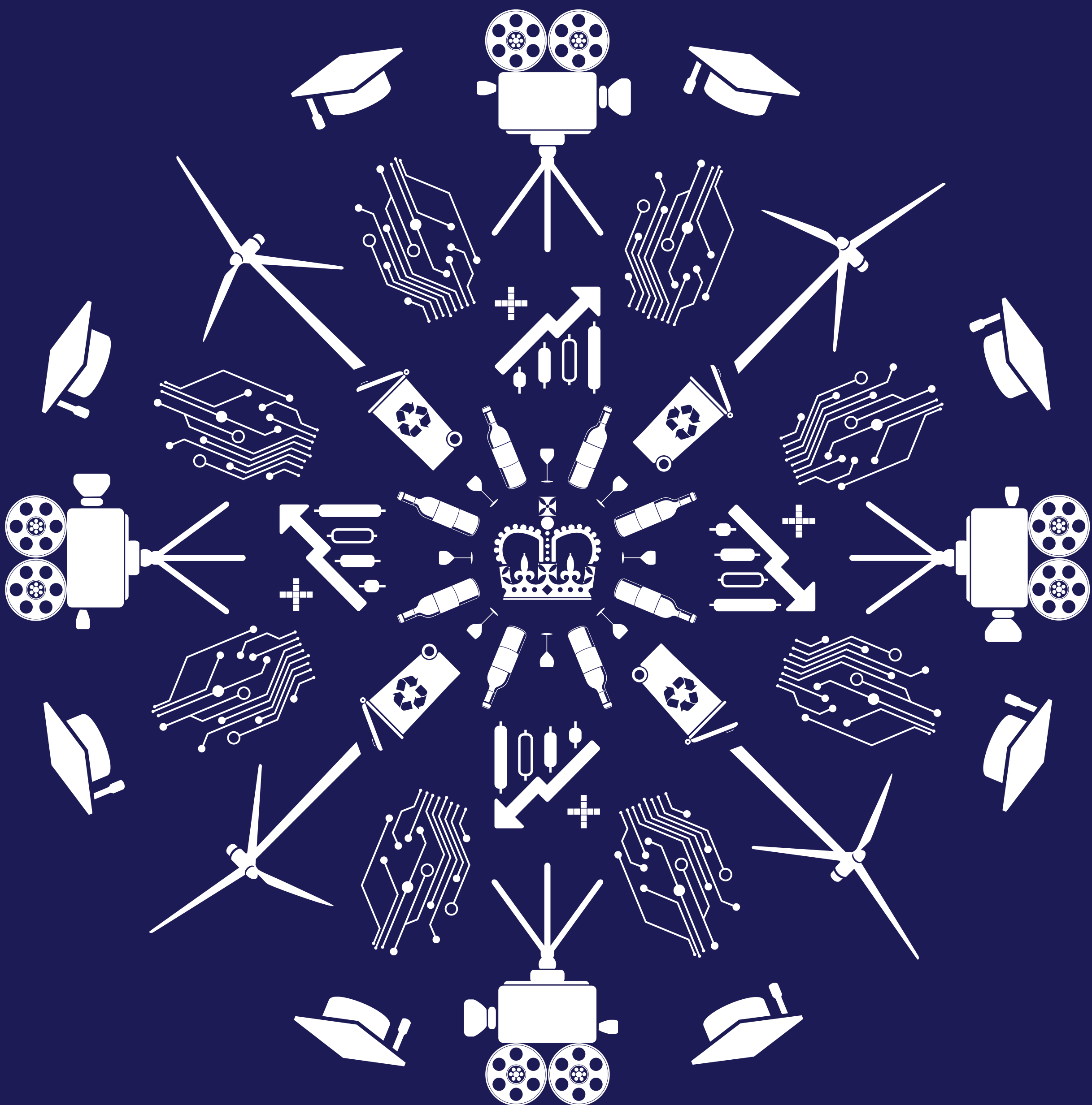
AiR 2016
ALTERNATIVE INVESTMENT REPORT

BUSINESS PROPERTY RELIEF
INDUSTRY REPORT



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FOREWORD

EDITORIAL
Daniel Kiernan
Lisa Best
Ryan Zeng

CREATIVE
Mar Alvarez

SUB-EDITING
Daniel Kiernan
Lisa Best
Ryan Zeng

RESEARCH
Lisa Best
Ryan Zeng
Alan Sheehan
Adrian Scales
Katie McCarthy

MARKETING
Michelle Powell

PRINT
Palina Limited

Welcome to the first update of our industry report focused purely on Business Property Relief (BPR)

Buying a property to live in is an almost universal goal of the working population of the UK, but the vast majority probably don't view themselves as wealthy landowners. Yet the rising value of property, particularly in London and the South East, has been increasingly drawing more people into the scope of inheritance tax, once seen as a tax for the super-rich; average house values in the South East are currently estimated at £455,984 (11.5% increase year on year), well beyond the nil rate band of £325,000, above which 40% IHT becomes applicable.

When combined with the UK's ageing population, with almost one in four currently aged over 60 – and that proportion on the rise – we can see that the demand for estate planning could be set to soar. Recent research suggesting that the UK could have saved around £595 million in tax through estate planning in the 2015/16 financial year gives an indication of the possible value of professional advice on IHT mitigation.

However, long retirements demand flexible and sophisticated estate planning solutions.

All of this makes a strong case for considering investments that qualify for BPR and our research tells us that more advisers are starting to use BPR in their estate planning (70% of the advisers we surveyed expected to increase their use of BPR in the next two years, with only 4% expecting to write less BPR business), and providers are launching more products to meet this demand (25% of the products that are open for investment at the moment launched in the last 12 months).

At Intelligent Partnership, we think this means that there is a need for an annual report like this: to give those advisers who are new to BPR a guide to the market, and to help more experienced advisers keep up to date with changes and developments.

We hope you enjoy reading the report, and as always we welcome your feedback and comments.

GUY TOLHURST
Managing Director
Intelligent Partnership

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* Please note: unless otherwise stated, all charts and graphs have been provided by Intelligent Partnership

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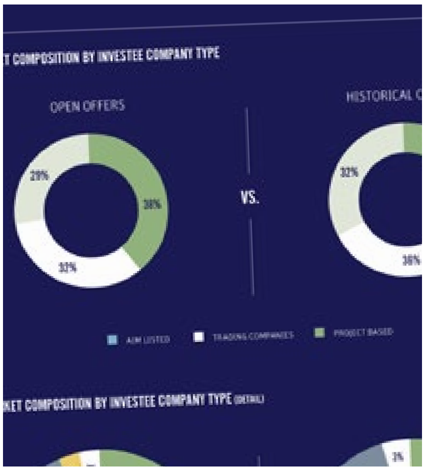
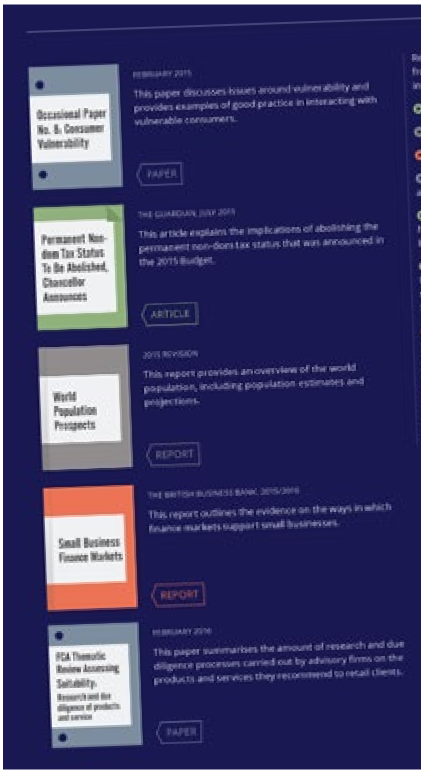
MARKET RESEARCH

INDUSTRY ANALYSIS



FINAL CONCLUSIONS



OPENING STATEMENT

A WORD FROM THE SOCIETY OF LATER LIFE ADVISERS

Financial planning in later life can be complex. Clients might have a variety of issues to consider, from when to stop working, how to fund their retirement, making provision for care, considering how best to make use of the capital in their home and estate planning.

There are a lot of variables, and a lot of unknowns. Indeed, sometimes solving one problem can create another issue elsewhere. For example, gifting away assets to reduce the eventual IHT bill could raise questions about funding long-term care at a later date. These kinds of dilemmas are becoming more prevalent as life expectancy increases and levels of personal wealth increase.

To cope with this increasing complexity and provide the best possible service to their clients, it's important that advisers are aware of all of the possible solutions that are available. In relation to estate planning, advisers should at least be giving consideration to investments that qualify for Business Property Relief. They need to be able to identify when these are both suitable and appropriate. This requires that advisers have the in-depth knowledge to select the right options for their clients.

Why should advisers be considering BPR? Typically, these BPR solutions offer levels of return, access and flexibility that conventional estate planning solutions do not. Used judiciously they can be viable options for clients who want speedy access to IHT relief. They should also be considered when clients need a solution where a Lasting Power of Attorney is in place and where clients want to convert existing ISA portfolios, and who require growth and liquidity in addition to IHT relief.

However, like all investments (and indeed all financial planning decisions), there are risks. The value of investments can rise and fall, liquidity can be illusory and the relief is not guaranteed. This is why it is important that advisers are not only well qualified in this area of advice, but also have a good understanding of the BPR market. Advisers need to have a grasp of the range of options that are available, and the risks and benefits of each of those options.

We hope that this report helps readers to develop that level of understanding, and ultimately means that consumers will be able to access the whole spectrum of estate planning solutions through their advisers.

TISH HANIFAN - JT, CHAIR

Barrister and Founder
SOLLA (Society of Later Life Advisers)

SOLLA
Society of Later Life Advisers

LEARNING OBJECTIVES

We are required to state these in order to qualify as accredited for Structured CPD. By the end of the report readers will be able to:

- Explain what BPR is to their clients
- List the different advantages BPR qualifying investments have over other estate planning solutions
- Carry out due diligence and assess the potential risks and benefits of BPR based investments
- Identify clients and investment objectives where BPR based investments could be suitable
- List the new BPR products that have come to market in the last 12 months
- Benchmark products against each other on key investment criteria such as cost, target returns and minimum subscription

DEFINITION OF TERMS

Just to be clear from the beginning: we will use the terms BPR qualifying investments, BPR products or BPR based Products interchangeably. What we are referring to are discretionary portfolios, private company structures or collective investment schemes that are run by professional fund management groups with the primary objective of saving their investors' beneficiaries from paying inheritance tax on the investment amount.

Of course it is perfectly possible to make private arrangements to benefit from BPR by investing directly in private companies without engaging the expertise of a fund manager, but that kind of activity is outside the scope of this report.

KEY FINDINGS

HIGHLIGHTS FROM OUR RESEARCH

ONLY 14%

of adults know the current IHT threshold and almost 1/3 of homeowners aged 70+ haven't considered estate planning or IHT mitigation on their death

APRIL 2017

The Residence Nil Rate Band will be phased in and is expected to reduce the no. of estates caught by IHT by 15,000 in the 2017/18 tax year

NEW RULES TARGET UK PROPERTY

held directly or indirectly by non-doms and the 5 million ex-pats for IHT and will throw up estate planning opportunities

45,000

DEATH ESTATES CAUGHT BY IHT

In 2016/17 – highest number since the early Thatcher years

80,000

DEMENTIA CASES

BPR is often the only estate planning option where a Lasting Power of Attorney is in place

90 YEARS

EXPECTED NORMAL LIFE EXPECTANCY BY 2030

Longer life means more care costs and retirement expenses – need for flexibility/access to assets with estate planning

TARGET RETURN

New focus on growth and income raised average target return from 3.97% to 4.26%, reflecting the demand for estate planning solutions that don't sacrifice returns

ENTREPRENEURS RELIEF

to become available on products where shares are held for three years

~~55% DEATH TAX~~

The abolition of 55% "death tax" makes pensions a better estate planning option than in the past, but could attract HMRC attention in the future

0.75% INTEREST RATE

Interest rates will remain low, not topping 0.75% until 2019 – so bank deposits remain no threat to moderate returns from BPR qualifying investments

1/4

of current BPR products were launched in the 2015/16 tax year

80% OF ADVISERS

believe that BPR investments are appropriate before ISA and Pensions Limits have been used – suitability is vital

INTRODUCTION

BOTH IHT AND BPR ARE WELL ESTABLISHED

Since the 2015 general election, the Conservative government has announced a number of measures that will have a broad effect on who is and who isn't liable to Inheritance Tax (IHT). The scope of the tax will be widened based on UK property ownership and domicile, but the introduction of the Residence Nil Rate Band (RNRB), will also take thousands out of its reach. This means that we are likely to witness a revolving door scenario where some individuals can exit the IHT merry-go-round whilst others get unwittingly pulled in.

Whilst the political promise behind the changes is to reduce the number of the middle classes caught by IHT, house price inflation is forecast to overwhelm this reduction within just a few years. In the report we take a look at how the proposed changes might play out and examine the impact recent historical modifications to pensions has had on estate planning. You can read that on page 19.

One thing that is clear is that many advisers' clients will now need to revisit their succession planning, and that in the context of complex regulation and planning needs IHT mitigation strategies will be highly valued by consumers.

The report also contains the results of our adviser and provider surveys (pages 52 and 59), and we held a roundtable discussion with some experienced advisers: we share their insights into the pros and cons of BPR and how they use it on page 56.

