




About Close Brothers



Banking



Asset Management



Securities

Close Brothers Group (CBG)

- Longevity: Founded in 1878
- Solidity: A FTSE 250 company
- Strength: Strong balance sheet, 12.6% tier 1 capital ratio (as at 31 January 2017)
- Conservatism: Did not cut its dividend, request government assistance nor raise capital from shareholders in 2008

Close Brothers Asset Management

- Our focus is on managing the wealth of private clients, charities, trusts and family offices
- £12bn AUM (as at 31 May 2017)
- UK focus, onshore and offshore

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Learning outcomes

- i. An overview of the current Inheritance Tax (IHT) regime
- ii. Understanding various IHT mitigation strategies
- iii. What is Business Relief (BR), how it works and how it can be used to pass assets between generations?
- iv. What qualifies for BR and what is relevant business property?
- v. How investment in smaller companies via the Alternative Investment Market (AIM) and Nex Exchange Growth markets can reduce an individual's taxable estate
- vi. The risks of investing in smaller companies and how these can be minimised
- vii. Why might a client choose to invest in a diversified smaller companies portfolio

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Inheritance Tax – an overview

Inheritance tax is charged on the **transfer of property** passing on death (chargeable transfers) subject to various **exemptions and reliefs**, notably for **certain business and agricultural property**.

It is also levied on certain gifts made within the seven years before an individual's death (potentially exempt transfers) and gifts made outside the seven year period where the deceased has retained some benefit in the gifted property. In addition, certain transfers (to companies and most trusts) are taxed at the time of transfer (life-time transfers).

IHT charged at **40%** above Nil-Rate Band

Nil-Rate Band fixed at **£325,000** until 2021

Residents Nil-Rate Band provides additional **£100,000** of allowance to pass on residential property to 'direct descendants'

Residents Nil-Rate Band to **increase by £25,000** per year until 2021

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Inheritance Tax (IHT) statistics

IHT: total receipts from 2009-2017

Year	Total Receipts
2009-10	2,800
2010-11	3,000
2011-12	3,200
2012-13	3,400
2013-14	3,600
2014-15	3,800
2015-16	4,000
2016-17	4,500

IHT: the facts

Projections from the Office for Budget Responsibility (OBR) reveal the number of family estates on which inheritance tax must be paid has more than quadrupled since 2010, with the number up from around 10,000 to well over 40,000.*

In the year ending in May 2017, £5.2bn was collected by HMRC through Inheritance Tax receipts, a rise of 9 per cent on the previous year when £4.7bn was collected over the same period.*

In the year 2013-2014, the proportion of deaths subject to inheritance tax stood at just 4.8%, the Office for National Statistics estimate that in 2018-19 this proportion will have doubled to 9.9%

*Source: The Office of National Statistics as at 31 March 2017.

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IHT planning options*

Client considerations	Investment in AIM/INEX listed companies	Gifting	Setting up a Trust*	Investment in unlisted companies
Exempt from IHT after as little as two years ¹	✓	✗	✗	✓
Client retains control of their assets	✓	✗	✗	✓
Simple holding structures	✓	✓	✗	✗
Minimal cost of establishment	✓	✓	✗	✗
No hidden charges	✓	✓	Potentially	✗
Clearly defined and regulated corporate governance	✓	N/A	✓	✗
More liquid than unlisted companies	✓	✓	✓	✗
Transparent asset valuations	✓	✓	✓	✗
Beneficiaries are able to access funds immediately	✗	✓	✓	✗
Can hold cash and low risk assets in periods of market and economic stress	✗	✓	✓	✗

* Close Brothers are not tax advisers and this is only our understanding of advice we have received. We recommend that investors discuss the service with their solicitor, accountant or tax adviser before investing.
¹This assumes any transfers were not gifted from excess income. In this case gifts and trust held assets can be deemed part of a client's estate for up to seven years.
 *This can vary depending on what type of assets the trust has invested in.

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Business Property Relief – What is it?

Inheritance Tax (IHT)

IHT legislation (IHTA 1984) provides relief for certain types of business or business property included in either a lifetime transfer or the deceased's death estate

➔

Business Relief (BR)

Business Relief ("BR") offers an opportunity for inheritance tax savings by eliminating or reducing the value of "relevant business property" included in an estate on death at a rate of 50% or 100%.

