

Alternative Investment Fund Managers (AIFM) Directive

I am writing to you as Chairman of Capital Gearing Trust plc (CGT), an investment trust incorporated in 1963 and listed on the main market of the London Stock Exchange.

CGT has been highly successful in delivering returns to shareholders year on year by investing in other investment trusts as well as other asset classes and, reflecting the growth in net asset value, the share price has risen from 21.25p in April 1982 to the current price of £25.60. Our shareholder base consists mainly of private individuals with a small number of pension funds.

As an investment trust as well as a shareholder in other investments trusts, the Directors of CGT have a number of concerns regarding the proposed AIFM Directive (the "Directive"). Many of our key concerns would be resolved if the Company were able to register to have the Directive imposed on itself and thereby assume direct regulatory responsibility as the AIFM. This is an argument being developed by the Association of Investment Companies and we support this approach.

We view the investment trust movement as the most efficient savings medium in the UK and are therefore of the opinion that any undermining of this would disadvantage investors for no obvious reason or gain.

We also believe that many of the unfortunate consequences of the Directive are unintended and feel sure that the issues for investment trusts can be addressed without affecting the main purpose of the Directive.

In particular, we are alarmed at the prevention of new issues of shares (arising from the current construction of Article 4) and the difficulty in owning illiquid investments caused by the requirement to offer redemption at all times (as a consequence of Article 12). Throughout the life of CGT there have been numerous value enhancing changes to the capital structure through the issuing and redemption of shares; the Directive would not allow this and would restrict the actions of the Company to the detriment of shareholders.

As investors we are also concerned that the reduction of control by the Board of Directors over risk management in favour of the external manager contravenes our expectations of proper corporate governance.

The investment trust movement, if allowed to continue, represents an example for all collective investment in terms of its efficiency, low cost and security. It would, therefore, be a real pity if regulatory reform were to destroy it.

We hope that our concerns will be addressed in future amendments to the Directive.

Yours sincerely

Tony Pattison
Chairman
Capital Gearing Trust plc