Edison Explains

How to buy and sell investment trusts

Investment trusts offer investors a way of investing in multiple companies at once. How can an investor buy and sell shares in investment trusts?

How can individuals buy and sell shares in investment trusts?

The three main choices for investors considering buying or selling shares in investment trusts are to go via a stockbroker, buy direct from the fund manager (usually through a savings scheme), or use one of the many online investment platforms.

Investment trusts are listed companies, so they can be bought and sold through a stockbroker just like any other company share. Increasingly, rather than sending physical share certificates to the shareholder, the stockbroker will buy and sell shares electronically on the investor's behalf through a nominee account, which aggregates the holdings of many investors.

Although this is administratively simpler and reduces the possibility of an individual losing share certificates, the investor's name does not appear on the share register of the trust, and as such they may be excluded from certain benefits such as automatically receiving annual reports, voting forms and so on.

Investors who do not wish to have their holdings pooled with other shareholders may open a CREST personal account, allowing the investor to hold shares electronically in their own name. CREST is the central electronic settlement system used by the London Stock Exchange. However, individuals wanting to hold their shares this way will usually have to pay an extra charge and they may find their stockbroker does not offer such a facility.

How can investors in investment trusts improve their range of choices?

Investors can buy from an increasing number of online 'platforms' and 'fund supermarkets', which allow electronic buying, selling and holding of both open- and closed-ended funds and shares.

Edison Insight

'While there may be less choice of manager-run investment trust savings schemes than used to be the case, the online investment platforms that have filled this gap in the market often offer a wider range of investment choices, portfolio management tools and information.' Sarah Godfrey, investment companies analyst

These platforms offer individuals the administrative simplicity of having all their investments in one place, although different types of investment may be treated differently in terms of account fees. Some, for example, impose dealing charges on regular savings into investment trusts (because they are technically 'shares'), but not into open-ended funds.

Online services may offer investors preferential terms on a core range of more popular trusts, while other services concentrate primarily on open-ended funds and may offer a limited range of investment trusts or none at all.

Investors must be aware of the wide variety of fees and charges when choosing an online platform and should investigate areas such as 'wrappers', like individual savings accounts (SAs) and self-invested personal pensions (SIPPs), and whether the service charges percentage or flat fees.

Where else can shares in investment trusts be bought?

Shares in investment trusts can be bought from the fund manager, either with a lump sum or as part of a regular savings scheme. These schemes are used for long-term saving and may accept investments from as little as £25 or £50 a month. That said, investors may be charged an additional annual fee for using the scheme, on top of the trust's fees.

Manager-run saving schemes may also give individuals access to a variety of investment 'wrappers', including individual SAs (ISAs) and junior ISAs. These wrappers offer investors tax-free returns on their investment.

Because these saving schemes are manager run, there is often little investment choice for an individual, as managers are unlikely to offer access to any trusts other than those they manage.

In recent years there has been a trend for fund managers to transfer their in-house savings schemes to third-party platforms, so there is less choice of manager-run platforms than previously. This saves costs for the manager (which can be of benefit to all shareholders in an investment trust) and means greater choice for the investor.

What else do investors need to be aware of when using a platform?

Before buying shares in an investment trust, investors will need to consider what happens when they want to sell their holding. Some platforms may not allow partial transfers out, particularly of ISA holdings, meaning investors must either leave the investments where they are or sell the whole holding. Equally, others may not accept transfers in.

Having to sell out of a holding and then repurchase it to move from one platform provider to another may leave the investor open to unfavourable share price movements. If the holding is not in an ISA, the sale may also give rise to a potential capital gains tax liability, which would not be the case with an 'in specie' transfer (transferring assets without selling the underlying investment).

A further consideration is whether the chosen platform allows investors to exercise their voting rights as shareholders, such as at the investment trust's annual general meeting. While most platforms allow all shareholders to vote, they may require much more notice of the investor's voting intention than would be the case if the investor was voting directly, as they must aggregate all of the platform shareholders' votes.

Investment trusts do provide investors with access to many different types of asset, with different risk and reward profiles. However, individuals may wish to seek advice from a financial adviser before deciding to invest to identify the most appropriate trusts and wrappers for them.