with treasury shares. Most will say that they will not reissue them at a discount to asset value but some may say they will reissue them at a discount but only at a higher price than the company paid.

If the authority to buy back shares is used up before the next AGM, the company may call an **extraordinary general meeting (EGM)** part way through the year to renew the authority.

If a company wants to buy-back a lot of shares, one of the best ways to do that is through a **tender offer**. The tender offer is an offer made to every shareholder to buy back shares at a fixed price (usually set relative to the NAV less the costs of doing the tender - also known as formula net asset value). The company decides what percentage of shares it wants to buy-back and shareholders have the option to tender their shares or not. They can choose to sell none, some or all of their shares. To the extent that other shareholders don't want to tender their shares, selling shareholders can get out of more shares.

Often, when an investment company is in wind up mode, it will shrink through **compulsory repurchases** of shares. As the name implies, here the shareholder has no choice whether they participate in the buy back. Often these redemptions are accompanied by a consolidation of the remaining shares.

Issuing Shares

The resolutions that govern issuing shares tend to come in two parts. One will ask shareholders to approve the issue of a certain percentage of the issued share capital, and the other will ask shareholders if it is acceptable to disapply pre-emption rights when they do this.

Pre-emption rights are very important. The rules say that, unless you say otherwise, companies are not allowed to issue stock to new investors without offering it to existing shareholders first (pro-rata in proportion to the size of your investment). This wouldn't matter if the new shares were being issued at a premium to asset value (although really big shareholders might worry if they had less control over the company because they would end up with proportionately smaller voting rights). However, issuing new shares at a discount transfers part of the value of your investment to the new investor – not something an existing shareholder would be happy about.

When the company is expanding, you should be wary about the impact of a significant expansion of the company on the portfolio. If it took a while to invest a big influx of cash, this could drag down the returns on the fund (cash drag).

This is the reason why many investment companies issue **C shares** when they want to expand. C shares are a separate class of share with their own portfolio. When the board judges that the C share portfolio is sufficiently invested, the C share portfolio will be merged with the normal portfolio and the C shares converted into ordinary shares (using a formula based on their respective net asset values). Another plus point here is that the new investors bear the costs of issuing the C shares and getting the money invested.

ANALYSING PAST PERFORMANCE

"Past performance is not a guide to future performance"

You see this statement written so often in relation to funds yet huge effort is dedicated to communicating investment performance to potential investors – it is a big chunk of what we do at QuotedData too.

Is the statement true? Well, to a large extent, yes. Taken on its own, without any other information to provide some context to the numbers, past performance alone is not much use as an indicator of future performance.

We would argue though that performance data can be useful. We believe there are good investment managers and bad investment managers and managers who do better in certain scenarios and funds whose performance is pretty predictable because of what they invest in.

In part this argument goes back to whether there is any point to **"active"** investment management at all.

Active managers choose a selection of investments and invest a proportion of their portfolio in each investment – thinking about how much money they might lose vs. how much they are likely to make and the likelihood of both of these – usually referred to as **"risk versus reward"**. **Passive** managers tend to just replicate an index or otherwise follow blindly a set of rules that determines which stocks they hold and in what proportions, hoping that, on average, the market will go up.

For a long time a lot of theoretical work assumed that markets were **"perfect"**. Prices of investments reacted to news; everyone had access to the same news (otherwise you were guilty of possessing inside information), investors would act rationally (all react to the news the same way) and it wasn't possible to predict what the news would be. Therefore active investors were wasting their time trying to predict the news. You might as well buy a passive investment (especially because the fees charged on passive funds tend to be lower than those on active funds).

But we know the real world doesn't work that way. Investors aren't rational. They regularly get overly excited and overly depressed about investments. They don't all interpret news in the same way and sometimes it is possible to second guess what will happen to demand for products and services.

We think active investing works BUT not every practitioner is good at it.

Sifting the good managers from the bad managers replace requires careful analysis. Performance numbers are one fairly good indicator. Short-term performance numbers are not much use for this however. One lucky investment can distort short-term performance and cumulative long-term returns. To form an opinion, it might be better to look at longer-term data and individual one-year periods.

If you are trying to work out how well a manager is doing, it is important that you look at NAV, not share price performance. The share price can shift around quite a bit as the discount/premium changes. The NAV performance is a measure of the performance of the underlying portfolio.

It is easy to look at the track record of a fund and get excited about it only to discover that the person or team who generated the performance isn't around any more. We advise you to check that the manager hasn't changed.

It is rare to find a manager that can outperform in all market environments. The market can go through phases where it favours growth companies, defensive companies or inflation-protected securities for example. This can flatter some managers and hurt others depending on their investment style.

Think about gearing. Investment companies can gear their returns by borrowing money or by altering their structure through the use of things like Zero Dividend Preference Shares. This can flatter performance in upward markets and vice versa. You need to factor this in.

Although we believe past performance can be an indicator of future performance, managers are fallible just like the rest of us. Past performance should not be the only criterion for choosing a fund and considering how a theme or style may perform in the future is important.

Polar Capital Investment Trusts

Polar Capital is a specialist, investment led, active fund management company, which is 34% owned by its Directors, founders and employees.