We carry out an industry analysis which you can read on pages 64 to 85. Many advisers tell us that this section is invaluable. We review the products in the market and provide data on key metrics such as minimum subscription levels, costs, target levels of return and liquidity. Our intention is to give readers a reference point or benchmark for each of these metrics, so when they look at a product they know if it is – for example – cheap or expensive compared to its peers. We also compare the data on this year's products with the historical picture and pick out any emerging trends, so readers can see how the market is developing.

We look at some of the issues with advising on BPR in Section 3, starting on page 34. Among other things we cover risks, due diligence and suitability, and in response to feedback from last year's readers we've included some typical BPR case studies on page 46.

Things that might be of particular interest to readers are how to work with connections from other professional services firms such as solicitors and accountants on page 48, when to consider BPR instead of more conventional solutions on page 87 and the comparison table of our sponsors' products on pages 96-99.

Finally, don't forget to take a look at the report conclusions on page 102.

As always, our aim is to provide the information advisers need to make it easier for them to advise on these kinds of investments. Between this report, the work that providers do to engage with advisers, and research and due diligence providers such as MICAP, we think that it is quicker and simpler than ever before for advisers to recommend BPR qualifying investments.

ACKNOWLEDGEMENTS AND THANKS

We couldn't do this without the help and support of a number of third parties who have contributed to writing this report. Their contributions range from inputting into the scope, sharing data, giving us their insights into the market, providing copy and peer reviewing drafts. Some of them have inputted directly and some of them were good enough to share their thoughts and ideas over coffee or at various conferences and events.

So a big thanks to: Adviser Home, Bovill, Christopher J Green Wealth Management, Elegant Solutions, the ICAEW, Peter Harding Wealth Management, Radcliffe & Newlands, SIFA, SOLLA, St James's Place and UBS Wealth Management. Their input is invaluable, but needless to say any errors or omissions are down to us.

We have relied upon MICAP for the data we have based the report upon. MICAP are part of the same group of companies as Intelligent Partnership. We also carried out our own extensive desktop research, examining brochures, investment prospectuses, mystery shopping providers and crawling through the websites to verify their product data.

The report is made possible by our sponsors, who have contributed copy to the report on pages 87 to 100 and supported us by helping to meet production and printing costs.

So a big thanks to: Blackfinch Investments Limited, Deepbridge Capital LLP, Downing LLP, Ingenious, Octopus Investments, Oxford Capital Partners, TIME Investments and Triple Point Investment Management LLP.

EXECUTIVE SUMMARY

2016 IS THE 40TH ANNIVERSARY OF BPR

40TH ANNIVERSARY

BPR IS A STATUTORY RELIEF

2016 is the 40th anniversary of BPR and the 220th of IHT in the UK. BPR was originally introduced in the 1976 Finance Act to lighten the IHT burden on small businesses being passed on to beneficiaries without the IHT debt hampering the business. It has also developed into a method to incentivise investment into SMEs. In 1796 a tax on estates was levied – the precursor of the inheritance tax system we have today – and despite much political discussion and tinkering, at present, both IHT and BPR are clearly supported by government. We discuss the outlook for BPR as a relief in section 2 of this report.

CHANGES TO IHT AND PENSIONS AFFECT THE BPR MARKET

The new Residence Nil Rate Band introduces an additional nil rate band from April 2017 whenever a residence is passed on death to a direct descendant. This will initially take thousands out of the scope of IHT and remove any need for them to consider BPR qualifying investments. Nevertheless, changes to the rules for UK resident non-doms and non-resident UK expats in relation to ownership of UK properties, also proposed for 2017, are likely to drive new estate planning requirements. Adjustments to pensions drawdown and the requirement to purchase annuities, as well as the abolition of the 55% pension death tax, have already been implemented and are yet another reason to review clients' potential IHT liabilities.

EFFECTIVE INHERITANCE TAX THRESHOLD

SOURCE: HM TREASURY

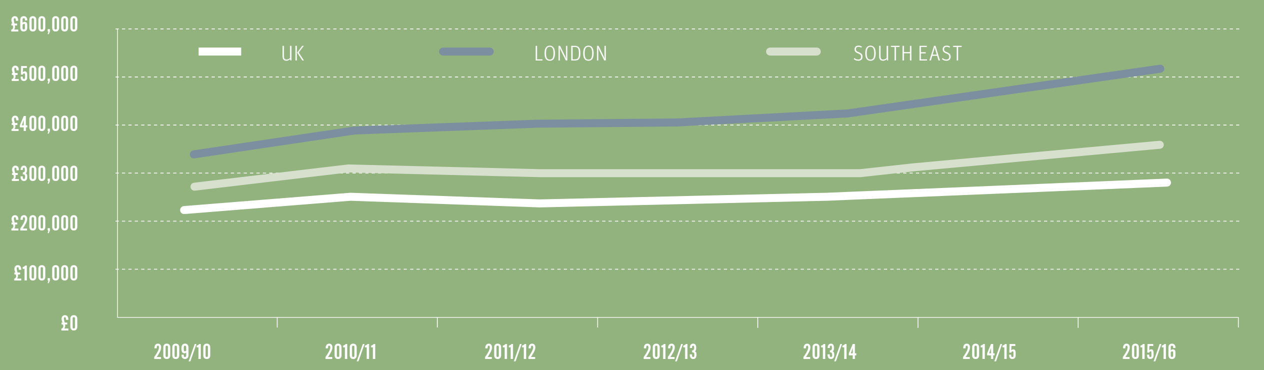
As ever, the headlines don't tell the whole story and we discuss the changes to rules which have an influence on the BPR market in section 2 of this report.

HOUSE PRICE INFLATION MEANS IHT IS NOT JUST FOR THE RICH

The number of people liable for IHT has been steadily rising, with the 2016/17 total expected to be three times the level of 2009/10. This is certainly in part attributable to the nil rate band being frozen since that time. Another key factor is house price inflation, particularly in London and the South East.

Projections for IHT collection for the years during which the Residence Nil Rate Band will be introduced show the percentage of death estates liable dropping in the first year and then climbing again, whilst the monetary value continues to rise during the whole period. After the four year phasing in period, the RNRB will only be increased by CPI, which doesn't include house prices. Whilst housing shortages continue to drive up property values, estate values are likely to be pushed up at a higher rate than CPI, thereby drawing more people back into the scope of IHT. So this represents a planning challenge: while an estate might be taken out of the scope of IHT by the RNRB in 2017, it could very well be back in the position of having an IHT liability by 2019.

UK HOUSE PRICES



SOURCE: OFFICE FOR NATIONAL STATICTIS

"Advice firms demonstrate some good practice on due diligence but greater consistency [is] needed. Without undertaking proper due diligence, firms will find it difficult to judge whether solutions are suitable for their clients." - ***FCA, February 2016***

BPR PRODUCTS ARE NOT WITHOUT RISK

Only shares in unlisted companies can qualify for BPR, including shares in qualifying companies listed on AIM, so it is not surprising that the regulators label them as high risk. The fact that it is possible for shares to lose potential BPR-qualification through change of main activity or listing (other than AIM/ISDX) also adds to the risk profile. However, this can mask the real nature of the underlying assets, which usually target capital preservation and modest growth. Managers use their stock-picking skills to identify solid companies with secure income streams, which don't have to be market beating, monitor their investee companies and use diversification strategies or their expertise in a specific sector to further minimise risks.

One other thought; without estate planning, assets over the nil rate band WILL lose 40% to IHT – so doing nothing should not be an option.

RISK MANAGEMENT

IDENTIFY

ASSESS

EVALUATE

CONTROL/MONITOR

BPR vs. OTHER SOLUTIONS

BRP investments have advantages over more conventional gifts and trusts:

BPR INVESTMENTS	OTHER SOLUTIONS
2 years' BPR qualification	Minimum of 3 years for partial and 7 for 100% relief
Investors can withdraw capital, subject to liquidity	No capital withdrawals
3 years to replace BPR qualifying asset to retain relief	No replacement window
Where an LPA is in place, no requirement for the court's permission to invest	Court's permission required: could be time consuming, and could fail

IMPORTANCE OF DUE DILIGENCE AND CLIENT SUITABILITY

However, BPR products are not for everyone. As investments they inevitably involve risk, and this means that robust client suitability checks and in depth due diligence must be undertaken. It also means that BPR products might not be the first choice, but the unique features of BPR can still provide benefits when other reliefs just won't work. Consequently, both risk appetite and personal circumstances will have a bearing on any BPR investment decision.

Research into the managers and products including track records, risk profile, returns, liquidity provision, BPR qualification, fees and charges and underlying assets is essential. This may seem like a challenge, but both independent and product provider resources are available so that whole-of-market coverage is entirely achievable.

STAGGERING LACK OF IHT AWARENESS AND ESTATE PLANNING

Various surveys over the last couple of years have highlighted that the vast majority of people are not aware of the current IHT threshold and even older individuals just aren't considering any estate planning. In 2015, less than 43% of UK adults tried to reduce the amount of tax they paid over the previous 12 months (Prudential). In addition, only 6% of life-insurance policies in the UK were written in trust (Aegon) which would take them outside of the policy-holder's estate for IHT purposes. The result is that there were more than 83,000 insurance policies as part of deceased estates, of which 14,600 were above the allowance threshold (Prudential again).

This suggests that there are plenty of opportunities for advisers to help consumers with estate planning. One route to mutually beneficial referrals could be relationships with accountants and legal firms.

"In 2015, only 6% of life-insurance policies in the UK were written in trust" - ***Aegon***

"Even though the lending landscape is improving, I'm well aware access to finance remains a big issue and want to see even more help for small firms looking to invest and create jobs for people." - ***Anna Soubry, Small business minister, February 2016***

BPR SUPPORTS THE ECONOMY

Investing in a BPR qualifying company not only provides potential IHT mitigation, but it directs cash into the UK's severely underfunded SME sector. In 2015:

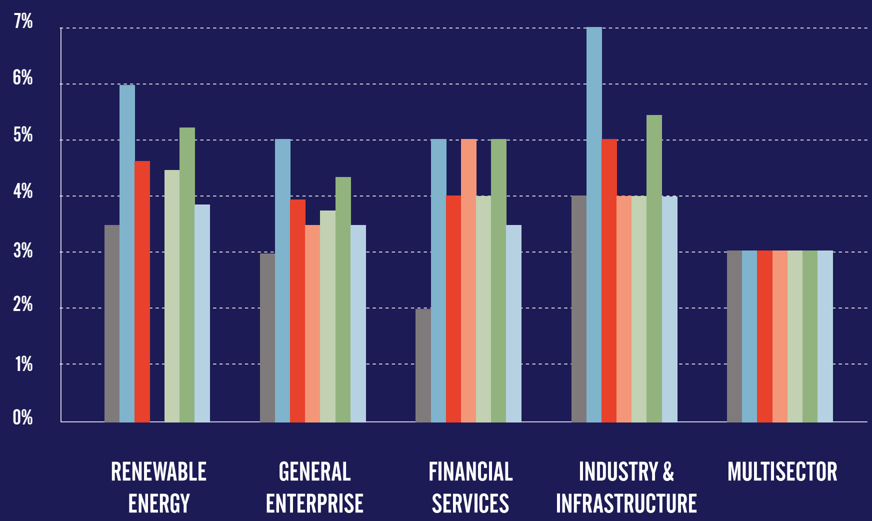
- Small businesses accounted for 99.3% of all private sector businesses at the start of the year and 99.9% were small or medium-sized (SMEs).
- Total employment in SMEs was 15.6 million; 60% of all private sector employment in the UK.
- The combined annual turnover of SMEs was £1.8 trillion, 47% of all private sector turnover in the UK.

In its February 2016 Small Business Finance Markets Report, the British Business Bank found that lending to small and medium-sized businesses in the UK is growing for the first time since the recession, but many outside the South East remain starved of equity finance. Keith Morgan, chief executive of the Bank, said that not enough small businesses were scaling up, a move that would increase UK productivity. So there is plenty of deal flow for BPR fund managers.

