

Why does Scottish Mortgage buy back shares?

Why does Scottish Mortgage buy back shares? It might seem a little odd to know that Scottish Mortgage not only buy shares in other companies, it also buys back its own shares. The reason for doing so is to support the share price.

As I explained in the discounts and premiums video, the share price can trade at a discount below the Net Asset Value. Buying back shares can help prevent the discount from becoming too large. That's because while a discount can be good for new investors who feel that they're getting a good deal. If the share price falls below the asset value, it's bad for existing shareholders as they're not getting the full benefit of the growth in the trust's investments.

A large discount indicates that there is an oversupply of shares in the market, so Scottish Mortgage buys them back to reduce the number of shares in circulation to help match supply with demand. In doing so, it narrows the discount or gap between the share price and its Net Asset Value.

After their bought, the shares are held in the treasury where they can then be reissued when investor demand improves. Ultimately, the best way for Scottish Mortgage to avoid big discounts is to produce good investment performance, which tends to create demand for its shares.

Watch all of our educational films on investment trusts at www.scottishmortgage.com/aboutus

Important information and risk factors

All investment strategies have the potential for profit and loss. Your or your clients' capital may be at risk. A Key Information Document is available at www.scottishmortgage.com

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The trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the Trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the Trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.

The trust can buy back its own shares. The risks from borrowing are increased when a trust buys back its own shares.

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