We offer professional and institutional investors a wide range of geographical and sector funds based on a fundamental research driven approach, run by dedicated specialist teams.

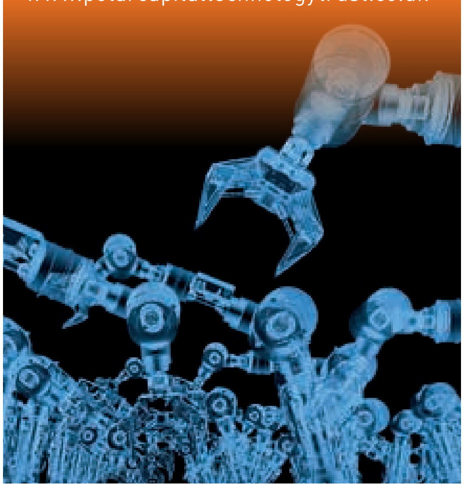
The Company manages three sector-focused investment trusts, covering three of the largest sectors in the world: Global Technology, Global Healthcare and Global Financials. Polar Capital manages over £2 billion across these three investment trusts for a very diverse shareholder base.

Polar Capital Technology Trust plc

GROWING OUR INVESTORS' ASSETS SINCE 1996

Polar Capital Technology Trust plc provides investors access to the growth potential of companies in the global technology sector. Managed by a team of dedicated technology specialists, this trust has grown to become a leading European investor with a multi-cycle track record – a result of the managers' approach to investing, with the ability to spot developing technology trends early and to invest in those companies best placed to exploit them.

For more information visit:
www.polarcapitaltechnologytrust.co.uk



POLAR CAPITAL GLOBAL HEALTHCARE TRUST PLC

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Healthcare is a long-term, secular growth sector as ageing populations drive the demand and the need for increased healthcare provision. Global healthcare spending was over $7.6 trillion in 2014 and is projected to grow faster than GDP. The political conundrum is how to deliver better healthcare to more people for less money. Healthcare companies with products or services that deliver demonstrable value and drive efficiency are well-placed for growth.

For more information visit:
www.polarcapitalhealthcaretrust.co.uk

Polar Capital Global Financials Trust plc

OILING THE WHEELS OF THE WORLDWIDE ECONOMY

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POLAR CAPITAL GLOBAL FINANCIALS TRUST PLC

"Opportunity is missed by most people because it is dressed in overalls and looks like work" – Thomas A Edison.

When the Polar Capital Global Financials Trust plc ("PCFT") was launched in July 2013 - to provide a lower risk way for investors to gain exposure to the financials sector - for many the sector at the time was still, but not without good reason, uninvestable; it was also too complicated and hard work. The fact that the financials sector has delivered 68.7%[1] in the intervening period and the Trust 70.6%[2], is at odds with the perception of the sector. Including what UK banks have paid out in PPI redress in recent years, banks have in total paid out over US$450bn in fines since 2008. Post financial crisis regulation has lifted capital requirements and compliance costs much further than anyone envisaged, the latter by six fold for many U.S. institutions. Last year the impact of low and negative interest rates raised the prospects of profitability of the sector being crushed.

But the easy mistake is to look at the sector through the lens of the failings of a very small number of large banks or to extrapolate short term macro trends too far into the future. The financial sector is the largest sector globally representing between 18.1% and 21.2% of global indices, depending whether one includes real-estate investment trusts. It is not only about banks which have many different guises from private banks to commercial banks and large so-called universal banks which represent the largest part of the sector. It also includes insurance companies, life assurance companies, insurance brokers, stock exchanges, asset managers and wealth managers as well as the more esoteric such as gold lenders and so on. There are therefore significant opportunities within it to find attractive investments.

It pays to remember that, for the most part, the financial sector does well when the economies and financial markets in which they operate are performing well. But in contrast to previous economic cycles it is also a beneficiary of rising interest rates. As interest rates have remained low since the financial crisis so margins of banks have come under pressure. We have started to see the reverse happen as US interest rates have started to rise which has led to stronger earnings expectations and share prices. If the Eurozone economy continues to improve then their banks too will be significant beneficiaries. In Asia and Emerging Markets, longer term structural drivers from the much lower levels of consumer debt and higher savings ratio offer significant growth potential long term.

There are eight fund managers and analysts in the financials team at Polar Capital, one of the largest if not the largest team's investing in the sector managing US$2.3bn of assets.

The increased capital requirements and regulation since financial crisis has significantly lowered the risk of the sector. With many companies trading on undemanding valuations it offers the potential to continue to surprise to the upside.