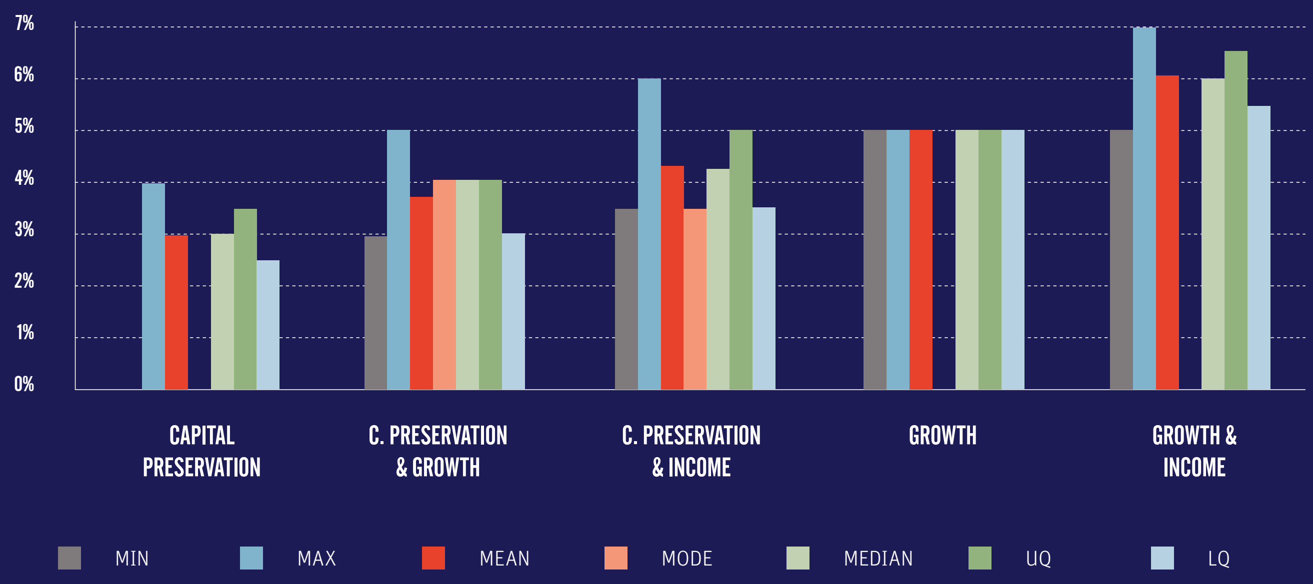
VARIETY OF BPR PRODUCTS

The BPR product universe is not large, with only 34 open funds and around 20 providers, but it is still diverse. There are a variety of investment objectives, all with capital preservation at their heart, but also allowing for growth, income or a combination of the two. Higher targeted growth or income rates generally indicate higher risk. Products are broadly divided between those which invest into totally unquoted companies and those which acquire shares on AIM. Generalist and specialist managers operate in the market, although there is a growing concentration on renewable energy, industry and infrastructure and financial services. Advisers who recommend BPR qualifying investments need to keep abreast of all of these offers.

ANNUAL TARGET RETURNS OF OPEN OFFERS BY INVESTMENT SECTOR



ANNUAL TARGET RETURNS OF OPEN OFFERS BY INVESTMENT STRATEGY



"The BPR product universe is not large, with only 34 open funds and around 20 providers, but it is still diverse. Advisers who recommend BPR qualifying investments need to keep abreast of all of these offers."

BPR INVESTMENTS

- > SIMPLE
- > SWIFT
- > ONGOING ACCESS
- > FLEXIBILITY
- > CONTROL
- > AIM PORTFOLIOS ARE ISA ADMISSIBLE
- > EIS OPTIONS
- > AIM OPTIONS
- > CAN BE USED IN CONJUNCTION WITH TRUSTS
- > NO MEDICAL RESTRICTIONS
- > CAPITAL PRESERVATION
- > LOW RISK GROWTH
- > ENTREPRENEURS RELIEF

KEY POINTS

- BPR is a well established, statutory relief
- BPR supports SMEs, which are a vital part of the UK economy
- BPR investments have been very successful at achieving 100% IHT mitigation to date
- There are risks, and research and due diligence is critical

CONCLUSIONS TO SECTION 1

BPR has been around for 40 years, and investment opportunities for retail investors have been available for over 20 years. They are now well established with, as far as we know, a 100% track record of success qualifying for the relief. They provide a very useful estate planning tool that can provide a level of flexibility and efficiency that more conventional methods don't and BPR plays a part in encouraging investment into the UK's crucial SME sector, which has a pivotal role in growth and job creation.

However, there's no denying that they expose wealth to the risks associated with investing in small businesses, enterprise projects and unquoted assets. Although in reality many of these investments are low risk, regulators and compliance functions may not see it that way. Advisers need to consider the risk level in the light of the strategy and experience of the product providers. And of course any potential investment losses must also be viewed against the backdrop of 40% inheritance tax, meaning that a 20% loss in capital in a BPR qualifying product would in fact represent a 20% saving against IHT.

Other concerns such as liquidity, diversification and the viability of underlying assets should be considered in a thorough due diligence exercise and investors need to be aware of the possibility of unfavourable changes to either the IHT regime or BPR.

The BPR investment universe is by no means large, but there is a selection of opportunities for advisers and investors to evaluate, with a variety of objectives including capital preservation, growth and income to match investors' appetite for risk and ongoing needs.

The rest of the report will go into all of these findings, and others, in more detail.

OVERVIEW OF BPR

WHAT IS BPR?

LEGAL DEFINITION

In the following sections we provide an overview of BPR and the latest changes to the rules around Inheritance Tax (IHT), as well as reviewing developments in the market for BPR products. Readers who want more depth on the "what" and "why" of BPR should refer to the 2015/16 BPR Report (available for download on the Intelligent Partnership website) which covered the background to BPR in greater detail.

A couple of points on terminology: Business Property Relief is actually no longer the correct term, the relief is now officially known as Business Relief (BR). However, as nearly everybody we speak to from investment providers to advisers still refer to BPR, that is the term we will use throughout this report.

There are also a couple of terms we are going to use interchangeably to refer to BPR qualifying investments that are put together by investment providers. BPR qualifying investments, BPR products, BPR investments, BPR funds and BPR portfolios all refer to the broad category of investment opportunities that aim to provide 100% relief from IHT and are put together by investment management firms with a specialism in small companies and/or unquoted investments. There is a detailed description of the various legal structures used to put these investment opportunities together for consumers in the Industry Analysis section.

WHAT IS BPR?

BPR provides 100% or 50% relief for unquoted shareholdings, interests in a business or assets used by the owner's business (relevant business property), after a minimum two year holding period. BPR products such as the ones we are covering in this report target assets that achieve 100% relief.

BPR ON AIM

For the purposes of BPR, HMRC defines unquoted shares as those which are not listed on a recognised exchange (listed at www.gov.uk/guidance/recognised-stock-exchanges). However, the Alternative Investment Market (AIM) and the ICAP Securities and Derivatives Exchange (ISDX), formerly known as PLUS, are not classed as recognised stock exchanges and suitable shares listed on these markets are eligible assets for BPR. Consequently, reference to unquoted or unlisted shares throughout this report includes AIM and ISDX listed shares.

PRIVATE COMPANY INVESTMENTS

BPR was originally conceived 40 years ago as a way to allow small business owners to pass on their company to their beneficiaries without the sometimes crippling financial burden of IHT. Prior to the implementation of BPR many companies were being sold or broken up simply to pay the IHT bill. The aim was to encourage continuity and growth amongst small enterprises and this has been built upon by successive governments, with the eventual BPR qualification of unlisted shares signalling increasing political recognition of the need to incentivise investment into the crucial SME sector.

QUALIFYING CONDITIONS

Unquoted shares in qualifying 'trading' companies, subject to the relevant conditions, qualify for 100% relief of IHT via BPR and shareholders need not be a director, work full time in the company or hold a minimum number of shares. The shares can also be preference or non-voting shares.

The relevant conditions are that:

- The shareholding must be held for at least two years prior to death to qualify for the relief.
- The company's main activity must not be non-qualifying. So if the company deals in shares, makes or holds investments, or deals in land or buildings (although property development companies are eligible, whilst property lettings businesses are not), then it will not qualify for BPR. Note that if a company has an eligible activity as its main business (more than 50% of turnover) but is also involved in a non-qualifying activity as a minor part of its business, the entire shareholding would qualify for BPR.

CONTEXT FOR BPR

WIDENING IHT NET

Let's examine some of the reasons why BPR products should form part of advisers' propositions, starting with the obvious example of mitigating IHT. We'll also put IHT and BPR in the context of the wider system of taxes, wrappers and investment based reliefs.

MITIGATE IHT

The scope of the IHT net has been progressively expanding and BPR is a sound and proven method to mitigate 100% of the IHT liability on BPR qualifying assets, with qualification for the relief available after only two years as opposed to the seven years typically required when using trusts.

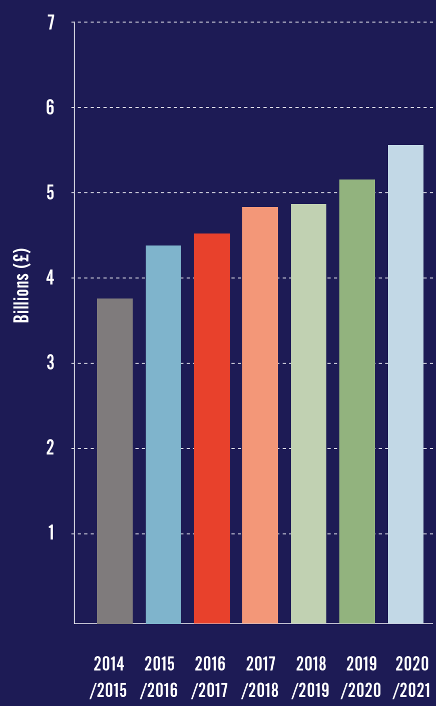
The carefully selected investments that are the mainstay of BPR products bring the prospect of predictable growth or income and give the flexibility of allowing individuals to access their assets by withdrawing funds (subject to liquidity) without losing the relief on the remaining investment capital. An additional element of flexibility is provided by the rules on replacement assets: if the assets that were sold to facilitate the withdrawal are replaced with alternative BPR qualifying assets within a three year window, the IHT relief is retained with no requirement to re-start the two year qualifying period.

IHT STATISTICS

The Office for Budget Responsibility (OBR) has recently released statistics which highlight the combined effect of the frozen nil rate band (frozen at £325,000 since 2009/10 tax year) and ongoing house price inflation: In 2009/10, just 2.6% of deaths resulted in a charge to IHT. This has tripled in the intervening years, and is estimated to exceed 8% – equating to over 45,000 families – in 2016/17.

This is a 35 year high, although new rules to be phased in from 2017 (which we discuss later in this report) are expected to reduce the number of deaths liable to IHT to just over 30,000 in 2017/18, equivalent to 5.3% of the total. But, in spite of the changes, IHT receipts are not forecast to dip and the number of estates with a charge to IHT will be on the increase again by 2020/21.

FORECAST IHT RECEIPTS



SOURCE: OFFICE FOR BUDGET RESPONSIBILITY (2016)

FORECAST PERCENTAGE OF ESTATES WITH IHT LIABILITIES

	2014/ 15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Proportion of deaths subject to inheritance tax (%)	6.5	7.2	8.3	5.3	5.5	5.7	5.9
ONS principal population projections (2014-based) Deaths ('000s)	548	564	565	566	567	569	571
Number of deaths subject to inheritance tax ('000s)	35.4	40.8	47.1	30.2	31.1	32.3	33.5

SOURCE: OFFICE FOR BUDGET RESPONSIBILITY (2016)

ADVANTAGES OF BPR

COMPARISON TO CONVENTIONAL SOLUTIONS

Here we look at the benefits that differentiate BPR from other methods of obtaining IHT relief:

- The two year period to qualify relevant business assets for 100% BPR makes it much speedier than gifts or trusts which require seven years to reach full relief and only start to provide partial relief from three years onwards. This is of obvious assistance if the individual is in poor health, or if there is a sudden realisation that seven years is rather a long time for those who are already fairly advanced in age.

- BPR also provides flexibility in that there is no requirement for the control of the property to be permanently passed to a third party to gain the relief. This allows the client to balance their estate planning with changes to their circumstances such as the need to fund care costs or a longer than expected retirement: Statistics show a significant increase in average life expectancy at the age of 65 over the last 35 years (ONS) and 90 is expected to become the norm in some affluent areas of the country by 2030 (The Lancet).

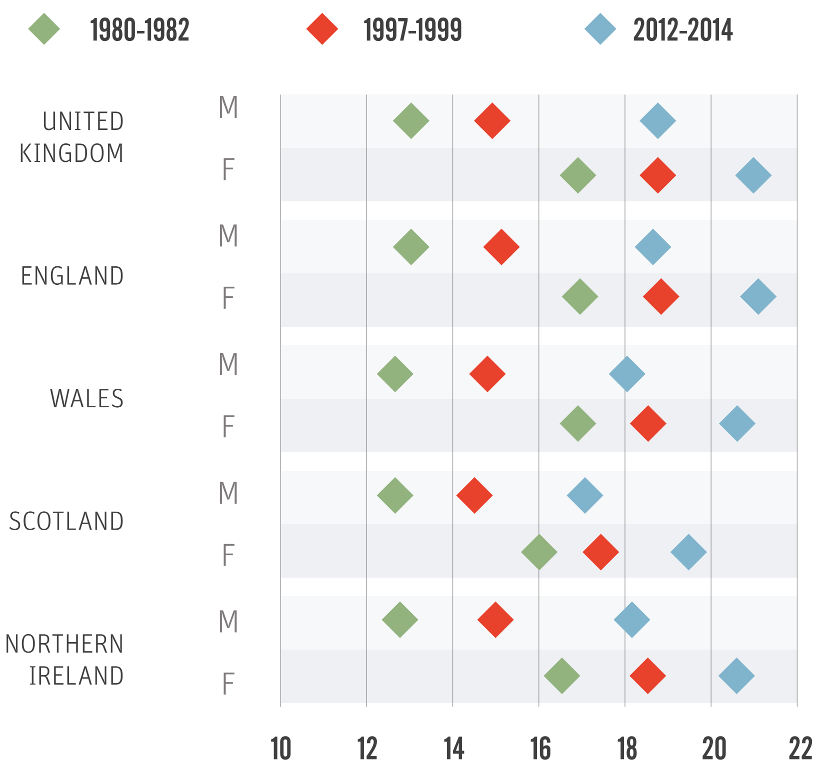
Set against this, the opportunity of ongoing growth, as a way to offset medium to long-term inflationary conditions (although admittedly this is not currently a major concern) which effectively erode the value of savings, is certainly an advantage.

