

Close Inheritance Tax Service

Factsheet for professional advisers and existing investors only

30 June 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	7.1%	-14.8%	11.9%	46.6%	268.5%
Numis Alternative Market TR*	2.2%	-36.4%	-12.5%	9.8%	70.0%
UK Equities (GBP)	12.9%	24.8%	28.3%	74.0%	243.6%

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%	4.8%
Numis Alternative Market TR*	5.6%	16.2%	27.4%	-17.5%	14.7%	19.3%	7.6%	-31.1%	-7.2%	1.0%
UK Equities (GBP)	0.4%	17.1%	13.1%	-9.3%	18.5%	-11.5%	18.4%	1.2%	7.7%	7.3%

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 30 June 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	£344.6m
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 delivered mixed returns over the quarter to 30 June 2024, with elections and the dominance of US technology stocks the key themes. June's EU elections, Presidential debates in America and the announcement of a General Election in the UK all drove investor behaviour. US indices have diverged further, with the tech-biased NASDAQ dramatically outpacing the broader Dow Jones. UK markets responded positively to the promise of a more stable political backdrop and performed well, with the Morningstar UK Index and Numis Alternative Markets Index (NAMI) delivering returns of 3.7% and 3.3% respectively.

Politics were the major force on markets during the period. Following a poor showing in EU voting, President Macron's snap elections emboldened parties on the extreme ends of the French political spectrum. This looks likely to halt legislative progress and continental indices struggled. Conversely, when Rishi Sunak chose the 4th of July for the General Election, markets were more sanguine given the broadly centrist policies in Labour's manifesto and their substantial lead over the Conservatives. Donald Trump's conviction in May saw him lose ground in polls, much of which was recovered following President Biden's rambling performance in the opening presidential debate.

Much as politics have moved markets, the debate around inflation remained a constant undercurrent. The key developments were the ECB cutting rates to 4.25% and US inflation proving more persistent than expected. The former looks to have been more a response to sluggish GDP growth in the Eurozone than a direct response to inflation, which remains above target. This theme was repeated in the US, where the Federal Reserve's forecast for the number of rate cuts in 2024 have been pared back, although there are signs that their restrictive policy is cooling demand. In the UK, inflation hit the Bank of England's 2% target in May. With unemployment ticking up (albeit from a low base) and more dovish commentary from the MPC, lower interest rates look likely before the end of the year.

The UK economy has performed well over the period in spite of an exceptionally wet spring and restrictive monetary policy. GDP growth has recovered strongly and beaten estimates. Forward looking surveys point to further economic expansion. Consumer confidence has improved thanks to a steady increase in real wages over the last 12 months. A more stable political environment should help UK firms to attract more capital and accelerate growth. M&A activity has continued as private equity buyers have reacted to the improving backdrop and the attractive valuations on offer, while acquisitions by listed companies have also picked up, reflective of their strong financial positions and recovering business confidence.

There are, as ever, material risks to future prospects. Conflicts in Ukraine and the Middle East carry the potential to destabilise trade routes and commodity supply. The US Presidential election will shape trade terms with China, which could escalate tensions in the region. Persistent inflation could see higher rates and lower growth. In the UK, a likely Labour victory comes with questions around how pro-business a new Government will be and what tax rises will be implemented to fund their policies.

The average portfolio in the service comfortably outperformed NAMI over the quarter, with only a marginal benefit from M&A. The highlights in portfolios were IG Design (+85.9%), which released results that saw a strong recovery in profits and excellent cash generation, Alpha Financial Markets Consulting (+52.8%) rose after a recommended bid from Bridgepoint Capital, Warpaint (+49.8%), as further upgrades were received well, and Property Franchise Group (+32.4%) on the back of a recovering sales market and an earnings enhancing acquisition. Holding back progress were Sanderson Design (-19.1%), which warned of deteriorating trading conditions in the UK and Calnex Solutions (-18.8%), which noted continued softness in the telecoms market. Meanwhile, NWF Group (-14.3%) and Next 15 Group (-13.6%) both reported challenging market conditions, albeit that they were trading in line with market expectations.

Sam Barton, Managing Director, UK Smaller Companies

Source for all data: Bloomberg Finance L.P. as at 30 June 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.

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