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Business Relief – The story so far

Why was it introduced

Key dates

- Finance Act 1976 – BPR Introduced
- Inheritance Tax Act 1984 – Key Changes
- Finance Act 2000 – AIM and NEX Qualifying Investments
- Finance Bill 2013 – ISA Eligibility and removal of Stamp Duty

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What is Relevant Business Property?

Business Relief ("BR") offers an opportunity for inheritance tax savings by eliminating or reducing the value of "relevant business property" included in an estate on death.

An interest in relevant business property must be held for a minimum of 2 years before BR can be claimed (including the period of ownership of replacement property or previously owned by a spouse or civil partner).

The property must be relevant business property at the time of transfer of asset on death.

100% Relief

Relevant business property is defined as:

- An unincorporated business owned by an individual or partnership. The whole, not part of the business
- Shares in unquoted companies, Qualifying AIM and NEX Shares
- Securities owned by the controlling shareholder of an unquoted company

50% Relief

- Shares owned by a controlling shareholder of a quoted company
- Land, buildings, plant and machinery owned by an individual and used in the partnership or company which they control (not sole trader businesses)
- As per above but where the property is held in trust in which the transferor had an interest in possession.

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Business Relief: Business Activities

BR is not available in respect of a business, or shares in a company that is:

- Not carried on for gain (not for profit or not on a commercial basis), or
- subject to a contract for sale or being wound up.
- "wholly or mainly" in dealing in securities, stocks or shares, land or buildings or in the making or holding of investments.
- A business which only generates investment income such as a residential or commercial property letting business, property dealing businesses or a serviced office business

Some business activities are borderline whether they will qualify for relief depends on the nature of services provided, typically these include:

- Holiday businesses
- Property management
- Property development - if there is also substantial letting and dealing
- Mixed estates of farming and letting
- Caravan parks - where there is letting, holidays and caravan sales

Certain activities are regarded as trading

- Farming (this is covered by Agricultural property relief)
- Woodland management
- Sporting - shooting and fishing

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What is an Unquoted Company

Unquoted companies are defined as those which are not listed on a recognised stock exchange

Examples of stock exchanges which are not recognised by HMRC include:

- AIM & NEX Exchange
- Irish Enterprise Exchange (IEX) – only the ESM
- NYSE Alternext (Belgium, France, Netherlands)
- TSX Canada
- Growth and Enterprise Market (GEM – Hong Kong)

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The markets and legislative changes

Alternative Investment Market (AIM)

- Launched 1995
- Market value of AIM is £104bn
- 957 companies listed on AIM
- Average market capitalisation of £108m
- ASOS is the largest company, and has a market capitalisation of £4.8bn

NEX Exchange (NEX)

- Previously OFEX / Plus Markets / ICAP Smaller Companies and Derivatives Exchange
- Over 80 companies listed on the Growth Market with two of the most well known being Shepherd Neame and Newbury Racecourse

5 August 2013
28 April 2014

Legislative Changes


AIM and NEX granted ISA eligibility

Confirmed removal of Stamp Duty for AIM & NEX


An ISA can now effectively become an Income Tax, CGT, IHT and Stamp Duty free wrapper

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Taking advantage of BR – the benefits and what to look for




Relief
Accelerated relief from IHT.




ISA
Close Inheritance Tax Service (CITS) is eligible for ISA investment.




Control
The client retains control of, and access to, capital.



BR
Qualifying shares quoted on AIM and NEX Exchange Growth markets.



Discretionary
Portfolio management service.



Experience
CITS has a 16 year track record.

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Investing for BR – what are the objectives?

To achieve a beneficial tax status by capitalising on Business Relief (BR)*

To preserve capital and achieve growth over the long-term within the context of BR

To diversify risk

Past performance is not a reliable indicator of future returns. This is not a capital protection service and your client's capital is at risk. *A company that qualifies for BPR at the time of investment may cease to qualify for reasons outside our control at a later date, which means any tax benefits will be lost until the capital is reinvested in BPR qualifying company.

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Distilling the universe

SUB £20m Market Capitalisation ~1,000 Companies

Extractive Industries & Investment Instruments ~500 Companies

Network of Broker Contacts & Screening ~400 Companies

Management Meetings & DCFs ~200 Companies

30-50 Companies

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A rigorous investment process is key

What do we look for?

