Close Brothers Asset Management

Close Inheritance Tax Service

Factsheet for professional advisers and existing investors only
31 May 2024

The Close Inheritance Tax Service (CITS) is a specialist discretionary investment management service designed to provide accelerated relief from Inheritance Tax (IHT) by investing in Business Property Relief (BPR) qualifying shares quoted on the Alternative Investment Market (AIM) and the Aquis Stock Exchange Growth Market (AQSE).

Providing each investment in the portfolio, which qualifies for BPR, has been held for two years at death, all the capital invested, and any growth, is not subject to IHT.

CITS is one of the longest running AIM-based IHT services with a successful track record. Since its launch in March 2001, it has proved effective in protecting the value of clients' estates from IHT. It has a disciplined investment management process which is delivered by an experienced, specialist smaller companies team.

CITS objectives
To achieve the correct tax status by capitalising on BPR
To preserve the value of the capital invested within the context of BPR
To achieve some capital growth
To diversify risk

With those objectives in mind, the investment managers will aim to build a diversified portfolio of profitable and well-managed companies which they believe hold the potential to generate positive returns over the long-term.

Cumulative performance (%)

	1 Year	3 Years	5 Years	10 Years	15 Years
CITS	10.9%	-10.1%	12.1%	46.7%	285.0%
Numis Alternative Market TR*	3.4%	-33.6%	-11.8%	11.0%	80.4%
UK Equities (GBP)	15.6%	26.5%	34.8%	74.1%	237.1%

Discrete performance (%)

Calendar year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD
CITS	21.3%	5.1%	18.1%	-17.9%	24.6%	-6.0%	27.4%	-18.1%	-3.6%	8.1%
Numis Alternative Market TR*	5.6%	16.2%	27.4%	-17.5%	14.7%	19.3%	7.6%	-31.1%	-7.2%	5.6%
UK Equities (GBP)	0.4%	17.1%	13.1%	-9.3%	18.5%	-11.5%	18.4%	1.2%	7.7%	8.8%

Past performance is not a reliable indicator of future results.

Performance figures for the CITS 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: Close Brothers Asset Management, Numis Securities and Morningstar as at 31 May 2024 unless otherwise stated. All use mid-market prices and are shown as Total Return (TR).

Key facts	
Investment directors	Sam Barton Stephen Wood
AUM	£357.7m
Service launch date	28 March 2001
Minimum investment size	£50,000
One-off initial charge	£250 + VAT
Annual management fee	1.25% + VAT
Dealing fee on all transactions	1.00%

Timing of investments

A new series is launched after the last business day of every alternate month (February, April, June, August, October and December).

All subscriptions are collected together and invested at the same time once a 'series' has closed. At this point the investment team starts to buy shares.

Depending on market conditions and other factors, this process may take up to six months.

***Numis Alternative Market Index**

Numis Alternative Market Index (NAMI) TR is used as a comparator only. It reflects part of the opportunity set of the Service, but does not include companies in which we may invest on the Aquis Stock Exchange (previously known as NEX Exchange). Both NAMI TR and Aquis Stock Exchange include companies which are not eligible for BPR. NAMI TR should not be construed as a benchmark for the Service, nor the return which an investor might expect.

Manager commentary

Market in focus

Equity markets shrugged off a bout of weakness to deliver good returns in May, thanks to a lower oil price and good results from US large cap shares. Conflicting economic data abounded, with unemployment figures generally underwhelming and wage inflation coming in higher than expected. GDP figures were similarly mixed, showing signs that central banks' restrictive policies were cooling demand, albeit inflation has, to date, persisted at higher levels than expected. This was evident in the UK, although the distorting impact of the 9.8% increase in the National Living Wage may have had a temporary impact on prices. Notwithstanding this, UK CPI fell close to target at 2.3%. The announcement of a General Election on the 4th of July, while offering a faster route to political stability, looks likely to delay any rate cuts from the Bank of England until August. Reflective of an improving domestic outlook, the Morningstar UK Index delivered a total return of 2.4% and the Numis Alternative Markets Index gained 5.4% on the same basis.