For further information please visit
www.polarcapitalglobalfinancialstrust.co.uk

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POLAR CAPITAL

Disclaimer:
[1] Financials Sector: MSCI World Financials + Real Estate Index. 1 July 2013 to 30 November 2017. Total Return in GBP terms. [2] PCFT NAV Total Return. Since launch: 1 July 2013 to 30 November 2017. Total Return in GBP terms. Source: Polar Capital, December 2017 - This is not and does not constitute an offer or solicitation of an offer to make an investment into any Fund or Company managed by Polar Capital. Polar Capital Global Financials Trust plc is an investment company with investment trust status and its ordinary and subscription shares are excluded from the FCA's (Financial Conduct Authority's) restrictions which apply to non-mainstream investment products. All opinions and estimates constitute the best judgement of Polar Capital as of the date hereof but are subject to change without notice and do not necessarily represent the views of Polar Capital. Performance is stated net of fees and expenses and includes the reinvestment of dividends and capital gain distributions. Past performance is not a guide to, or indicative of, future results. A loss of principal may occur. The following benchmark is used: MSCI World Financials and Real Estate Index (£ adjusted). This benchmark is a broad based index which is used for comparative/illustrative purposes only and reflects reinvestment of dividends and, where applicable, capital gains. Investment results and volatility of the Fund may differ from the Benchmark. Please refer to www.msci.com for further information on this index.

“You have to speculate to accumulate”

One of the problems of investing money is the risk associated with it. Within the investment world a whole industry has emerged focused on risk, but it is a subject that causes a lot of confusion.

Risk is really all about two things – the chance of losing some or all of your money and the chance that, over the short term, the value of your investment might change dramatically – this is referred to as **volatility**.

Naturally, people want to be compensated for taking on extra risk and so, on average, the greater the risk associated with an investment, the more the investor hopes to earn out of it.

The risk of losing money is hard to quantify and so most measures of risk you see are referring to volatility.

Volatility by itself isn’t a problem unless there’s a chance that you might have to sell your investment before it matures which could coincide with a time when the value is low. That means that volatility can be more of a problem when you make a short-term investment into what should be a long-term investment.

When investment managers talk about risk they are often talking about how big their bets are relative to their benchmark or their peer group competitors. They are worried about underperforming and getting sacked as a result, which is not the same thing at all.

Avoid Losing Some Or All Of Your Money

The chance of losing some or all of your money depends on a number of factors. The easiest way to think about this is to use some real world examples.

Most people might think that cash is the safest thing to own, but what happens if it gets stolen? If it is kept it in a bank it will be safer – unless the bank goes bust that is. Having a bank account is like the bank owing you money. In normal circumstances there is a low risk attached to the bank going bust so a bank deposit is low risk.

In normal circumstances having, say, the Swiss or US government owe you money would be even lower risk – debt issued by these governments is often considered to be amongst the lowest risk investments you could make.

Having a company owe you money is riskier, but some companies will be less risky than others and some are considered as low risk as some governments.

Owning shares in a company is riskier than them owing you money – if the company goes bust the people that lent the company money get paid out before the shareholders.

The longer you have to wait for your investment to pay off, the more chance there is that something will go wrong with it – all things being equal, long-term investments are riskier than short-term investments.

This is normally evident in the pricing of debt or bonds, for instance. Debt that matures in a short time frame generally pays a lower yield than debt that matures later as investors want to be compensated for taking on the extra risk associated with tying up their capital for a long time.

If you are investing in the debt or shares of a company you should think about its **business risk**:

- Is the company backed by real assets such as property and cash or does its value come from the hope of cash flow in the future, like a biotech company developing a drug?
- Could the company suddenly lose all its business to a competitor or is its position made more secure because it owns patents?
- Does the company control the prices it sells its product for, the prices it pays for the raw materials and wages for the labour that goes into making its product?
- Is the delivery of the product dependent on the availability of a few key people? What would happen if they weren't there?

These are some of the many things investment managers think about when they are investing in companies.

When thinking about risk, you should also take into consideration the location of the asset that you are investing in.

If it is overseas you might have to think about **currency risk** – the chance that your investment will become more or less valuable as the investment's currency moves against your home currency.

Is there **political risk** associated with investing in this place? How easy/likely is it that the actions of the local politicians will alter the attraction of your investment? Even places like the UK have a tendency to make sweeping policy changes that change the investment landscape.

How good is the legal system and local standards of corporate governance? Fraud and corruption are endemic in some countries. Some have very low protection for small investors. Also, some economies are more susceptible to external shocks, such as rising oil prices, than others.

Gearing/debt is risky. Generally, the more **indebted** your investment is, the riskier it is. It is not just a question of whether the interest can be paid. Often loans come with conditions attached (called covenants) and if these are breached there can be serious consequences. For example, some property companies that borrowed money in the boom times of the mid 2000s suddenly found that their loan to value covenants were breached and the lenders were demanding their money back even though they were paying interest on time.

You should also think about this issue if you are thinking of investing in derivatives, including warrants and subscription shares, or if you are thinking about borrowing money to invest.

Concentration risk – having all your eggs in one basket is never a good idea. To reduce the chance of losing some or all of your money, it is best to diversify your portfolio (invest in lots of different things). Don't overdo this though – if you have too many investments they will be harder to keep track of, your dealing charges will be higher and there's more of a chance that your bad investments will cancel out your good investments.

Measuring Volatility

Volatility is measured in a number of ways but the most common measurement is **standard deviation**. This is worked out using a formula: the square root of the average difference from the average value. A big standard deviation means lots of volatility and vice versa.

