

Close Inheritance Tax Service (CITS) Fair Value Assessment

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| Product Overview | Product Type / Group | Discretionary Investment Management |
| | Product Name | Close Inheritance Tax Service |
| | Product description | <ul style="list-style-type: none"> ▪ Close Inheritance Tax Service (CITS) is a segregated discretionary proposition investing in shares traded on the Alternative Investment Market (AIM) and the Aquis Stock Exchange – Growth Market (AQSE) which the Smaller Companies team believe to be eligible for BPR relief. ▪ The key Investment objectives are to: <ul style="list-style-type: none"> – achieve a beneficial tax status by capitalising on Business Property Relief ('BPR') – preserve invested capital and achieve some growth over the long-term within the context of BPR – diversify risk across sectors and geographies ▪ The service is only available on an advised basis only for clients able to invest a minimum £50k. ▪ Investor subscriptions are normally collected and invested together within a new 'series'. These are launched after the last business day of every alternate month (February, April, June, August, October and December). There is no minimum or maximum series size. ▪ Each new series therefore has a separate set of underlying holdings aligned to a model for that series. ▪ Portfolios will differ for each series, albeit there has been a significant degree of commonality in holdings between series over time, given: <ul style="list-style-type: none"> – the restrictive nature of the investment universe (stocks eligible for BPR) – the rigorous stock selection criteria used by the team, which normally rules out unprofitable companies and those whose shares trade at high multiples ▪ Each client's portfolio holds around 25-35 individual stock holdings. ▪ Capital is invested in AIM and AQSE listed stocks which the Smaller Companies Team believe will qualify for Business Property Relief (BPR) relief, allowing clients to mitigate their inheritance tax liability on these assets, subject to the rules remaining in force. ▪ Total assets under management are £334m at 31/12/2023. |

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| Target Market | Product target market information | Positive | Negative |
| | | <ul style="list-style-type: none"> ▪ CITS is suitable for clients who want to protect part of their overall assets from inheritance tax. This is achieved by taking advantage of government legislation intended to promote investment in riskier small to medium enterprises and by making investments in companies listed on junior markets, such as AIM and AQSE. ▪ The advantage over trust based IHT mitigation schemes is that clients retain ownership of the assets and achieve the desired protection after as little as 2 years. ▪ The advantage over equivalent BPR qualifying unquoted scheme arrangements is greater transparency and liquidity, as AIM shares are priced daily and therefore generally easier to trade. ▪ The average age of clients who take out CITS is 80+ years but the product is suitable for any client wanting to shelter assets from inheritance tax. | <ul style="list-style-type: none"> ▪ Clients who are not able to take significant investment risk and without a high capacity for loss. ▪ Clients looking for a short term investment. ▪ Clients without an inheritance tax liability. |
| | Good outcomes provided by the product for clients in the target market | The client is able to realise all the appropriate benefits of the services provided primarily that, as each underlying investment within the portfolio achieves a two year holding period for Business Property Relief (BPR) purposes, providing that there are no changes in Inheritance Tax (IHT) legislation, their value should be free from IHT, as long as the assets remain invested in BPR qualifying assets at the time of the client's death. | |
| | Foreseeable harms and means of mitigation by manufacturer and distributor | Foreseeable risks or harms | Mitigation |
| | | <ol style="list-style-type: none"> 1. The client could be a non UK resident leading to tax or legal implications. 2. The client may not require inheritance tax relief due to the size of their estate or other exemptions. 3. The client may suffer investment loss due to the higher risk nature of the investments. 4. Assets invested may not qualify for BPR. 5. Individuals opting out of financial advice will no longer have the suitability of the service for their needs and objectives regularly assessed. | <ol style="list-style-type: none"> 1. This is mitigated through the firm's overseas client policy and controls. 2. As CITS is only available through a financial adviser, the adviser should take account of the client's individual circumstances to ensure ongoing suitability. 3. As CITS is only available through a financial adviser, the adviser should ensure that the client is aware of the risks of the investment. 4. Annual training of investment managers and audit of investments by Philip Hare and Co. No issues we are aware of in the 22+ years the Service has been operating. 5. Financial advisers should inform CBAM if any CITS client opts out of ongoing financial advice |