- BPR also has a three year asset replacement window. This allows individuals to exit investments and transfer their funds to other BPR qualifying investments, without the need to 'restart' the two year clock. Replacement relief may be used where someone has sold their own business and wishes to access relief on some or all of the sale proceeds. In other circumstances, it could be used to allow a fund manager to switch clients from one AIM stock to another, or clients may change their strategy from growth to income or vice versa. It also facilitates IHT relief retention after disposing of shares in an Enterprise Investment Scheme (EIS shares qualify for BPR as assets eligible for EIS form a subset of those eligible for BPR). However, it's important to note that Replacement Relief does not work if someone dies before they have re-invested their money, for example selling a business and then dying before the proceeds are reinvested.

- For those who have set up a Lasting Power of Attorney (Property and Financial Affairs), BPR investments represent the most accessible estate planning method available. This is because gifting decisions (beyond very restricted, small gifts) require additional permission from the Court of Protection, making gifting potentially time consuming and with no guarantee of approval (creating a trust involves a gift of the property of the donor). Since there are already around 800,000 people with dementia in the UK and this number is expected to double by 2040 (House of Commons Library), BPR could become increasingly important to efficient IHT tax planning for this group.

- As AIM shares can be held within a stocks and shares ISA, the IHT planning benefits of BPR qualifying AIM shares can be combined with the income tax and capital gains tax benefits of an ISA. This is appealing as selling a BPR product portfolio at a profit would attract capital gains tax. So, ISA investors can consider repurposing their existing ISA portfolio to give them tax relief in life as well as in death. Whilst AIM shares which qualify for BPR may not offer the same level of returns as other ISA eligible shares, or may be considered more high risk than some of the private company investments, they certainly offer the possibility of higher levels of growth than traditional estate planning options.

ADDITIONAL YEARS LIFE EXPECTANCY AT THE AGE OF 65



SOURCE: OFFICE FOR NATIONAL STATISTICS

*"Between 1980 and 2014, the average number of years a man of 65 could expect to live in the UK, increased by over five years, from 13 to 18.4." - **Office For National Statistics***

ADVANTAGES TO ADVISER BUSINESSES

For advisers, the solutions offered by BPR go beyond tax efficiency for the client. BPR provides the chance of meaningful adviser engagement with clients on a number of levels which are likely to contribute to continuing, successful relationships.

Offering a Highly Valued Service

As the average age of the UK population goes up, advisers can expect that so will the average age of their client bank, making estate planning an increasingly important part of their business. It is also an area of advice which is relatively complex, making it difficult for clients to research their needs themselves with total confidence in a positive outcome. (Research has shown that only just over a quarter of consumers would be confident to undertake inheritance tax planning without the assistance of a professional financial adviser.) These are the areas in which advisers can add real value to their clients and the simple but effective tool of BPR offers a tangible solution that suitable investors will find attractive.

Start Advising the Next Generation

IHT mitigation strategies will usually bring advisers into contact with the beneficiaries of their clients and if they are successful, advisers are in a good position to organically extend their advice services across generations.

Preserve Family Wealth

It logically follows that the efficient transfer of wealth through a family acts to preserve that wealth and provide better prospects for future business for advisers. From a purely selfish point of view, if advisers charge a percentage of assets under advice, more wealth means higher revenues.

TAX TABLES

As with all tax-efficient investments, it is worth having the wider picture of taxes, wrappers and investment based reliefs in mind when considering BPR products.

INCOME TAX

	RATE	2016/17 THRESHOLD	2015/16 THRESHOLD	2014/15 THRESHOLD	2013/14 THRESHOLD
Basic rate for non-savings and savings income only	20%	£32,000	£31,785	£31,865	£32,010
Higher rate for non-savings and savings income only	40%	£32,001 - £150,000	£31,786 - £150,000	£31,866 - £150,000	£32,011 - £150,000
Additional rate for non-savings and savings income only	45%	£150,001	£150,001	£150,001	£150,001
Personal Allowances (People born after 5 April 1948)	N/A	£11,000	£10,600	£10,000	£9,440

NOTE: The personal allowance of any individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.

TAXATION OF DIVIDENDS

	2016/17	2015/16	2014/15	2013/14
Basic rate	7.5%*	10%	10%	10%
Higher rate	32.5%*	32.5%	32.5%	32.5%
Additional rate	38.1%*	37.5%	37.5%	37.5%

NOTE: From April 2016, a new Dividend Allowance of £5,000 will apply and the rates will not apply to the first £5,000 of dividend income.

"BPR investments can give access to multiple tax benefits, including CGT deferral, income tax relief on investment through EIS, tax free income and gains within an ISA and soon, entrepreneurs relief."

CAPITAL GAINS TAX

	2016 / 2017	2015 / 2016	2014 / 2015	2013 / 2014
Annual Exempt Amount (Individuals)	£11,100	£11,100	£11,000	£10,900
CGT rates for individuals: Gains falling within remaining basic rate band (2)	10% (18% for residential property)	18%	18%	18%
CGT rates for individuals: Gains exceeding basic rate band	20% (28% for residential property)	28%	28%	28%

NOTES: (1) For individuals, gains are taxed as if they are the top slice of income.
(2) The remaining basic rate band is calculated as £32,000 (2016/17) less taxable income.

SOURCE: HM TREASURY

INVESTMENT BASED TAX RELIEF SUMMARY

Investment	Max. Investment	Min. Holding period	Income tax relief on investment?	Tax free gain on disposal of investment?	Tax free income & gains within the wrapper?	Deferral or exemption of other gains?	Inheritance tax relief after 2 years?
TESP (Tax Exempt Savings Plan)	£25 PCM	10 YEARS	X	N / A	✓	X	X
ISA	£15,240 pa rising to £20,000	N / A	X	✓	✓	X	X
LISA (Lifetime ISA)	£4,000 pa from age 18 to 50	N / A	HMT add £1 for every £4 invested[1]	✓	✓	X	X
AIM IHT ISA	£15,240 pa rising to £20,000	2 YEARS FOT IHT	X	✓	✓	X	✓
PENSION	£40,000 pa	TO AGE 55	✓ - UP TO 45%	N / A	✓	X	X[2]
VCT	£200,000 pa	5 YEARS	✓ - 30%	✓	✓	X	X
EIS	£1m pa	3 YEARS	✓ - 30%	✓	✓	✓ - DEFERRAL	✓
SEIS	£100,000 pa	3 YEARS	✓ - 50%	✓	✓	✓ - 50% EXEMPT	✓
BPRA (Business Premises Renovation Allowance)	N / A	7 YEARS	✓	X	X	X	✓
WOODLAND	N / A	2 YEARS	X	✓	✓	X	✓
BPR	N / A	2 YEARS	X	X	X	X[3]	✓
AGRICULTURE	N / A	2 YEARS	X	X	X	X[3]	✓

SOURCE: HM TREASURY

"As we promised in our manifesto, we'll take the family home out of inheritance tax for all but the richest. It can only be right that when you've worked hard to own your own home, it will go to your family and not the taxman." - ***David Cameron and George Osborne (The Times, July 2015)***

NOTES:

[1] The bonus is paid until age 50, annually at the end of each tax year and on the savers' contributions to the account and on interest accrued from the account provider. The maximum possible bonus is £32,000 (if the maximum £4,000 is saved every year from 18 to 50). Launch date is 6 April 2017, and savers must be aged 18 or over but under 40 when they open one. The money is to be used either towards a first home worth under £450,000 or once savers are aged over 60, towards retirement.

[2] The rules in relation to pension inheritance were adjusted in April 2015, with the abolition of the 55% tax charge on pension funds at death. This is discussed later in section 2 of this report under the heading 'Pensions Changes and Estate Planning'

[3] This is possible in certain very rare and specialised circumstances.

DEVELOPMENTS IN THE MARKET

In this section we'll expand on some of the IHT rule changes we mentioned earlier, and take a look at the new BPR products that have come to market in the last 12 months.

UPDATE ON THE RULES SURROUNDING IHT

The summer Budget of 2015 saw confirmation that the current £325,000 nil rate band, which exempts the taxing of cash and assets up to that amount from the payment of IHT, will be remain frozen beyond 2018/2019 to 2020/2021.

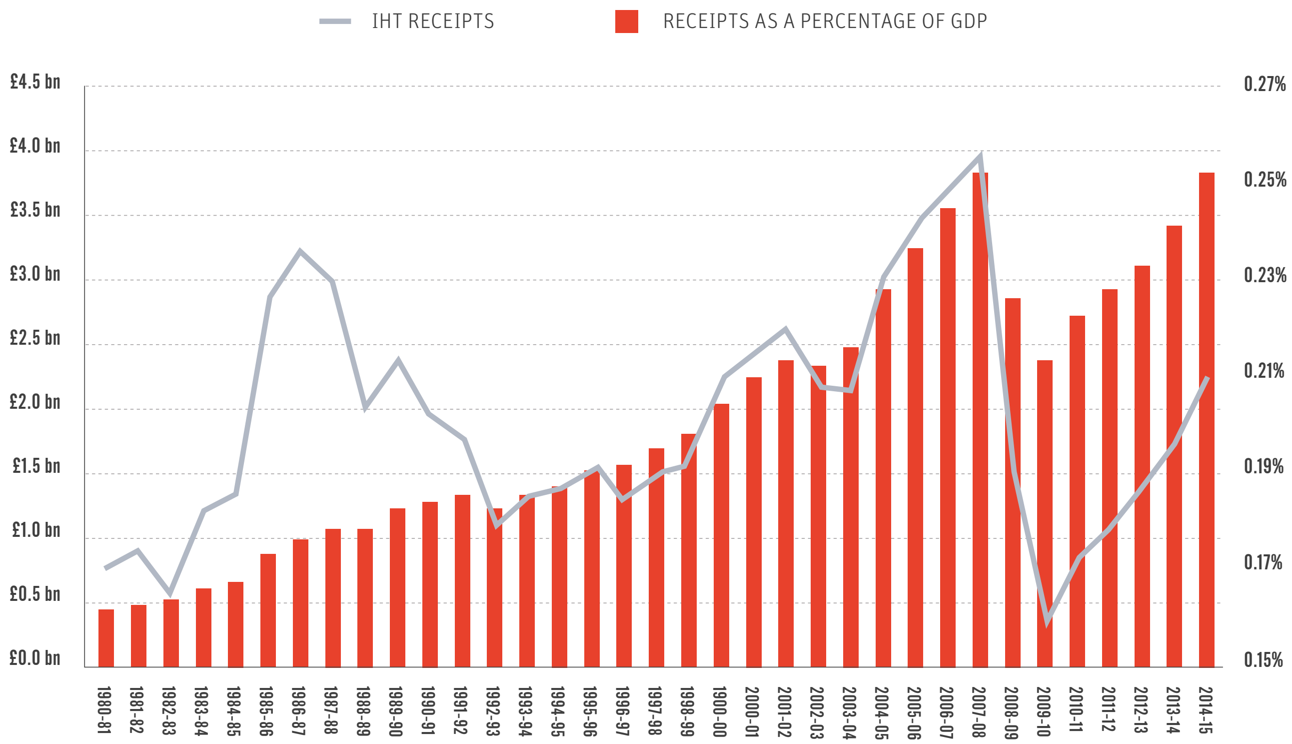
However, in an effort to reduce the IHT burden for middle income families where house price inflation has brought them into the scope of IHT, it also saw the announcement of a new "Residence Nil Rate Band" (RNRB).

The band is applicable to a residence passed on death to a direct descendant and will be phased in to apply to deaths from 6 April 2017 as follows:

- £100,000 for 2017/18 (£200,000 for married couples and civil partners)
- £125,000 for 2018/19 (£250,000 for married couples and civil partners)
- £150,000 for 2019/20 (£300,000 for married couples and civil partners)
- £175,000 for 2020/21 (£350,000 for married couples and civil partners)

It will then increase in line with the Consumer Prices Index for subsequent years.

INHERITANCE TAX RECEIPTS



SOURCE: HMRC

"It is not fair that people live in this country for very long periods of their lives, benefit from our public services, and yet operate under different tax rules from everyone else." - ***George Osborne, Summer 2015 Budget***

THE KEY FUNDAMENTALS

- The qualifying residential interest will be limited to one residential property but personal representatives will be able to nominate which residential property should qualify if there is more than one in the estate. A property which was never a residence of the deceased, such as a buy-to-let property, will not qualify.
- The transfer must be on death and can be made by will, under intestacy or as a result of the rule of survivorship.
- The transfer must be made direct - discretionary trusts will not qualify because the trustees take on legal ownership of the asset in the trust. But under certain trusts (Interests In Possession trusts (IIP), disabled persons trusts, bereaved minor trusts and age 18 to 25 trusts), any assets, including property, are deemed to pass directly to the beneficiaries.
- The transfer must be made to a direct descendant: i.e. a child (including a stepchild, adopted child or foster child) of the deceased and their lineal descendants, e.g. grandchildren.
- Anyone who wants to downsize to a smaller property or sells their property altogether will be eligible for an "inheritance tax credit" so that even if they sell an expensive property they will still qualify for the new threshold providing the other RNRB conditions are met and the downsizing or the disposal of the property occurs after 8 July 2015. If the individual has moved more than once after 18 July 2015, then the individual's personal representatives are required to nominate which of the former residences is to be taken into account in calculating the relief available.
- If the net value of the estate (after deducting any liabilities but before reliefs such as BPR and other exemptions) is above £2 million, the additional nil rate band will be tapered away by £1 for every £2 that the net value exceeds that amount. The taper threshold at which the RNRB is gradually withdrawn will rise in line with CPI from 6 April 2021.
- Any RNRB that is not used on first death can be transferred to a surviving spouse or civil partner. This is the case regardless of whether the deceased could have used their RNRB or not and even when the spouse or civil partner died before 6 April 2017.