The average portfolio in the service performed well over the month, returning 6.0% as smaller companies attracted investor interest and M&A activity remained elevated. As ever, it was not one-way traffic, with detractors including NWF Group (-13.4%), where bad weather is expected to have dampened demand, FW Thorpe (-8.3%) weakened as the Chief Executive assumed the position of Non-Executive Chairman, Jet2 (-6.8%) fell after industry peers noted weaker flight pricing, while H&T Group (-6.6%) gave up ground in spite of a reassuring AGM statement and supportive gold price. In a more positive vein, IG Design (+65.4%) continued to benefit from April's constructive trading statement, Johnson Service Group (+28.4%) upgraded profit guidance at its AGM due to strong trading and lower energy costs, Alpha Financial Markets Consulting (+21.0%) received a bid approach from Bridgepoint Advisers and Spectra Systems (+17.6%) benefitted from an encouraging broker research note.

Sam Barton, Managing Director, UK Smaller Companies
Source for all data: Bloomberg Finance L.P. as at 31 May 2024. For information purposes only.

Company in focus

Established in 2006, Vertu Motors plc is the fourth largest motor retailer in the United Kingdom with a network of over 180 sites operating under the Bristol Street Motors, Macklin Motors and Vertu brands. Motor dealerships offer sales, servicing, parts and bodyshop facilities. Manufacturer partners are Jaguar, Land Rover, Ford, Vauxhall, Peugeot, Honda, Nissan, Hyundai, Mazda, Citroen, SEAT, Renault, Mercedes-Benz, Ferrari and Volkswagen. The Company will seek to acquire further dealerships to grow a scaled group, supplemented by a focused organic growth strategy to drive operational efficiencies.

After experiencing softer trading towards the end of 2023 as higher interest rates and weaker consumer confidence dented sales, the business has returned to an even keel in 2024. Results for the year to 28 February 2024 noted a stabilisation in used car valuations and highlighted a very strong period of cash generation. Vertu continues to take market share through a combination of investment in acquisitions, new sites and technology. We would expect that the latter will see margins expand over time; with annual revenues approaching £5 billion, small improvements will have a material impact on profits. The Board has maintained a tight focus on capital allocation and a strong balance sheet. We are happy long-term holders of the shares, while the appearance of a private equity backed competitor on the share register provides the potential for more immediate share price appreciation.

Sam Barton, Managing Director, UK Smaller Companies
Source for all data: Bloomberg Finance L.P. as at 31 May 2024. For information purposes only.

Important notice: Please note there is no guarantee that the CITS investment objective will be achieved. The value of investments and the income from them may fall as well as rise as a result of fluctuations in market, currency or other factors and investors may not get back the original amount invested. Close Brothers may source data from third party data providers but accepts no responsibility or liability for the accuracy of data. Applications can only be made on the basis of the Brochure and the Client Agreement and all investors should carefully read the risk warnings contained within. All documentation is available on request. This document does not constitute investment advice and potential investors are recommended to seek professional advice before investing. All images and logos incorporated within this factsheet are for illustrative purposes only and do not represent any endorsement of, or partnership with, Close Asset Management Limited or its products and services.

Specific information: CITS is a tailored discretionary investment portfolio management service that invests in both the Alternative Investment Market (AIM) and Aquis Stock Exchange Growth Market (AQSE), with the benefit of major tax advantages introduced by the Chancellor of the Exchequer in his budget of March 2000. CITS is an Inheritance Tax mitigation service based on current tax law and practice. The tax treatment depends on the individual circumstances of each client and may be subject to change in the future. CITS invests in 'qualifying shares' in smaller companies which may be more volatile than investments in more established companies. Such companies can be subject to certain specific risks not associated with larger, more mature companies. Consequently this can make the CITS portfolios more volatile as the value of an investment may fall suddenly and substantially. CITS is considered suitable only for informed and experienced investors.

Contact us
closebrothersam.com
10 Crown Place, London EC2A 4FT.

CBAM5457. 18.06.2024.