Investment Manager's Measures Of Risk

As we said previously, investment managers often think about the risk of their investments compared to the risk of an index or the average of their competitors' investments (the benchmark). They try to generate active returns (outperformance of the benchmark).

Tracking error is a measure of how closely a portfolio follows an index – worked out using the standard deviation of the portfolio's returns relative to the benchmark. It is used as one measure of active risk. A high tracking error suggests the portfolio is more volatile than the index and a low tracking error suggests the portfolio is less volatile.

Active risk relates to how big a bet the investment manager is making relative to the benchmark. A perfect index-tracking fund will hold all the same stocks in all the same proportions as the benchmark – its active risk is zero. Every time the investment manager decides to not hold a stock that is in the benchmark or causes the portfolio to be underweight or overweight a stock relative to the benchmark, the active risk increases. BUT remember that doesn't mean the fund is riskier in the real world. If the manager chose to not invest in any company that borrowed money or wasn't backed by real assets, their active risk would be large and the risk of them underperforming the benchmark would be higher but the risk of you losing money because the company went bust would be far less

Dividing the active return (difference between the benchmark and the actual return) by the tracking error gives you the **information ratio**. This is supposed to be a measure of how good the manager is at outperforming without taking too much risk.

Beta is a measure of how volatile a company's share price is relative to an index. A beta of one means that the share price moves in-line with the index. A beta greater than one means the share price outperforms a rising market and underperforms a falling market. A beta less than one means that the share price doesn't rise as fast as the rising market and doesn't fall as fast as a falling one. Betas are worked out using historical data and, in our opinion, this means they don't work well in the real world as companies' circumstances change over time.

There are plenty of other measures of risk out there that are even more convoluted. We think that generally, the more complicated these things are, the less use they are in the real world. Remember your primary concern should be not losing more money than you can afford to.

INCOME, DIVIDENDS AND YIELDS

For many investors, one of the main attractions of investing in investment companies is the income they provide. Investment companies collect dividends, interest and rents and, after deducting running costs, pay dividends to shareholders.

Unlike open-ended funds, investment companies have the ability to hold back some of this income (up to 15% of all income in the case of investment trusts and up to 10% of property rental income in the REITs) which they accumulate in revenue reserves. They can then dip into these in the hard times when their income drops and maintain or even grow the dividends they pay to shareholders.

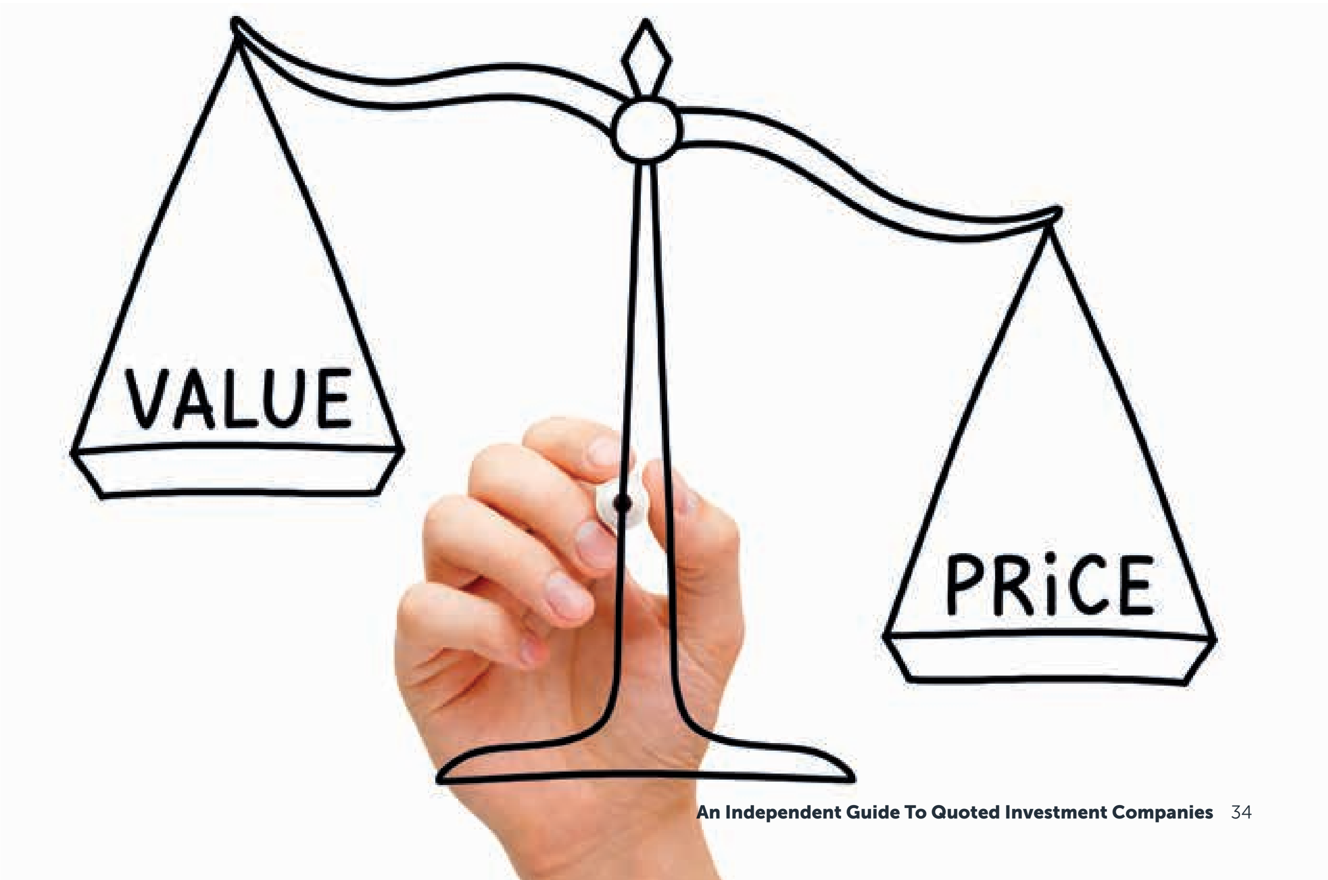
Comparing the revenue earned against the dividend paid gives the dividend cover (revenue divided by dividend).