- Undervalued companies
- Realistic prospects for growth
- Strong financial controls and sound balance sheets
- Experienced management teams

How do we find them?

- Regular market screening
- Management meetings
- In-house DCF modelling

What do we consider?

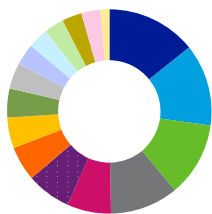
- Target prices
- Share liquidity
- Prevailing market conditions
- Diversification

What do we monitor?

- Holding and sector concentration
- BR qualification
- Investment rationale

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The benefits of diversification and what a portfolio might look like



- Support Services
- Electronic & Electrical Equipment
- Industrial Engineering
- Household Goods & Home Construction
- Travel & Leisure
- General Retailers
- Software & Computer Services
- Construction & Materials
- Food & Drug Retailers
- Personal Goods
- Financial Services
- Fixed Line Telecommunications
- Media
- Beverages
- Leisure Goods
- Cash Deposit

Source: Close Brothers Asset Management as at 31 August 2017

Sector weightings of portfolios are significantly different from sector weightings of AIM



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19

What types of companies are listed on AIM/NEX?



This information is for illustrative purposes only and should not be construed as a recommendation



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20

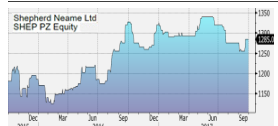
What types of companies might I own?



- Price: 1285.0p
- Market Capitalisation: £189.9m
- Enterprise Value: £268.0m
- P/E Ratio: 21.7x
- EV/EBITDA: 11.2x
- Dividend yield: 2.2%
- 3 year average revenue growth: 4.2%
- 3 year average dividend growth: 3.1%
- 3 year average EPS growth: 24.2%

Brewer in SE England

- What we like:
- Britain's oldest brewer
 - Undervalued portfolio of managed and tenanted pubs
 - Improving margins coming from investment in dry led pubs
 - Solid performance through difficult markets
 - Increased focus on growing own beer volumes



This information is for illustrative purposes only and should not be construed as a recommendation

Source: Bloomberg Finance LP and Close Brothers Asset Management as at 30 September 2017



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21

What a typical investor might look like

- An individual needing a faster IHT solution with cash that they are unlikely to need for income or living expenses
- Those prepared to invest in higher risk shares and accept a high degree of volatility in their investments
- An individual seeking a straightforward transparent, less expensive IHT mitigation scheme where there is no need to establish complex, opaque and costly legal arrangements
- Other individuals wishing to plan ahead
- An individual who wishes to retain ownership of investments without losing control of, or access to capital
- An individual who wishes to take advantage of widely accepted tax reliefs clearly outlined by HMRC

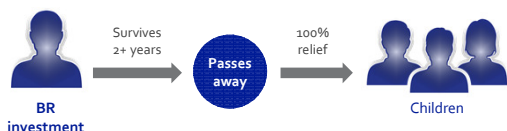
It's worth considering:

- IHT threshold has been frozen until at least 2021, bringing more clients' estates into a taxable position which brings planning into focus
- Since April 2017, a new tax-free allowance of £100,000 (rising to £175,000 by 2020/21) will be given to each person to use against the value of their home, provided they leave it to their children or grandchildren. This allowance can also be transferred to a spouse or civil partner if it isn't fully used on the first death. So by 2020, a couple could leave up to £2 million to their beneficiaries (including family) without paying IHT, though estates worth more than this would still be subject to IHT at 40%. Note for estates valued at more than £2 million, the RNRB will be gradually withdrawn or tapered away (taken from HMRC website)
- Cash held in the portfolio does not qualify for BR and the two year time period applies to each individual qualifying investment – not the portfolio as a whole

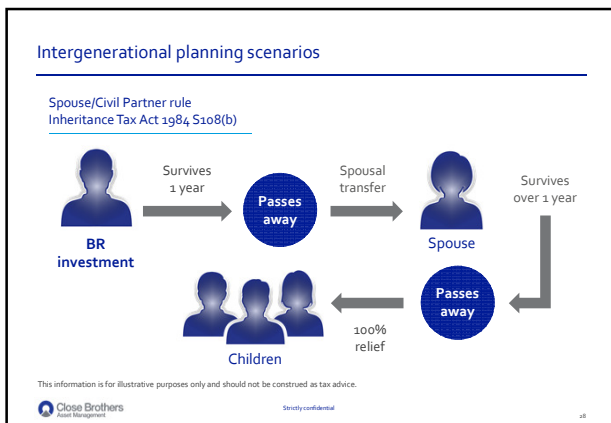
Planning scenarios Passing assets between generations

