

What is Gearing?

What is gearing? Just like other publicly listed companies Scottish Mortgage can and does borrow money to make additional investments. This is an advantage over most open-ended funds, which are not permitted to do so.

Before that sets alarm bells ringing. It's worth knowing that it does so modestly and that this is reviewed by the managers and the board of directors regularly.

So what's it all about? Well, it is known as gearing because just as gears on a bicycle multiply your efforts, financial gearing can amplify investment returns. The central idea of gearing is that the additional investments made will make enough money to pay off the loan, including interest, and deliver a profit on top of that.

So if it works and performance is positive, the more the trust borrows, the more the share price will appreciate. However, it's worth bearing in mind that the opposite is also true. To find out what closed ended means, you can watch the next animation.

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

Risk Factors

All investment strategies have the potential for profit and loss. Your or your clients' capital may be at risk.

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.

Regulatory Information

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- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the securities pursuant to an offer made under Section 275 except:
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 - (2) where no consideration is or will be given for the transfer;
 - (3) where the transfer is by operation of law; or
 - (4) pursuant to Section 276(7) of the SFA or Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.