The ability to smooth dividends by using revenue reserves gives investment companies a big advantage over open-ended funds. There are many investment companies that have a record of increasing their dividends every year for the last 20 years and 10 funds have achieved this over more than 40 years – good news if you are relying on your dividend payments.

It used to be the case that investment trusts could only pay dividends out of income but since 2012, they have been able to pay dividends out of capital profits as well. For example, some funds, such as some private equity funds, that normally do not have sufficient income to pay a decent dividend, now pay out a percentage of their NAV each year.

At QuotedData, each month we publish the dividend cover figures on all investment companies that have recently declared their full-year dividend.

We also publish a list of all the dividends announced by investment companies; how much these are, when your name will have to appear on the share register to get paid the dividend (the record date), which is the day after the ex-dividend date (when the share price changes to reflect the dividend) and the pay date.



FEES AND EXPENSES

Shareholders want to get the most out of their investment and a good manager can make an enormous difference to your long-term returns. Persistent outperformance can dwarf even the most expensive fees. However, compounded, high fees can really eat into returns.

You want your managers to be motivated to do their best but it is true that some managers get paid too much. You might be right to be suspicious of a manager who can make multimillions just by turning up to work and collecting the annual management charge. Where is their incentive to add value? Remember though that your fees are paying for a lot more than just the fund investment manager.

The **ongoing charges** ratio is a measure of all the ongoing running costs of a fund expressed as a percentage of average net assets. This includes bank charges, lawyer's fees, directors' fees, marketing costs, custodian's fees, stock exchange listing fees and all sorts of day-to-day expenses. This is the measure that we at QuotedData display within the sector data tables.

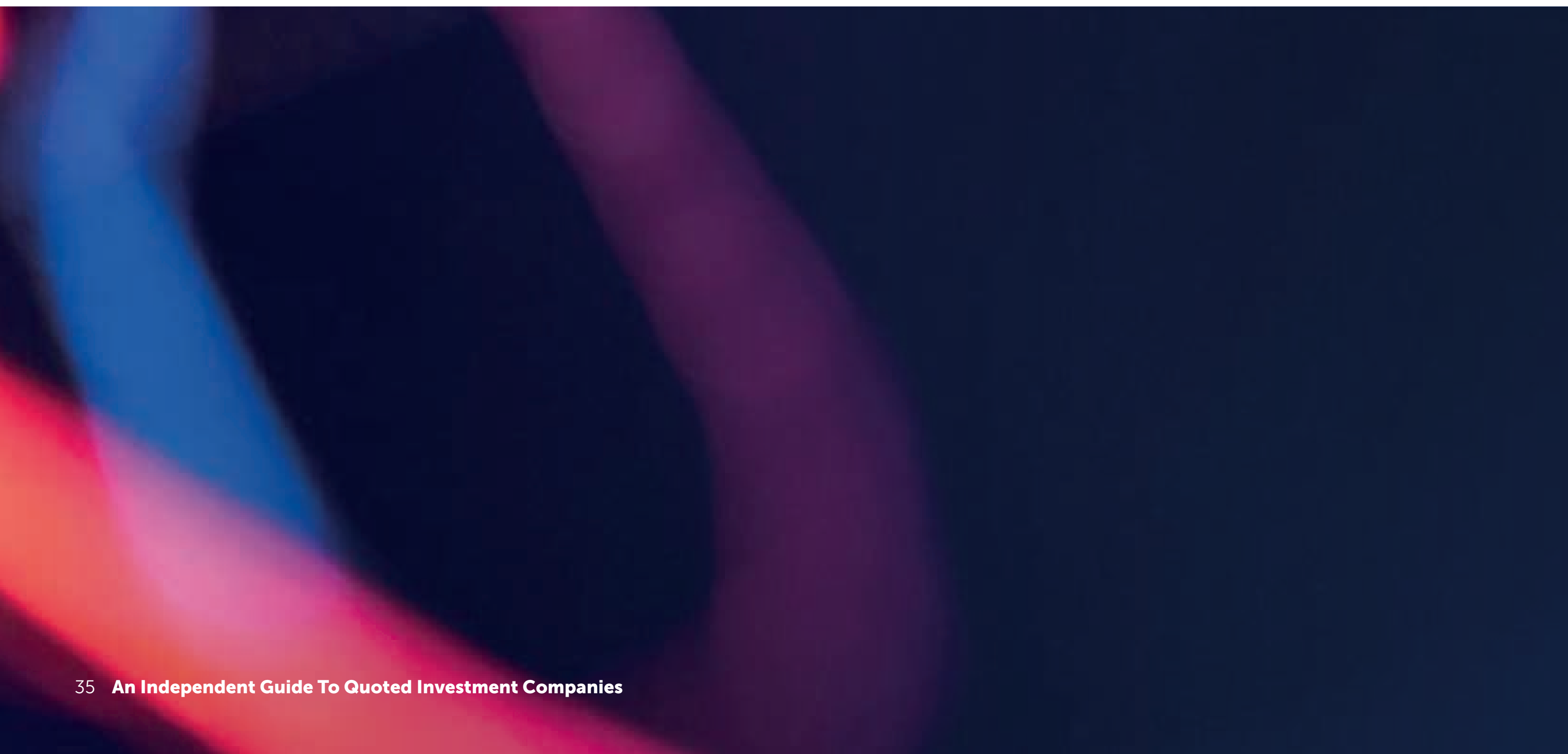
Unless an investment company manages its own investments (and there are quite a few that do – these are called self-managed funds), the fund will need to hire an external manager and they want paying. There is no standard way of working out the management fee but here we have tried to explain some of the most common ones.