A consultation was open regarding the provisions of the RNRB until February 2016 and details of how it will work will be published in the Finance Bill 2016, which is due to be enacted in the summer.

The Office for Budget Responsibility anticipates that as a direct result of this change, in 2017/18 the number of estates which are liable to IHT will initially fall by one-third to 5.3% of death estates. Yet despite the forecast initial reduction in the overall number of families affected, it's expected that the tax raised on estates will continue to gradually increase, reaching £5.6bn by 2020/21, and the number of families affected will be on the rise again, reaching 6% of estates in the same period.

In the short term, these changes will result in fewer estates being liable to IHT, but the figures indicate that those estates which are liable will have more funds to protect and therefore will be potential candidates for BPR qualifying investments.

NIL RATE BAND VS. RESIDENCE NIL RATE BAND (INDIVIDUALS)

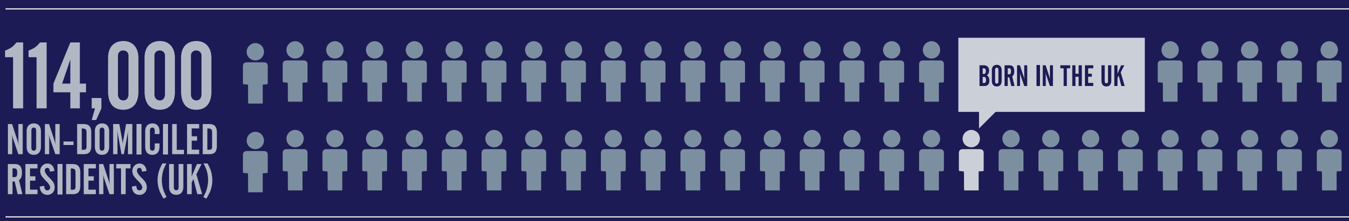
	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
NIL RATE BAND	£325,000	£325,000	£325,000	£325,000	£325,000
RESIDENCE NIL RATE BAND*		£100,000	£125,000	£150,000	£175,000

*APPLICABLE ONLY TO MAIN RESIDENCE

SOURCE: HMRC

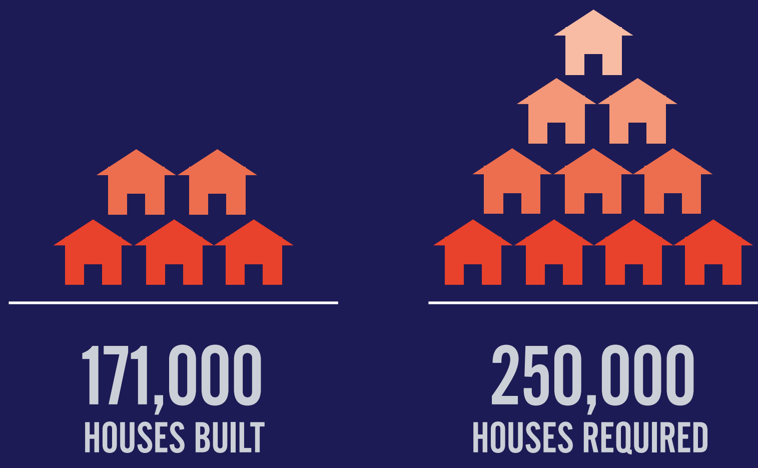
"The main residence nil rate band will enable the Chancellor to claim that a £1 million nil rate band has been achieved and will undoubtedly take some families out of the IHT net. However house price inflation may mean that the benefits of this additional nil rate band will be gradually eroded."

- ***Prudential***



HOUSES BUILT vs. HOUSES REQUIRED

2014/15 TAX YEAR



SOURCE: HOME BUILDERS FEDERATION (2016)

If we assume that the CPI-linked increases to the RNRB after 2020/21 are intended to keep the level of the relief in line with inflation, the fact that house prices are not taken into account in the CPI calculation suggests that, without further changes, the trend for fast increasing property values will continue to draw homeowners into the reach of IHT: At February 2016 the CPI showed a 0.3% rise in the cost of living in the previous 12 months whereas, in the same period, UK house prices rose by 7.6% (Office for National Statistics) and the chronic shortage of UK housing, a major driver for residential property prices, continues.

NON-DOMICILED RESIDENTS

Also announced in the summer Budget 2015 were changes to the tax rules relating to non-doms. Specifically, to abolish the permanency of non-dom status and to ensure that anyone born in the UK with a UK domicile of origin cannot claim non-dom status while they are living in the UK. 114,000 UK residents currently claim to be non-domiciled (The Guardian) of which 1,750 were born in the UK.

The new rules will take effect from April 2017 and will result in any individual who has been resident in the UK for at least 15 of the past 20 tax years being deemed UK domiciled for tax purposes. They will then be liable, from the start of their sixteenth year of residence, to pay tax on the same basis as UK domiciles, including IHT on their foreign and UK assets.

The details of these changes were still under review at the time of going to print and the Government was considering, for the sake of simplicity, whether the new regime should apply to all non-domiciled individuals who are resident in the UK rather than being limited to those who become 'deemed' UK domiciled after 15 years' residence. Reforms regarding IHT and UK domiciliation after a non-dom leaves the UK and the treatment of assets held within offshore trusts, which is likely to differ for those born in the UK to those who have become 'deemed' UK domiciled, also remain under consideration.

In addition, currently only UK property held directly by a foreign domiciled person is liable to IHT. However, the Government intends to levy Inheritance Tax on all UK residential property held by foreign domiciled persons, regardless of whether it is held indirectly through a structure such as an offshore company or an excluded property trust (although other trust assets will remain excluded from IHT). This change is proposed for 2017 and will apply whether the property is let commercially or occupied by the non-domiciled individual and their family. A number of events will trigger the IHT charge, including the death of the individual (wherever resident) who owns the shares of the company owning the UK property, a gift of the company shares into trust, the 10 year anniversary of the trust and the death of the donor within seven years of having given the company that holds the UK property away to an individual.

All individuals, irrespective of their domicile status, benefit from an IHT nil rate band, currently £325,000. But where the spouse or civil partner to whom assets are transferred does not have a UK domicile there is a lifetime limit on the value of assets that can be transferred free of IHT. The limit is currently £325,000 (it is linked to any future changes to the IHT exemption limit). An option here for those who are currently non-doms but would be caught by the new regulations would be to elect to be treated as being UK domiciled for IHT purposes to access the benefit of an uncapped transfer from their spouse/civil partner. However, this would also mean the individual's worldwide estate will henceforth be liable to UK IHT, so they may well be better advised to explore other relief options.

In spite of the lack of firm detail, it is clear that advisers will need to review the IHT arrangements of any non-dom clients with a strong possibility that adjustments to benefit from the reliefs that remain available will be required.

"IHT using BPR gives clients and their beneficiaries the opportunity to mitigate the tax, maintain and potentially grow the value of the investment through a BPR qualifying asset, whilst still retaining access and control." - ***Richard Simmonds, Blackfinch***

BRITISH EXPATS

British expats are also included in the proposed changes affecting non-doms and whilst the detail is still to be finalised, the suggested new rules due to be implemented from April 2017 are as follows:

- Regardless of whether or not an expat has changed their UK domicile to a domicile of choice abroad, if they return to the UK and are resident for at least one of the previous two tax years, HMRC will deem them to be UK domiciled and therefore that their worldwide estate is within the IHT scope.
- Any trust settled by them, even whilst non-domiciled, will be treated as settled by a UK domiciliary and therefore subject to lifetime charges, 10th anniversary fees and exit charges if no other reliefs are applicable.
- The person will be deemed to be UK domiciled until six tax years of non-UK residence (rather than four years at present).

This means that even UK citizens who have not lived in the UK for a considerable period of time might find it prudent to take a look at their IHT arrangements, especially when you consider that there are around five million Britons now living abroad (UN Population Division, 2015 Revision).

PROPOSED INCREASE IN PROBATE FEES

The grant of probate (the document authorising executors to deal with an estate) provides the evidence required for them to access bank savings or investments. Currently, the grant of probate costs £155 when a solicitor applies and £215 when an individual applies (where the deceased has left more than £5,000 in assets).

Under plans which had only just finished the consultation period in April 2016, in order to raise £250 million per year towards funding Her Majesty's Courts & Tribunals Service (HMCTS) which administers the probate system, the Government intends to sharply increase the cost of probate, based on the value of the estate. (Note that certain circumstances do not require a grant of probate, including in relation to any assets that are owned by the deceased with other persons as 'beneficial joint tenants' such as husband and wife.)

The Government argues that the gain to estates that are set to benefit significantly from the new RNRB will outweigh the proposed increased probate fees. These fees would initially be payable by the executor and then reclaimed from the estate as an expense, so whether or not any IHT is due, up to £20,000 could be deductible from the estate.

For probate purposes, the value of the estate must take into account all

PROPOSED AMENDED FEES STRUCTURE

VALUE OF ESTATE	PROPORTION OF ENGLAND AND WALES	PROPOSED FEE
Up to £50,000*	**57%**	**£0**
£50,000 - £300,000	**27%**	**£300**
£300,000 - £500,000	**10%**	**£1,000**
£500,000 - £1m	**5%**	**£4,000**
£1m - £1.6m	**1%**	**£8,000**
£1.6m - £2m	**0.2%**	**£12,000**
Above £2m	**0.4%**	**£20,000**

SOURCE: MINISTRY OF JUSTICE

*OR EXEMPT FROM REQUIRING A GRANT OF PROBATE

"Client circumstances can change, so it is important to choose a BPR provider who can offer real flexibility and reliable liquidity." - ***Andrew Sherlock, Oxford Capital***

the assets the deceased owner had an interest in, including property and land, businesses, investments (stocks, shares etc.) and certain types of trust from which the individual benefited. However, some types of trust can take assets outside of the estate (and out of IHT scope), reducing the proposed probate fee calculation, and/or mitigating the need for probate at all.

From a BPR perspective, although BPR qualifying assets already benefit from IHT relief, it may also be possible to place the BPR qualifying assets and investments into a trust which removes them from the estate for probate purposes. This is likely to give the beneficiary faster access to the assets and will avoid the 20% lifetime transfer charge (from which BPR qualifying assets are exempt, providing they have been held for at least two years), which normally applies when assets are settled into trust.

The probate fees do not include the costs of hiring professionals to administer the estate which were an average of £2,433 per person in 2015 (Sun Life), giving a total of over £1.3 billion (using ONS deaths statistics).

ENTREPRENEURS RELIEF

Entrepreneurs relief is a capital gains tax relief which applies a 10% capital gains tax rate on eligible disposals of shares or securities in trading companies or other eligible business assets, instead of the 20% capital gains tax rate that would otherwise apply to higher rate taxpayers.

The Finance Bill 2015 took joint-venture companies (JVs) and partnerships outside of the entities which qualify for entrepreneurs relief. As a result, some BPR products which were structured as JVs or LLPs as a tax-efficient method to access entrepreneurs relief for their investors were disadvantaged. However, in the March 2016 budget there has been a reinstatement of entrepreneurs relief to JVs and LLPs under certain circumstances.

Additionally, the March 2016 budget included the announcement of new rules, to allow access to a 10% rate of capital gains tax on newly issued shares in unlisted companies purchased on or after 17 March 2016, as long as they are held for a minimum of three years from 6 April 2016. Many clients are holding BPR qualifying products until death which is not a chargeable event for CGT and so they won't pay any CGT; however, this change could increase demand for BPR products as they become more tax efficient when withdrawals are made. This is of particular interest to investors who are looking for flexible and cost effective access.

PENSIONS CHANGES AND ESTATE PLANNING

Recent changes to pensions have created a new and potentially extremely tax-efficient method of passing on wealth on the death of the pension holder. Pensions are typically not subject to IHT, but expensive 55% "death taxes" have previously applied. However, since 2015, the following new pension rules have been introduced:

- The party that can inherit a pension fund no longer has to be a dependant of the pension holder.
- If death occurs before age 75, the nominated beneficiary can access the funds at any time tax free.
- If death occurs after age 75, defined contribution pension funds can be taken in instalments and will be taxed at the beneficiary's marginal rate as they draw income from them.

Alternatively, they will now be able to take funds as a lump sum, less tax charged at their marginal rate.
It is clear that ring fencing funds within a pension now looks like an attractive option to limit IHT liability and providers have commented that advisers now view pension funds as a very efficient IHT vehicle, with some now advising clients to draw down on other savings so that they can leave their pension fund as an IHT free legacy. But both pensions and IHT specialists have already warned of the possible dangers of triggering an HMRC investigation if they suspect that pension holders have used their pension to shelter money. This might look especially obvious if individuals make large pension contributions later in life, particularly if they are relatively young and unwell. Depending on the outcome of the investigation, HMRC could treat the pension as if the money were still in the estate and levy IHT accordingly, although this is speculation at this stage – none of this has been tested.

Consequently, any application of the new pension rules in order to mitigate IHT should really be based upon specific advice from an adviser, taking into account not only the personal circumstances of the client, but also the most secure mitigation method.