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| Benefits and Limitations | Details of the product benefits and limitations | Benefits | Limitations |
| | | <p>This is an actively managed discretionary portfolio service investing in smaller companies quoted on AIM and similar unrecognised exchanges which benefit from the Business Property Relief (BPR) tax concession.</p> <p>To benefit from BPR and thus mitigate their IHT liability, investors need to have been invested in qualifying stocks (or their replacements) for a minimum of two years and to remain invested in such stocks through their remaining lifespan. CITS is therefore particularly suited to older clients who wish to pass on assets to their successors free of IHT, whilst still retaining control of such assets in the event that they needed to realise some of them during their lifetime.</p> <p>Clients with vulnerable characteristics are more common for CITS due to the age profile and therefore professional advice or management is mandatory to ensure that the service remains suitable and understood.</p> <p>Clients are provided with annual tax packs and access to the CBAM online portal and app if desired to enable easy access to portfolio valuations and transaction history in addition to the specialist nature of the investment management service.</p> <p>Clients also receive quarterly valuations. On a six monthly basis, the packs contain full commentary on all of their portfolio holdings, including a description of the Companies' activities and a view on current prospects.</p> | <p>Clients will not benefit from Business Property Relief if they do not hold qualifying assets for at least 2 years and hold them at the date of death. Any funds withdrawn from the service will lose their relief unless reinvested into a replacement qualifying asset within 3 years.</p> <p>Generally, investors' subscriptions are collected and invested together within a new 'series' so clients may not be immediately invested.</p> <p>There is no certainty that assets will be granted BPR by HMRC and legislation around BPR may be changed in future; as such, there is no guarantee of any relief being applicable to assets held in the Service.</p> <p>The service does not offer any guarantees due to the nature of the market in which it invests. Returns can be volatile with the value of the assets held going both up or down. There is also the possibility that the rules on BPR could change, making such investments less attractive in the future.</p> <p>Due to its specialist nature and the higher risks associated with investing in smaller less liquid companies that are harder to trade than their larger peers, CITS can only be accessed through a professional adviser and/or discretionary manager who are responsible for assessing their client's needs to ensure the service is suitable for them and reviewing this on an ongoing basis.</p> |

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| Additional information for vulnerable clients | Details of any additional foreseeable harms and means of mitigation by manufacturer and distributor for clients with characteristics of vulnerability | Foreseeable risks or harms | Mitigation |
| | | <ol style="list-style-type: none"> Poor conduct leading to errors or security vulnerabilities, particularly exposing vulnerable clients to financial losses or financial crime. Manual errors processing information. Clients unable to engage fully with the process of risk profiling and objective setting may not benefit from the bespoke nature of the service. | <ol style="list-style-type: none"> Training (on-going and at induction), regular monitoring and checking of written work and calls, knowledge checks and refreshers, robust ID&V / security process adhered to on calls, training and 121s with team, 4 eye-checks on certain instructions, compliance moderation sample of calls each month. Staff complete mandatory conduct rules and financial crime training. CBAM require a personal representative or intermediary to be involved where relevant to ensure the client is appropriately onboarded and continues to receive appropriate advice. The CBAM team have significant experience with clients with characteristics of vulnerability and working with Attorneys due to the nature of the product and can tailor communications accordingly. |

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| Assessment of Fair Value | Outcome of last Assessment of Fair Value | Having assessed the costs and benefits of the Service to the Target Market along with competitor analysis and examination of data on existing clients, we have concluded that the Service provides Fair Value. | |
| | Date | Last Review | Next Review |
| | | June 2024 | June 2025 |
| | Any issues in Assessment of Fair Value identified | None | |
| | Details of actions being taken as a result of Assessment of Fair Value, if any | N/A | |
| | Intended distribution strategy (for example: advised, non-advised etc) | CITS is an advice led proposition and as such clients within the Service can only come from financial advisers. Details of the Service may also be provided to professionals such as accountants and lawyers who may wish to discuss tax planning with their client base and their financial advisers. | |
| Additional information which may be useful to distributors | The price of the Service to the client is set solely by CBAM. An adviser may request initial or ongoing advice fees which are agreed separately with clients. These fees may be taken from the funds in their CITS account subject to a valid instruction from the client. | | |