The simplest fee is a flat one - £250,000 per year say – there is a good argument for saying that a large fund does not require much more effort to run than a small one – why not pay the manager just for the effort he or she puts in.

In practice though the only funds that tend to work this way are the self-managed funds. Managers would argue that by basing the fee on the size of the fund, they are incentivised to make it bigger by performing well and are penalised for losing money.

In practice, most fees are charged as a percentage of the size of the fund but "size" can be measured in different ways.

The best of these fees are based on the lower of market capitalisation and net assets. Using market capitalisation rewards the manager on the size of the fund and how well its shares are rated by investors. Therefore, the manager has an incentive to keep the discount tight and get the fund trading at a premium if possible.



Most fees are based on net assets but some fees are based on gross assets, i.e. net assets plus debt. This has the potential to be bad news for shareholders as it gives the investment manager an incentive to borrow money, increasing risk.

Some fees are tiered so that higher fees are charged on for example, the first £100m of assets, a lower fee on the next £100m and so on.

Performance Fees

Performance fees often attract bad press because many have been badly thought out. Whether by accident or design some managers have walked away with enormous sums of money just for having one good year, sometimes without even beating any benchmark. Designing a good performance fee is all about aligning the manager's interests with the shareholders'.

First you need a benchmark or a hurdle; whether this is an index, a peer group average or a return based on outperforming the risk-free rate (the theoretical rate of return of an investment with no risk of financial loss) depends on the fund. A few funds (mainly hedge funds and private equity funds) get performance fees just for making profits; some people think this is setting the bar too low.

Then you need a high watermark so that fees only accrue if the NAV has risen since the last time a fee was paid. Funds that invest in volatile assets can alternate between very good and bad years. If they manage to earn a performance fee every time the assets go up, over the long term shareholders can end up seeing money being paid out while the NAV drifts sideways or even falls.

You need to ensure that the right people are being motivated. Ideally Boards should ensure that the majority, or even maybe all, of a performance fee gets paid to the people that generated the outperformance.

Good performance fees should encourage long-term thinking. One of the easiest ways to do that is to insist that performance fees are paid in shares in the fund that cannot be sold for a number of years. More complicated fees use clawbacks or can only be earned over multi-year periods.

Ideally, earning a performance fee should not be like winning the lottery. You want your manager to be delivering long-term outperformance, not considering early retirement, so capping the fee makes sense. Some managers will argue that this means that if they hit their cap early in a year, they will batten down the hatches and take no risk until it crystallises. However, assuming the cap has been set at a reasonably ambitious level, shareholders should be quite happy with that.

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Aberdeen Standard Investments is a leading global asset manager dedicated to creating long-term value for clients. To achieve this, we offer a comprehensive range of investment capabilities, as well as the highest levels of service.

Overall, we manage worldwide assets worth £583 billion* on behalf of clients in 80 countries. In managing these assets, we employ over 1,000 investment professionals and provide client support from 50 client relationship offices globally.

The Aberdeen Standard Investments brand was created in connection with the merger of Aberdeen Asset Management PLC and Standard Life Plc on 14 August 2017 to form Standard Life Aberdeen plc.

* Standard Life AUM/AUA data as at 30 June 2017, Aberdeen Asset Management AUM data as at 31 March 2017, all other data as at 30 June 2017

Fidelity was established in 1969 and offers world-class investment solutions and retirement expertise. It is a privately owned, independent company managing US $411 billion across the major asset classes.

Fidelity's model of private, independent ownership ensures it consistently acts in the best interest of its clients. It provides a long-term framework enabling heavy investment into technology and innovation to continually improve performance in supporting the goals of Fidelity's clients.