The abolition of compulsory annuity purchase has led some investors and their advisers to search for alternative income options, including alternative investments that they would not have considered previously. This may be positive for BPR product uptake in the future, but for now it seems that most advisers consider BPR as a pure estate planning tool and not an alternative to an annuity or drawdown solution.

"[IHT:] countries such as Sweden and Australia have abolished the tax and countries such as China and India never introduced it." - **Centre For Policy Studies**

DEVIL IN THE DETAIL?

As with any tax change proposals announced in simple soundbites by politicians who may be looking for a big publicity splash without too much scrutiny, the devil is in the detail. By the time amendments get to the stage of the legislation needed to introduce them, the limitations and restrictions made in the small print (usually to protect tax income to the Treasury) can have a major effect on how the headline change actually applies.

This is true of the new RNRB, for which some of the eye-catching and misleading headlines have been:

- Inheritance tax to be scrapped on homes worth up to £1m (BBC, July 2015)
- Summer Budget 2015: Inheritance tax threshold to rise to £1m on properties (MoneySavingExpert, July 2015)
- Summer Budget: £1m inheritance tax allowance confirmed (ft.com, July 2015)
- Summer Budget 2015: IHT threshold upped to £1m for couples (Moneywise, July 2015)

Hardly surprising then that some people might simply assume that if they have assets of up to £1 million, they won't be caught by IHT. However, the new rules have been criticised for their complexity and even at the simplest level, qualification for the full relief not only depends on the asset being left, the party it is being left to and the method of passing to that party, but it doesn't start until 6 April 2017 and doesn't hit the full amount until 2020/21.

Advisers need to go beyond the soundbites and ensure that relevant conditions are explained to clients to give clarity on the options available as well as the potential pitfalls. This is clearly a valuable service and an important opportunity to engage with clients to make certain that their understanding and the full reality are aligned – and to plan any appropriate changes to their financial arrangements.

OUTLOOK FOR BPR AS A RELIEF

The outlook for BPR as a relief is clearly inextricably linked to IHT, and the UK's IHT regime implements one of the highest rates in the world – countries such as Sweden and Australia have abolished the tax, and countries such as China and India never introduced it (Centre for Policy Studies). It is an extremely unpopular tax, with recent research suggesting that UK voters are almost unanimously opposed to taxation of inheritance, regardless of their political views (Fabian Society). This makes it a prime target for party political point scoring, meaning that the potential for amendments and adjustments is significant.

Interestingly though, some commentators believe that, because it's so politically sensitive, Inheritance Tax is likely to continue in something like its present form for some time to come, because nobody has been able to come up with anything better without stirring up strong feelings, with the distinct possibility of not pleasing anyone.

According to the Office of Tax Simplification there are currently 91 different reliefs to IHT (plus the new RNRB), including Business Property Relief. Various entities have advocated its full review, hefty revision, or even its complete abolition:

- The right wing Centre for Policy Studies' contention is that Inheritance Tax should be reformed by cutting the rate from 40% to 20% and funding this by ending Agricultural Property Relief and Business Property Relief (2 of the 3 main IHT reliefs, with the other being transfers to charities). The rationale is to update and simplify the IHT system and to reduce the incentive to spend time and money on tax planning and avoidance measures.
- The left wing Fabian Society has recently stated that Inheritance Tax is too toxic to save and should be abolished entirely.
- The Institute for Fiscal Studies has made the case for scrapping IHT altogether, or, in an attempt to tilt the tax burden more towards the better off, it has suggested the removal of IHT reliefs for agricultural and business assets.
- In 2011, the Office of Tax Simplification said, "the reliefs for inheritance tax are integral to the policy and we consider that a more appropriate approach would be to review the tax as a whole."
- Historically, both Labour and Conservative politicians have called for, and even promised (Chancellor Kenneth Clarke, November 1996) the abolition of IHT.
- The National Audit Office (NAO) has criticised HMRC for not evaluating reliefs to see if their objectives are being met, with the inference being that abuse of reliefs amounting to avoidance could be taking place, particularly in view of the increase in the cost of some reliefs. One of the reliefs looked at was BPR, the cost of which rose by almost 100% to £415 million between 2007 and 2014. This outstripped all of the 11 reliefs examined, apart from Entrepreneurs Relief and the exemption from climate change levy for electricity generated from certain renewable sources. Nevertheless, in terms of IHT reliefs in particular, rather than reliefs in general, the latest figures published by HMRC for 2012/2013 show that over six times as many estates claim the exemption between spouses or civil partners than claim BPR, whilst the nil rate band provides by far the largest shelter from IHT.

A commonly suggested IHT replacement is that some form of income or capital gains tax should be levied in its place on gifts, bequests and other transfers, whether at the recipient's marginal rate or at some other level. Another suggestion, specifically relating to BPR, is to allow the relief only in instances where the business activity continues for a specified period after the death or gift. This would be for an arbitrary period, perhaps two years, and whilst it might meet the objective of encouraging investment in risk-taking trading ventures, it would also add yet another layer of complication to the tax system.

Set against this background, people could be forgiven for delaying IHT planning, including BPR investing, but under current legislation if the system does not change significantly, this equates to lost time in terms of qualification of assets for IHT mitigation.

In fact, in spite of the criticisms, with the RNRB, the Conservative government has gone ahead with changes to IHT to extend reliefs, rather than to curtail them. Since we have another four years of Tory government, unpressured by coalition partners or particularly strong opposition in parliament, there now seems to be far greater cause to trust that both IHT and BPR are secure for some years to come.

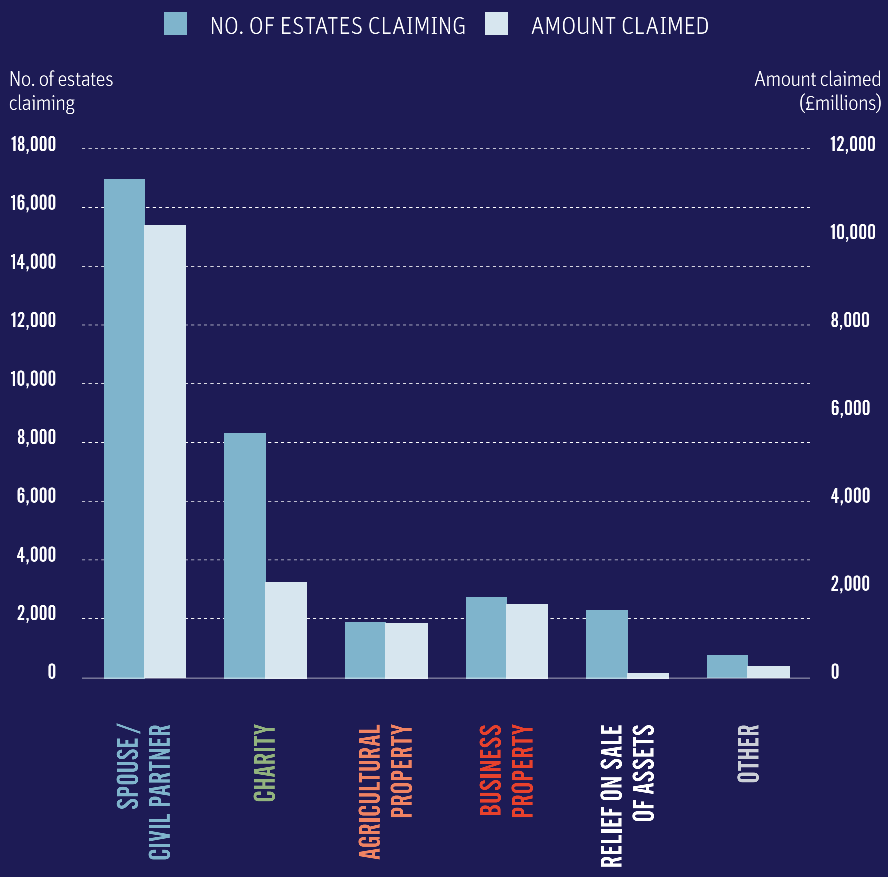
Whilst condemning the RNRB as one of the ways in which the Conservatives have run a government under which "the rich get richer, while the poor have their incomes cut and worry about a heavy debt burden" (Jeremy Corbyn, December 2015), there has been little indication from the Labour party since the general election in 2015 that they have any alternative strategy for IHT: no talk of abolition of the IHT or of any of the attendant reliefs, only that it should be graded.

In 2015 the Institute of Directors suggested that taxes raising less than £5 billion a year should be merged or scrapped. However, the backdrop of the budget deficit and the rising value of IHT to the Treasury (reaching £4.6 billion in 2015/16 and forecast to pass £5 billion again by 2020) tends to weaken the argument that the abolition of IHT would have a relatively immaterial effect on government coffers and that the income would not be difficult to replace.

FUNDING GAP

The original intention of BPR was to provide continuity by ensuring that family businesses do not have to be sold at death to pay IHT. It has evolved to also become a method of encouraging investment into small businesses, an incredibly important sector of the UK economy.

RELIEFS AND EXEMPTIONS CLAIMED BY ESTATES OVER THE NIL RATE BAND THRESHOLD – 2012/13



SOURCE: HMRC (2015)

"In 2015, the combined annual turnover of SMEs was £1.8 trillion, 47% of all private sector turnover in the UK and total employment in SMEs was 15.6 million; 60% of all private sector employment in the UK." - ***Department of Business Innovation and Skills***

"IHT planning is an increasingly important element of any financial plan. Anyone considering a Business Relief proposition should look beyond the potential tax relief and suitability consider the underlying investment; whether it is backed and whether it can realistically produce the income or returns targeted." - ***Andrew Aldridge, Deepbridge***

The £1 billion annual funding gap suffered by UK Small and Medium Sized Enterprises (SMEs) underlines the continuing need for the types of equity investments into the sector which are typically encouraged by BPR investments. The confidence of BPR providers is evidenced by the increasing number of new services being introduced, many of which have a focus on growth, and by the increasing number of people who are using them.

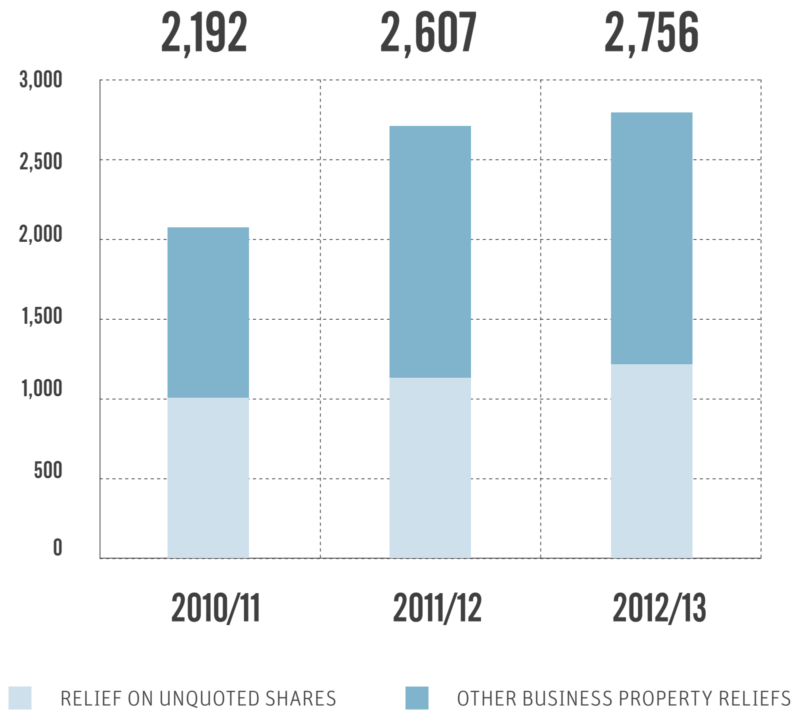
A point worth noting: even in the event of any potential restriction or removal of BPR relief, the investments would still be solid investments with sensible objectives such as capital preservation, growth and income – and there is no reason why there would be a greater likelihood of investors losing funds invested in these opportunities than before the reliefs were revoked. To put this another way, BPR qualifying investments are investments first and foremost.

SUMMARY AND CONCLUSIONS

So, the signs are that both IHT and BPR look set to stay for the foreseeable future. Although tax avoidance/evasion is increasingly in the headlines, readers should remind themselves that BPR is a statutory relief that has been in existence for decades and encourages investment in small businesses. Providing the underlying investments are non-contentious, there is no need to have any concern about investing in an avoidance "scheme" that pushes the law to the limits and beyond. Nevertheless, should policy change, as BPR solutions are investment based IHT solutions, investors can exit, withdraw their funds and implement a new strategy if they need to.

EXEMPTIONS AND RELIEFS (ABOVE THE NIL RATE BAND)

NUMBER OF ESTATES CLAIMING



SOURCE: HMRC (2015)

POSITIVES

BPR investors can take confidence from the fact that BPR investment has been steadily rising without any (high profile) rejection of the exemption by HMRC and since BPR encourages financing of the critically underfunded UK SME sector, there is good reason for it to continue. The actions of the government since the 2015 general election certainly suggest that it's set to endure for the time being.

PITFALLS

Nevertheless, there is still reason for some caution: Could BPR become a victim of its own success? The NAO's criticism of the way that HMRC monitors tax reliefs, along with the rising costs of BPR, bring the possibility of increased HMRC scrutiny of BPR qualification.

Advisers may also find that the RNRB initially removes the need for BPR products for a significant number of their clients and the less well-informed advisers could entirely overlook an estate planning requirement by underestimating the potential IHT liability of some clients who would, in reality, potentially benefit from a BPR investment.