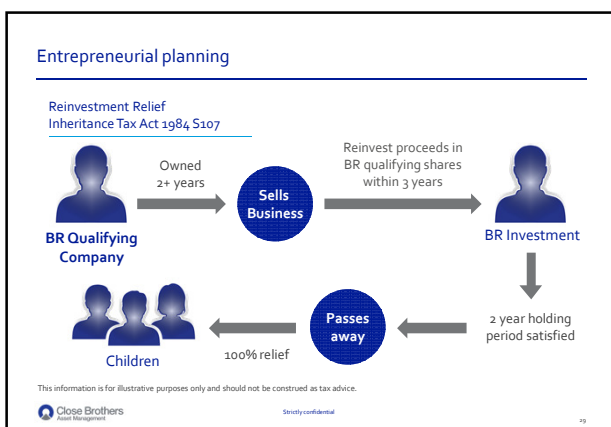
Intergenerational planning scenarios

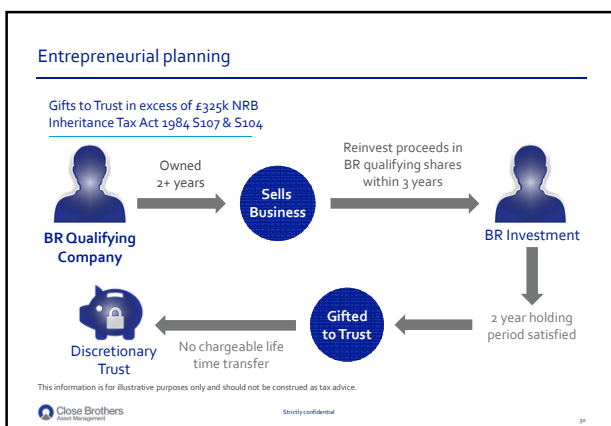
General two year ownership rule
Inheritance Tax Act 1984, S106

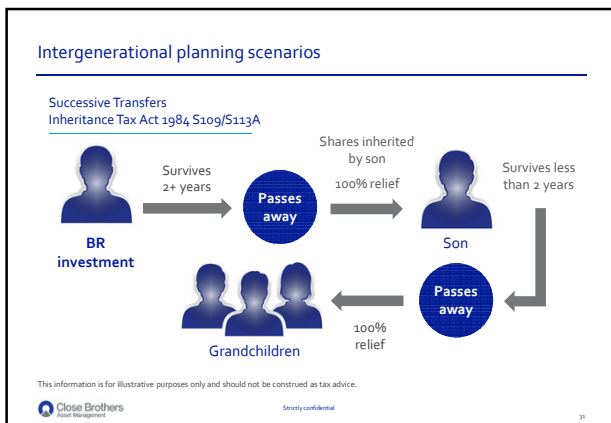


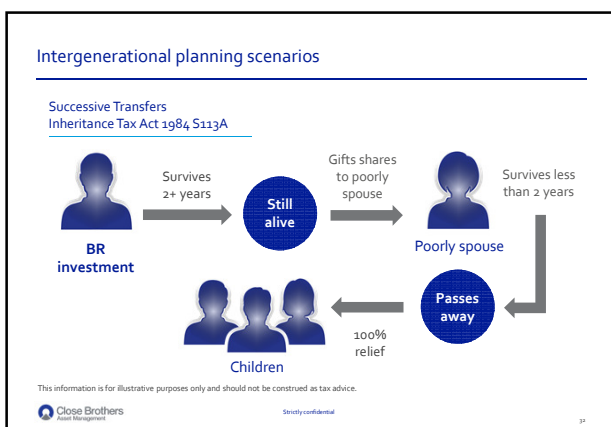
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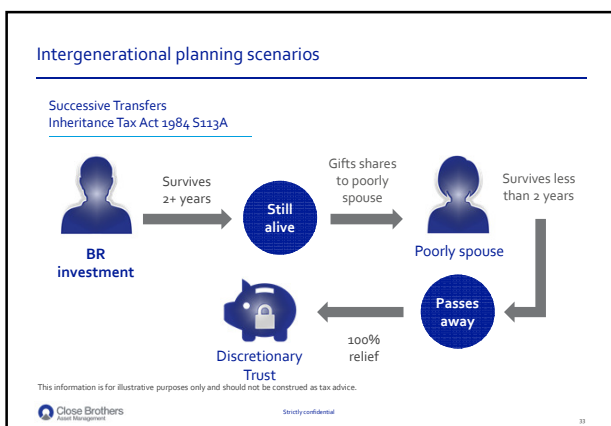