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Fidelity has nearly thirty years' experience managing investment companies, managing over £3.75 billion in assets across five investment trusts. Our regional strategies invest in the UK, Europe, China, Japan and Asia, and all are equity growth strategies. Fidelity International won the Premier Group category in Money Observer's 2015 & 2016 Investment Trust awards and was highly commended in the 2017 awards.

OUR SPONSORS

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Founded in London in 1985, Jupiter is an established asset manager with an increasing presence in Europe and Asia. As we have grown, our strong culture has been essential in keeping our entrepreneurial, talent-driven spirit. We believe in active fund management, working together to share investment ideas, yet ensuring our fund managers take individual responsibility for their own portfolios. Jupiter offers a broad range of actively managed strategies including equities, fixed income, multi-asset and absolute return.

Polar Capital

Polar Capital is a specialist investment management company offering professional and institutional investors a range of fundamentally research-driven funds diversified by asset class, geographical and sectoral specialisation. Since its foundation in 2001, it has steadily grown and currently supports 11 investment teams managing 22 funds and three managed accounts across a range of long-only and alternative products, with combined AUM of £11.7billion.[1]

[1] All data as at 29 December 2017.

DISTRIBUTION PARTNERS

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Alliance Trust Savings (ATS) is an award-winning platform provider, looking after the investments of more than 110,000 customers and over £15 billion of assets (December 2017).

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By value, investment trusts are our customers' most popular type of investment. We have capacity to offer investment trusts on a whole of market basis, meaning if a trust isn't on our extensive list, we'll do our best to add it on request.

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No matter what changes have come along from regulators, we have adapted our Platform to ensure advisers and their clients remain compliant, all the while keeping things simple – quite a challenge. Listening closely to our customers, we've implemented enhanced client reporting, mobile/tablet access for clients, share trading, integration with new back-office systems and novel retirement drawdown solutions.

Above all, to ensure clients' money works hardest for them, we stand out by pre-funding across the spectrum of investment events – from sums paid in (maximising investment time) and movement of money between investment options, right through to withdrawals out (so clients access their money faster). We've also innovated with unique investment life cover, designed to protect clients from investment loss should they die after starting their Zurich Portfolio in the first five years.

Technology is today's buzzword, and ours is top-rate, but we never forget we're a people business – clients and advisers will always remain front and centre.

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Transact is the leading independent investment wrap platform in the UK. First established in 2000, we now have over £30 billion of assets under administration in over 150,000 client investment portfolios. The wrap service uses an online platform, owned and built by us, combined with dedicated regional adviser support to bring assets, investments and tax wrappers together in a smarter, more tax efficient way.

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Over the years we have won numerous industry Awards, most recently Money Marketing Best Platform Award (2017), Financial Times Adviser Online Innovation and Service Awards in both the Investment Innovation and 5 Star Investment categories (2017) and Moneyfacts Best Wrap/Platform Award (2017), amongst 60+ others.

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Owned by Fidelity International, a private company, allows us to make plans over years and decades, rather than having to meet the short-term interests of shareholders. Over the last five years, we've invested significantly in our platform so that it fully supports the needs of advisers and their clients.

