

Close Inheritance Tax Service

Factsheet for professional advisers and existing investors only

30 September 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	5.1%	-22.1%	10.5%	38.9%	212.1%
Numis Alternative Market TR*	2.9%	-37.9%	-10.5%	12.3%	34.4%
UK Equities (GBP)	13.1%	25.2%	30.3%	80.4%	187.6%

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%	-0.8%
Numis Alternative Market TR*	5.6%	16.2%	27.4%	-17.5%	14.7%	19.3%	7.6%	-31.1%	-7.2%	-1.6%
UK Equities (GBP)	0.4%	17.1%	13.1%	-9.3%	18.5%	-11.5%	18.4%	1.2%	7.7%	10.0%

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 September 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	£328.0m
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

Global equities enjoyed strong returns during the quarter to 30 September 2024 as investors focused on falling inflation and less restrictive monetary policy from central banks. This was in part due to a 15.6% fall in the oil price (in spite of the broadening conflict in the Middle East), driven by higher production and weak demand from China. UK indices delivered a mixed performance, with the Morningstar UK Index returning 2.5% and the Numis Alternative Markets Index (NAMI) falling by 2.5% due to fears about the future of reliefs on the junior market.

The key theme during the period was monetary policy, with the Federal Reserve surprising markets by announcing a 0.5% reduction in the cost of borrowing in September. This was pre-empted by rate cuts by the Bank of England and the European Central Bank; the latter's 0.6% reduction to 3.65% was in response to deteriorating economic conditions. Chinese rates hit a record low in an effort to stimulate activity. The outlier was Japan, which unexpectedly increased rates in July, causing a brief dip in equity markets; the Nikkei was the only major index to fall over the quarter.

The solid returns from global equities were somewhat at odds with the geopolitical backdrop. The worsening situation in the Middle East has potential implications on trade passing through the region and energy supply, while the conflict in Ukraine shows few signs of abating. One catalyst that could change the situation is the outcome of the US Presidential election, where President Biden's decision to pull out of the race has seen Trump take a lead in the polls. Given his stance on Ukraine and Chinese tariffs, this could inject further uncertainty into the mix. Both candidates, meanwhile, seem unwilling to address spiralling US national debt.

Closer to home, Labour's election victory was well received by markets, with Sterling strengthening despite a series of early missteps. The Chancellor's maiden speech warned of a £22 billion "black hole" in the public finances, stating some "difficult decisions" would have to be made in the Budget on 30 October. This caused falls in consumer and business confidence, and we have observed a more cautious tone from investee companies regarding domestic demand. Most importantly, the Government's requirement to raise taxes has led to questions around the future of Business Property Relief (BPR) for AIM companies. Trade bodies have been active in highlighting the importance of the relief, while a report commissioned by the London Stock Exchange emphasised the contribution of the market to the broader UK economy. We are hopeful that the Chancellor will make a sensible decision when she delivers her Budget.

The UK economy has continued to perform well over the period and forward looking indicators point to solid growth in the year ahead, particularly relative to other developed nations. Unemployment remains at low levels, with real wage growth carrying the potential for increased consumer spending. Inflation appears under control and is near the Bank's 2% target, giving scope for further rate cuts. Global asset allocators are taking an increasingly positive view about the UK's prospects, reflective of the improving backdrop and attractive valuations. Much as the forthcoming Budget has dampened investor appetite for AIM shares, it also carries the potential for pension reform and increased flows into UK equities. In the event that BPR is unchanged, we would expect a supportive environment for our holdings.

The average portfolio in the service underperformed NAMI over the quarter as investors shied away from companies traditionally held for BPR purposes. The largest detractors were Next 15 Group (-43.1%), which suffered from the unexpected cancellation of a material contract, IG Design (-42.5%) where reduced demand and tighter management of credit risk have impacted sales in the US market, while Ashtead Technology's (-25.3%) record interim results were not enough to satisfy some investors. In a more positive vein, Celebris Technology (+22.1%) released strong results and a material contract win, Gamma Communications (+18.3%) reported solid interim results, which saw earnings guidance raised and James Latham (+9.7%) cited improving customer confidence and paid a large special dividend.

Sam Barton, Managing Director, UK Smaller Companies

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