Gifting BR shares into Trust

£350,000

↓

BR Shares
(held for two years)

↓

Discretionary Trust

Potential benefits

- Estate reduction for taper threshold purposes
- Trustees ensure BR shares are retained to preserve BR
- No tax on Chargeable Lifetime Transfer due to BR
- Can make a hold over election for CGT purposes
- Avoiding probate
- Inter-generational planning

Other considerations

- Loss of access for Settlor
- Loss of CGT free uplift on death
- Tax rate on dividends
- Future periodic / exit charges if BR shares sold

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Appendix

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Gifting BR shares...the rules

General conditions to ensure relief continues to apply when BR shares are gifted:

The original property was owned by the transferee throughout the period beginning with the date of the chargeable transfer and ending with the death of the transferor, and

In relation to a notional transfer of value made by the transferee immediately before the death, the original property would (apart from the 3 year ownership rule) be relevant business property.

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Portfolio characteristics

We are more value focused – but not at the expense of quality!

	CITS – Top 50 Holdings *1	Numis Smaller Companies Index ex IT + AIM*	MSCI UK Index*
Average Market Cap	£24.6m	£26.1m	£18,080m
12 Month Forward PE	15.4x	15.5x	14.9x
EV/EBITDA	10.0x	9.7x	8.2x
Dividend Yield	3.2%	2.9%	4.3%
12 Month Trailing Operating Margin	10.7%	8.1%	6.7%
RDE	17.2%	11.3%	6.5%

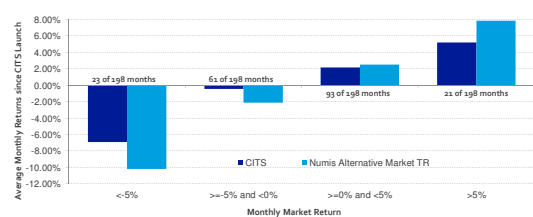
Source: * Bloomberg Finance LP and * Close Brothers Asset Management as at 30 June 2017



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37

Portfolio characteristics



All data as at 30 September 2017. Past performance is not a reliable indicator of future results. CITS launched on 28 March 2003. Performance figures for the Close Inheritance Tax Service are stated after annual management and dealing fees, but do not reflect the effect of any initial or administration fees. A reference client for each series is used as a proxy for that series and the figures above show the simple average return over all series active in the period under review. The performance of a reference client is only included in the above analysis if that client had been active for at least six months of each period reviewed.

Source: * Numis Securities and * Close Brothers Asset Management as at 30 September 2017 – both use mid-market prices and are shown as Total Return (TR)



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38

Performance

Cumulative performance

	15 Year	10 Year	5 Year	3 Year	1 Year
CITS*	272.1%	118.4%	143.0%	37.8%	19.0%
Numis Alternative Market TR*	113.1%	2.2%	45.7%	39.1%	24.8%
Outperformance	159.0%	116.2%	97.3%	-1.2%	-5.8%
MSCI UK TR*	237.0%	63.5%	52.9%	23.6%	11.0%

Discrete performance

Calendar Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD
CITS*	4.5%	20.3%	-17.6%	-44.0%	37.2%	23.3%	-6.4%	18.1%	51.0%	2.9%	20.5%	4.5%	14.8%
Numis Alternative Market TR*	13.2%	4.8%	1.3%	-58.6%	60.6%	37.9%	-20.8%	2.6%	16.6%	-16.3%	5.6%	16.2%	20.8%
MSCI UK TR*	20.2%	14.6%	6.5%	-28.5%	27.6%	12.2%	-1.8%	10.2%	68.4%	0.5%	-2.2%	19.2%	6.5%


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Source: * Close Brothers Asset Management, * Numis Securities and * MSCI as at 30 September 2017 – all use mid-market prices and are shown as Total Return (TR)



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39



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