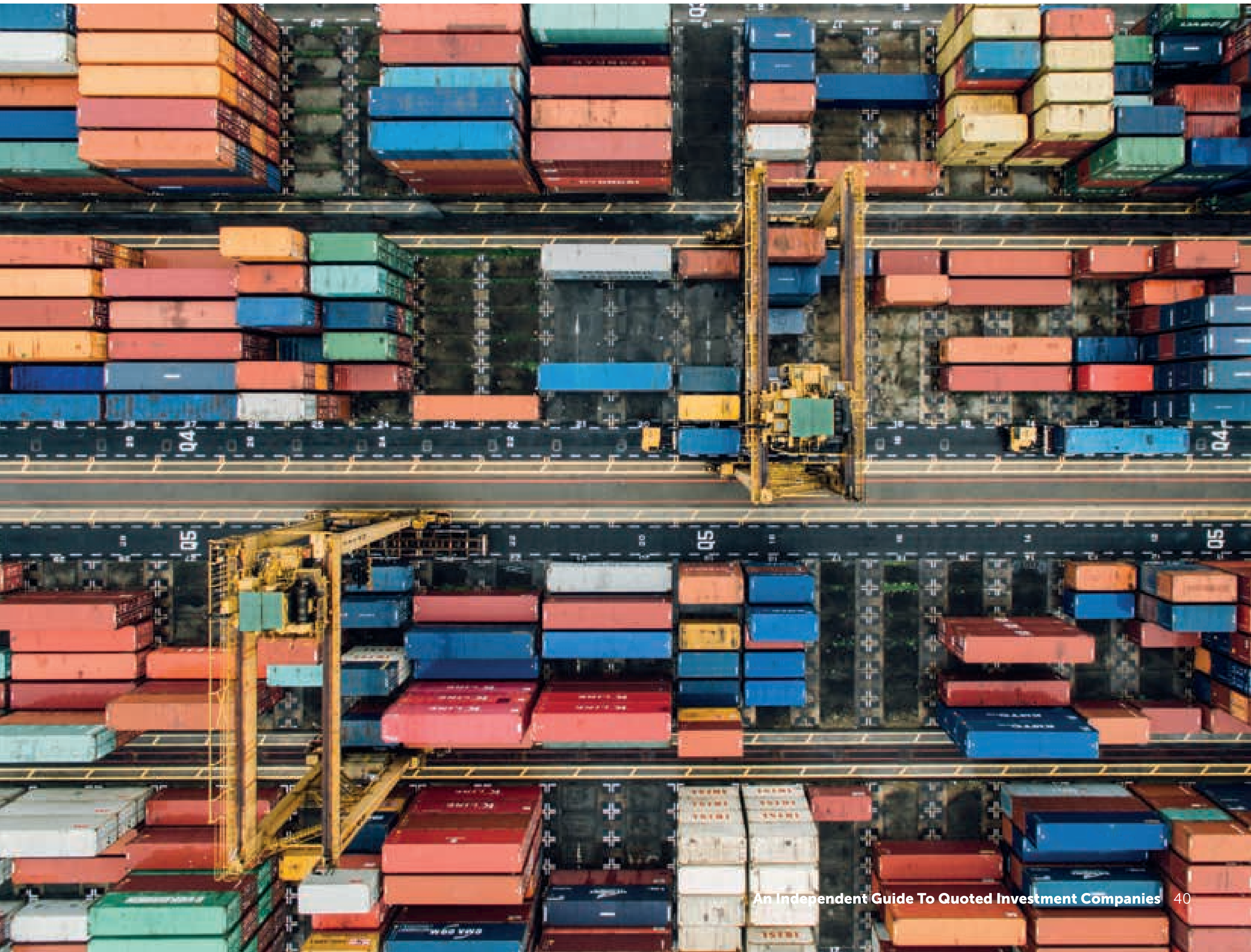
Our goal is to help advisory firms grow and develop through providing the services, products and functionality required. We wish to work in partnership – today and into the future.

Fidelity Personal Investing

Fidelity Personal Investing is our direct-to-customer investing service. We aim to help UK investors achieve their investment goals by providing everything they need to make their own financial decisions.

Fidelity Personal Investing helps people manage their own investments – whether that be within an ISA, a SIPP or an Investment Account – by providing expert guidance, easy to use tools, and market leading customer service – all with clear, great value pricing.

In total, Fidelity is trusted with the administration of over £72 billion of assets on behalf of over one million investors in the UK (as at December 2017).



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Free, reliable research for everyone

QuotedData is part of Marten & Co (**www.martenandco.com**), our other highly respected financial services business, which provides information and research for professional investors.

Both offer investment information, but there's a difference. QuotedData is for investors who find it hard to access high quality, reliable, equity research on UK and European-listed companies – perhaps because they don't have a budget for it. We don't think that's fair, so we offer information for free.

How it all works

We produce and distribute independent, objective notes on carefully selected companies, some of whom sponsor the research. We write with a balanced view – free of opinion and recommendations. Our goal is to provide you with all the information you need, to make your own investment decisions.

At the moment, you can expect to find notes on investment trusts, financial stocks, property companies, REITs and mining shares. This site is expanding all the time though, providing more and more valuable information. We aim to cover the whole of the equity market, in the not too distant future. And there's more. We pride ourselves on the quality of our research, but we also offer much more information to help our readers.

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You can follow us on Twitter **@QuotedData** and on LinkedIn and Facebook. Feel free to retweet, or share our posts – it's good to spread the word. And if you would be interested in hosting our notes on your site, or republishing our work, let's have a chat about that too. Our content is already much in demand by third-party websites, such as news publications – see Services We Offer for further details.

Last but not least

We can provide you with lots of information to help you make informed investment decisions, but we can't offer advice or opinions. So, if you still have questions after you've checked out our site, we'd suggest you talk to a good financial adviser or wealth manager.

And finally, as you might expect, we're professionals: QuotedData is a trading name of Marten & Co who are authorised and regulated by the Financial Conduct Authority. Note: information provided by QuotedData is not regulated investment notes.

FURTHER READING

You could spend a lifetime studying this topic, but if you have any questions please email us at **research@quoteddata.com** and we will try to answer them. We'll also aim to incorporate the answers to frequent questions in updated versions of this guide.

If you want to learn more about individual investment companies, our website **www.quoteddata.com** has news on the sector, a page on every investment company traded in London and tables that allow you to compare similar investment companies on attributes such as performance, discount, charges and gearing levels. You will also find our monthly and quarterly research covering the whole sector (what's performing well and badly; what is looking highly or lowly rated on discount/premium terms; who is raising money and who is handing it back; dividend announcements and major news stories). We also publish our valuation sheets for zeros, warrants and subscription shares each month and update a list of recently announced dividends at least once a week.

It might also be worth your while visiting the websites of the investment companies themselves. These are often maintained by the investment manager.

Last but by no means least, QuotedData's website contains the notes we publish on selected investment companies (and mining companies). This analyses the workings of these companies in great detail. If the fund you are interested in is not there, then why not email the managers and ask them to sign us up!

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