NEW PRODUCT LAUNCHES

2015/16 TAX YEAR

	DEEPBRIDGE IHT SERVICE	FIM SOLAR DISTRIBUTION LLP	FIM TIMBERLAND LP	GUINNESS SUSTAINABLE INHERITANCE PLANNING SERVICE	MARIANA ESTATE PLANNING SOLUTION	PRIME INHERITANCE TAX PORTFOLIO	STELLAR ESTATE PLANNING SERVICE	UNICORN AIM INHERITANCE TAX PORTFOLIO SERVICE
MANAGER	Deepbridge Advisers Ltd	FIM Services Ltd	FIM Services Ltd	Guinness Asset Management Ltd	Enterprise Investment Partners LLP	Prestige Asset Distribution Ltd	Stellar Asset Management Limited	WM Capital Management Ltd
MINIMUM SUBSCRIPTION	£50,000	£50,000	£40,000	£25,000	£25,000	£10,000	£25,000	£25,000
TARGET RETURN	6%	7%	7%	5%	4%	4%	4.5%	NA
INVESTMENT TYPE	Discretionary Portfolio Service	Investment Company	Investment Company	Discretionary Portfolio Service	Discretionary Portfolio Service	Discretionary Portfolio Service	Discretionary Portfolio Service	Discretionary Portfolio Service
INVESTEE COMPANIES (TARGET No.)	2	1	1	NA	NA	NA	4	25
INVESTEE COMPANY TYPE	Project Based	Project Based	Project Based	Project Based	Project Based	Seed/Early/ Later Stage	Project Based	AIM Listed
STRATEGY	Capital Preservation & Income	Income	Growth & Income	Growth & Income	Capital Preservation	Capital Preservation & Growth	Capital Preservation & Income	Growth & Income
SECTOR	Renewable Energy	Renewable Energy	Industry & Infrastructure	Renewable Energy	Renewable Energy	Financial Services	General Enterprise	General Enterprise
LIQUIDITY	Refinancing and matched investors' provisions available, may be fulfilled 28 days after 2 years from subscription.	Yes - on a match bargain basis	Yes - secondary share sale market	Quarterly dealing. After 12 months the investor may request ad hoc or regular Redemptions (min. request amount is £10,000). The manager will process Redemption requests within 3 months.	Standard liquidity allows investors' shares to be sold to incoming investors and may take up to 3 months. Mariana may also purchase the investors' shares allowing the investors to exit within 1 month.	Monthly on 60 days' notice or periodically as per the regular withdrawal instructions.	Redemptions or withdrawals, on a quarterly basis within 1 to 3 months of a request, subject to liquidity.	Approximately 2% of fund held in cash. Investors can withdraw their funds at any time, subject to payment of the exit fee.

"Managers investing in assets with single digit project level returns with no gearing are less risky than those with double digit returns or using gearing." - ***TIME Investments***

2016 research shows 36 products (of which 34 are open for investment) from 22 providers, nine of which have more than one product. Two new products have been launched in 2016 and six were launched in 2015, so almost a quarter of the products on the market which are open for investment are new. This certainly suggests a growing market and an appetite for BPR offerings.

In contrast to past offerings, the new offers in 2015/2016 tend to focus on growth and income; this may be a sign of a new demand trend emerging in the market. There is even a new offer which targets income generation as its main investment objective (previously no BPR offers primarily targeted this objective). We can speculate that this change is down to an increasing number of clients who want to undertake some estate planning without sacrificing returns, or who envisage the need for income to fund an extended retirement.

The average target gross return is on the rise – currently at 4.26% for all open products (compared to 3.97% historically), and this is a reflection of the increase in the number of growth offers that have come into the BPR market since the start of the 2015 tax year.

The majority of offers that have come into the market in this period are project based and this has impacted the product diversification statistics – with the average number of portfolio companies dropping from 10 to 9 – since project based products usually consist of a single investment. Project based offerings are often able to pay income reliably and so the increase in products that pay income goes hand in hand with the increase in project based offers.

The average annual performance fee for project based offers has fallen significantly this year – dropping from 14.58% to 19.45%. This is because the number of project based offers has almost doubled, but the new offers that have come into the market typically charge zero annual performance fees. Rather than charging investors an incentive fee annually, the trend is for project based managers to charge the incentive fee on exit, a sign of their confidence in their product.

Pure capital preservation strategies have the highest initial charge, increasing from 3.5% to 4.33% in 2015/16 (based on fees for advised investments, not direct investments), so investors looking for a greater focus on capital protection should expect to pay an upfront premium. On the positive side, performance fees are rarer and the AMC is low compared to other strategies – and fell by 0.42% this year compared to the historical picture, making long-term investments cost less.

Nevertheless, our research shows that the market has remained fairly stable in terms of fees over the last two decades, although recent performance fee changes are notable: The average annual performance fee fell by 1.68% to 4.12% in 2015/16, but the corresponding average hurdle rate is now lower at 0.87%. The opposite is true for the exit performance fee and exit hurdle. We can conclude that offers introduced to the market in 2015/16 have a tendency to incentivise managers to generate longer term accumulated returns.

In terms of investment sectors, 2015/16 has shown an increase in investments launching targeting the renewable energy sector. This may be caused by the exclusion of renewable energy investments from EIS and VCTs, prompting managers who specialise in this sector to move their projects to the BPR tax wrapper.

See the Industry Analysis section for expansion of analysis of current and historical trends of BPR products.

FOCUS ON AIM

In June 2015, AIM, "the leading growth market for small and medium-sized companies from across the globe looking to raise capital" (London Stock Exchange), celebrated its 20th birthday. Although the overall market continues to experience considerable volatility, there is also a place for those who are looking for wealth preservation with moderate growth or income combined with tax benefits: One of the key benefits of investing in AIM-listed equities is that many of the companies quoted will benefit from BPR and are also ISA eligible.

Due to the requirement for the underlying investments to be held directly in the investors' own names, holding AIM shares in a conventional collective investment fund structure would not confer the BPR relief, as this creates an extra layer between the investor and the company.

Instead, those looking for BPR benefits must either take the "do it yourself" route or use an AIM portfolio service offered by a specialist wealth management firm which invests in the shares of companies quoted on AIM that meet the criteria for BPR qualification. We would point out that the DIY route may not be as easy as it sounds – not all AIM shares qualify for BPR, and of course it requires skilful stock picking to run a successful portfolio.

Wrapping a service like this in an ISA (AIM shares have qualified for ISAs since August 2013) amounts to a double tax break, in terms of ensuring that there is no tax to pay on future dividends or capital growth derived from the shares (in 2015/16 up to £15,240 pa can be spent on shares rising to £20,000 on 6 April 2017) and providing 100% IHT relief on the funds held in the ISA upon death.

VOLATILITY ON THE FTSE AIM ALL SHARE INDEX (AS OF APRIL 2016)

SOURCE: LONDON STOCK EXCHANGE

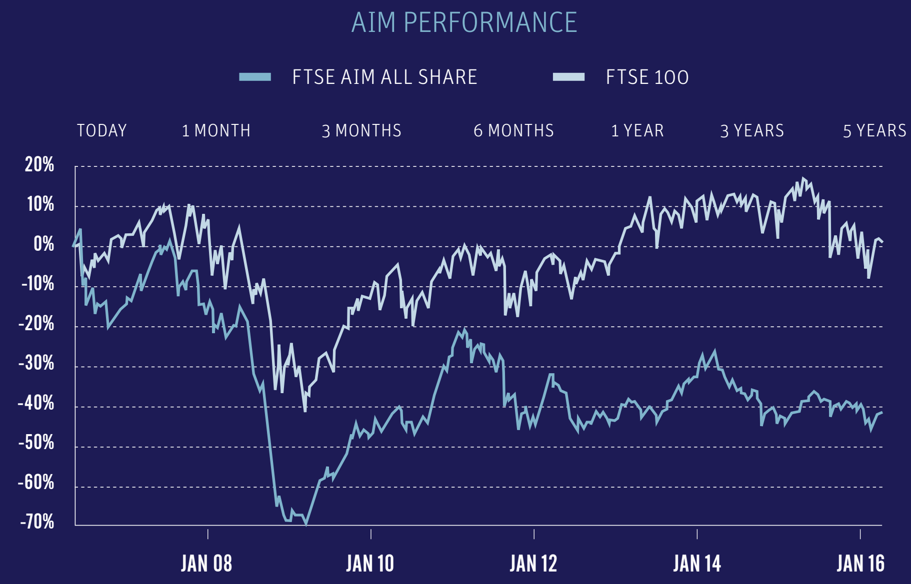
1 YEAR	9.6%
3 YEARS	11.4%
5 YEARS	14.2%

As with any market, the volatility of the headline index measure can mask the performance of some of the underlying constituents.

BPR investors should look beyond the FTSE AIM index and focus on stock-picking: it really is a stock picker's market and thorough analysis can identify the steady performers that also qualify for BPR. Well-known names on AIM that are also BPR qualifying include ASOS, ABCAM, James Halstead, Dart Group, Clinigen Group and Origin Enterprises.

Providers of AIM IHT services will typically look for companies with sensible valuations that are self-sustaining and can generate cash, with the potential for further growth to generate shareholder value. They'll also apply their usual filters: does the firm have a strong management team, a defensible position in its chosen market and a strong balance sheet. Finally, they'll look to construct a solid overall portfolio that provides sufficient diversification and apply strong selling discipline, exit investments when they reach their estimate of fair value, or cut losses swiftly when they make mistakes. It's also vital to keep the amount of cash in the portfolio (which would not qualify for BPR of course) to a minimum. Readers will note that these are conventional portfolio management strategies, just applied to the universe of BPR qualifying companies on AIM.

That said, there is more to AIM investing for BPR purposes than choosing some qualifying shares and waiting for two years; firms which do not qualify include those which are wholly or mainly investing in shares or real estate (i.e. earning rental income) or those listed on a recognised stock exchange (including overseas). Therefore, if the company changes activities or seeks an additional listing, it may cease to be 'relevant business property', disqualifying the shares as BPR assets. Providers of AIM IHT services must



SOURCE: LONDON STOCK EXCHANGE (APRIL 2016)

continually monitor their portfolio and react to any changes. The three year assets replacement window helps here, reducing the need to panic if the manager has to exit a particular holding.

Approximately 50%-70% of the firms listed on AIM are BPR qualifying and fund managers running AIM IHT portfolios often employ the services of external consultancies such as PwC to audit their portfolio and verify that it is BPR qualifying – there is no official HMRC list of BPR qualifying companies. Other managers use their own expertise.

Our research shows that just over a quarter of the BPR product offerings currently open are for AIM listed shares. We also found that AIM based products generally require a lower initial investment than the other types of BPR investments (Project Based and Trading Companies), suggesting that the flexibility of purchasing shares allows market entry and diversification at a lower cost. In fact, AIM based products on average are over three times more diversified than the other BPR investment types, typically investing in portfolios of 20 or more companies.

In addition, the liquidity on AIM means that the product providers target the sale of shares within a month if investors wish to exit, although there is the caveat that these are dependent on market conditions.

One potential downside that advisers need to be aware of is the possibility of AIM stocks that qualify for BPR becoming a crowded trade, pushing valuations beyond what the fundamentals justify. Although somewhere between half and two-thirds of AIM's 1,000+ stocks are thought to be BPR qualifying, only a proportion of these will meet the managers' investment criteria, leaving a much smaller effective investment universe for managers to pick from.

As managers running IHT planning services are investing for the long term, small fluctuations in the valuations can be absorbed, but if new money is continually allocated to this strategy there is the possibility that the small number of suitable stocks will enter bubble territory.

Intelligent Partnership will be producing an Industry Report focusing on AIM later this year.

FOCUS ON UNDERLYING ASSETS

In terms of underlying assets, the choice of these is primarily informed by three factors: the BPR qualifying rules, the overarching capital preservation mandate and the investment objective, e.g. growth and/or income.

The investment sectors currently covered by BPR products are General Enterprise, Renewable Energy, Financial Services and Industry and Infrastructure.

RENEWABLE ENERGY

The growth in BPR investments into renewable energy is hardly surprising, as the government incentives which underpin them – Feed-in Tariffs and Renewable Obligation Certificates – are still available, even if they have been removed from the list of qualifying activities for EIS and SEIS. These incentives provide predictable, long-term revenue and whilst some may not be as lucrative as they used to be, they still fit the bill for the type of low risk, moderate returns that BPR products look to provide. They are also generally asset-backed by land and/or machinery (such as solar panels), providing collateral.

OPEN PRODUCTS: ◆ ◆ ◆ ◆ ◆ ◆

FINANCIAL SERVICES

In the context of BPR, Financial Services refers to loans that are made to low risk, creditworthy borrowers – usually asset-backed property developers (BPR cannot be claimed on companies that mainly deal with securities, stocks or shares or in making and holding investments). The benefits of providing these types of loans is the low level of ongoing work required. After an initial period of research and analysis, funds can be deployed and the loans should provide a predictable return over the mid to long term. Success is dependent upon the quality of the credit underwriting process, the strength of the claim on the underlying assets and the value of those assets.

OPEN PRODUCTS: ◆ ◆ ◆ ◆ ◆ ◆ ◆

INDUSTRY AND INFRASTRUCTURE

This is a fairly wide-ranging category which encompasses activities such as forestry, power generation and Private Finance Initiatives - where a large asset, such as a hospital, is sold by its developer (whose expertise is at the front end of these big projects) to an entity which takes on the efficient management of it to create long-term returns.

As a result, significant assets are likely to back the investment, although ongoing input to manage the assets and to generate returns is also likely and this has led to some managers charging higher annual performance fees than are common in other sectors.

Managers who specialise in one or two areas are likely to be at a disadvantage in terms of diversification as the projects are large and require a lot of work upfront to set up, but returns should be stable and predictable and the managers will exercise a high level of influence over the underlying projects. Additionally, with a less varied and potentially smaller portfolio, tracking the activities of investees to ensure BPR qualification compliance may well be less difficult than for a wide range of companies.

OPEN PRODUCTS: ◆ ◆ ◆

Managers are generally looking for low risk assets, that can provide predictable income and growth and are non-contentious (so are not securities, buildings, land or making/holding investments).

Our research shows that the largest proportion of products invest in assets that are classified as general enterprise, which, given the broad range of business activities from various industries that qualify for BPR, is unsurprising. Nevertheless, this proportion is reducing, with 52% of historic offerings investing in general enterprise, versus 47% since the start of the 2015/16 tax year.

This could suggest that managers are creating a comfort zone of the specific, suitable, successful sectors for their BPR products: among the open non-AIM products (note that all of the open AIM products are classified as general enterprise), only ten of the twenty-five are classified as general enterprise, and of these ten, seven refer specifically to two or three sectors that they will focus on. For example, the Time:Advance BPR Service refers to “investing in asset backed businesses including secured property lending, infrastructure (including renewables) and self-storage”.

"EFAMA [...] recommends that the European Commission, European Parliament and Council delay the entry of application of the PRIIP KID Regulation by at least one calendar year" - ***European Fund and Asset Management Association, February 2016***

By staying in this comfort zone providers can take advantage of specific expertise that the managers have in certain sectors. Such experience lends itself well to the careful research required to invest in unquoted investment opportunities, where companies are not obligated to produce reports and share corporate information in the way that their listed counterparts are.

PROJECT BASED OPPORTUNITIES

There has been a notable increase since the beginning of the 2015/16 tax year in project based BPR products. In these products investment is made into an SPV with the intention of establishing and/or running one or more projects: for example the development, building and operation of anaerobic digestion projects. SPVs can be beneficial in ring fencing activities, liabilities and profits and they're routinely used by renewables projects with secure government-backed incomes. A high proportion of investments are now made to project based opportunities as investee companies in this category are usually "asset-rich" – for example owning renewable energy plant and infrastructures. This makes them less risky due to their high liquidation value, which satisfies the capital preservation objective even in worst case scenarios.

OTHER POINTS TO NOTE ON UNDERLYING ASSETS

One final point we think our readers should be cognisant of: some investments are primarily into debt, rather than equity, but this is not always apparent from their literature. It is not necessarily a bad thing of course, but it is worth asking the question of the provider when researching the opportunity. We also note that many providers invest in their own underlying companies: any conflicts of interest that might arise in these situations need to be carefully managed.

FOCUS ON CORPORATE BPR

Some BPR products target business owners. Unfortunately there are still a substantial number of business owners who fall into the traps that lurk in the BPR qualifying conditions and, as a result, do not benefit from the full IHT relief they believed that their business would qualify for.

The key issue is any assets within a business deemed to be 'excepted assets' by HMRC will be chargeable to IHT. An asset is treated as an 'excepted asset' if it was not used wholly or mainly for business purposes in the previous two years, unless it is required for future use in the business. This can include large sums of cash, and whilst it might seem prudent to hold extra reserves to ride the waves of uncertain economic conditions, HMRC does not consider that this is sufficient reason to hold cash and therefore treats the surplus as funds which are liable to IHT.

At the other end of the scale, some owners would like to sell their business and retire but fear the loss of IHT relief, often continuing the business for much longer than they should and consequently seeing it decline in value.

BPR products can provide solutions in both these scenarios and should not be overlooked; some corporate BPR solutions have been in place for over 20 years. In the first instance the excess funds can be retained in the business and invested in BPR qualifying trades and in the second instance the business could be sold and, provided the proceeds are reinvested in BPR qualifying assets within three years, none of the IHT relief is lost.

Very often these are the sorts of instances where advisers, accountants and solicitors can benefit from working together. It may be that the accountant is the one who becomes aware of the financial planning issue, and by referring it to a trusted IFA they can provide a solution for their client. We discuss the benefits of professional connections when it comes to BPR qualifying investments in the next section.

CHANGING REGULATIONS

Regulation of investments is in a bit of a holding pattern at the moment: we know that MiFID II (Markets in Financial Instruments Directive) and PRIPs (Packaged Retail Investment Products) are coming, but we don't know the detail yet.

Implementation of MiFID II has been delayed until 3 January 2018. The reason for the delay is to "take account of the exceptional technical implementation challenges faced by regulators and market participants".

In the meantime, the UK retail investment industry is waiting on the publication of the FCA's second consultation paper on MiFID II, which is likely to address issues such as what will be designated "complex products", the rules around the disclosure of charges and the governance of product distribution. In particular it is expected that product manufacturers will need to clearly identify a potential target market and type of client whose needs, characteristics and objectives will be met by any new product.

There are rumours that PRIPs may be delayed as well, although this is just speculation at the time of writing. PRIPs will require any investments structured as an Alternative Investment Fund to produce a prescriptive, three page Key Information Document (KID). The intention is to make more information

"With house prices continuing to rise and Government forecasting its highest ever intake of annual IHT receipts to this year, there remains a very real need for many people to undertake inheritance tax planning. It's clearly an issue that will persist and continue to cause concern. Investing in UK smaller companies has the potential to offer investors long-term growth while addressing their IHT liability."
*- **Paul Latham, Octopus Investments***

transparent and available on a consistent basis so that investors can compare like with like, even across different asset classes. One possible positive is that this may have the effect of making tax-efficient investments more mainstream.

On the advisers' side FAMR (the Financial Advice Market Review) was published in March 2016 and perhaps did not go as far as many were expecting or hoping. Much of what it recommended seemed to be further reviews and consultations, once again putting the industry into a holding pattern. However, it did propose a new definition of advice, which could clear up some of the ambiguity around "restricted" and "independent" advice and perhaps open the door to some form of simplified advice.

Finally, the FCA also carried out a thematic review of adviser due diligence, published in February. Director of life insurance and financial advice Linda Woodall said: "Research and due diligence is one of the three pillars of getting advice right", which is why we have returned to this issue. Firms clearly want to get this right and all firms, regardless of size or type, can carry out good research and due diligence.

"However, there are still improvements firms need to make and we'd encourage all firms to look at our findings and ensure that they are challenging themselves to ensure they're delivering quality due diligence for their clients."

The regulator found firms of all sizes and type were able to assess the nature of the investments they recommend and their risks and benefits – the emphasis was very much that this is one of advisers' key responsibilities to their clients.

We suspect that the majority of advisers operating in the alternative investment market will already have very strong procedures in place to ensure that this happens.

So, overall, for once there has not been much change driven by the regulations in the market over the last 12 months – however, there is a lot of potential change hanging over both alternative investment providers and advisers in the future.

CONCLUSIONS TO SECTION 2

The current government is in the process of making important changes to the rules around IHT, but there is no suggestion that the tax is not here to stay for some time. The changes may remove the IHT burden from a few thousand estates which will benefit from the RNRB, but with rising house prices this effect will only last for a few years.

In the meantime, British expats and long standing UK-resident non-doms with UK property (however it is held) will need to examine their estate planning from 2017 with an eye on UK IHT in a way they have not previously had to. In addition, the proposal for probate fees based on the size of an estate and pensions changes have added more new dimensions to estate planning about which the average lay person is unlikely to have any knowledge and will be very likely to need professional advice.

The suite of BPR products available is growing and, for suitable and appropriate clients, offers rapid IHT relief, flexibility and looks beyond pure capital preservation towards providing growth and income as well – a boon to advisers looking at complex financial objectives that encompass both estate planning and funding longer retirements.

ADVISING ON BPR

BPR VS. OTHER SOLUTIONS

ESTATE PLANNING SOLUTIONS COMPARISON

Having looked at the BPR market and some of the developments that have taken place over the last 12 months, we now move on to consider advising on BPR. We'll look at how BPR compares with other estate planning options, examine the issues around product research, due diligence and suitability and consider some case studies.

In this section we'll put BPR in the context of other estate planning options. Advisers should consider that the removal of the punitive 55% death tax means that in many cases pensions can form the key plank of an estate planning strategy now. We also know from our conversations with advisers that most of them still use gifts and trusts. However, more and more advisers are also complementing these strategies with BPR: perhaps because of limits on pensions, fears that clients will not survive the seven years required to make a gift 100% exempt or because clients are not willing to give up control of their wealth.

One other point to note: EIS investments are BPR qualifying and advisers tell us that they often recommend EIS rather than BPR investments to younger clients who are just starting to think about their estate planning objectives.

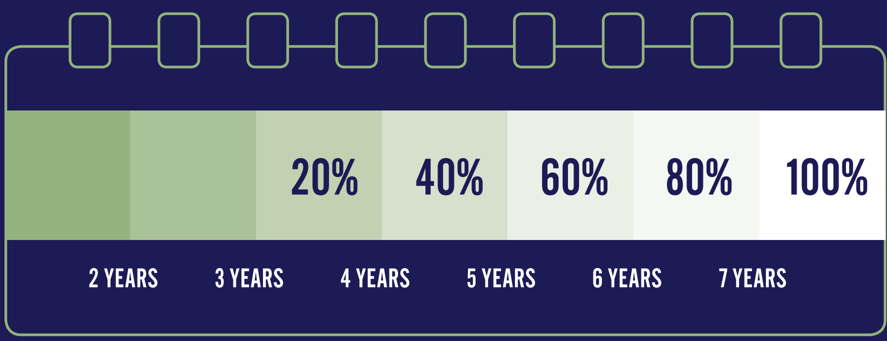
GIFTS

Gifts of a significant size which are made less than seven years before the death of the giver are generally liable to IHT, albeit subject to a sliding scale depending on the date of death. Such gifts are Potentially Exempt Transfers (PETs) and according to the personal accounts released by David Cameron in April 2016, in 2011 the Prime Minister received two PETs totalling £200,000. If his mother, the donor, lives until 2018, Cameron will save £80,000 IHT as 100% relief on the gifts will have been achieved: if the gifts are given over seven years before the death of the gift giver they are exempt from IHT.

IHT TAPER RELIEF ON GIFTS

X YEARS TIME BETWEEN THE DATE THE GIFT WAS MADE AND THE DATE OF DEATH

% TAPER RELIEF PERCENTAGE APPLIED TO THE TAX DUE



There are other exceptions where gifts are exempt from IHT, primarily:

- **Annual Exemption:** allows individuals to give away £3,000 per year, inheritance tax free. Any unused portion can be carried over to the next tax year (limited to one year carry over).
- **Small gifts** of up to £250 each to any number of recipients each tax year.
- **Gifts from normal expenditure:** Money from surplus income (i.e. not affecting the giver's standard of living, is not from capital and forms some pattern of regular spending, for example regular savings in a child's name).
- **Gifts to UK charities** (Also, leaving at least 10% of the value of an estate after the deduction of the nil rate band can reduce the IHT liability from 40% to 36% on the remainder of the estate).
- **Gifts to people getting married:** up to £5,000 from each parent.

However, to qualify for full IHT relief it must be a gift without reservation: the gift giver cannot derive any further benefit from it. For example, if the gift is a house which is lived in by the donor without rent, it is not deemed to be a gift without reservation and therefore will be liable to IHT: in other words, you cannot have your cake and eat it.

Giving away assets is generally regarded as the simplest method of asset reduction for IHT mitigation purposes.

Nevertheless, accurate record keeping and being able to demonstrate that the donor can afford to make the gift are important in case of an HMRC challenge. Therefore professional advice might be desirable (meaning there will still be associated costs).

“Investors considering IHT protection are looking for simple, straightforward investments and draw comfort from experienced providers who have a long track record in providing BPR solutions.” - ***Belinda Thomas, Triple Point***

Where clients are not comfortable gifting away money (advisers tell us this is increasingly the case as their clients face planning for longer retirements) or where clients are not confident of surviving the seven years required for the gift to become 100% IHT exempt, BPR is a viable asset replacement alternative.

TRUSTS

Trusts are used in conjunction with gifts, as assets can be gifted without them going directly to the beneficiaries. Instead, the assets go to a trustee which has legal control of them, generally taking them outside of the estate of the settler for IHT purposes.

A trustee has a statutory duty to act in the best interests of current and future beneficiaries and within a trust, the trustee has the ‘general power of investment’, meaning that he or she may make any kind of investment, including the appointment of a discretionary fund manager, provided the trustee has taken proper advice, considered the suitability of the investment for the trust and the need for diversification. This means that the field of investments that can be made is wide, although trusts are not permitted to invest in ISAs or any other asset where the investor must be a private individual, investing in their own capacity.

Additionally, the settler may place restrictions in the trust instrument (which sets out the powers and duties of the trustee), to limit the investment options to those which he or she is comfortable with as well as when to distribute the assets to the beneficiary (usually on death, although a trust has the useful benefit of being used to delay the distribution, e.g. when the beneficiaries are young children).

Trusts can also be set up in such a way as to ensure that the settler still derives some benefit from the gift: for example a Discounted Gift Trust or Reversionary Trust could be used to take a capital sum out of the estate, but the settler could still receive the income generated by it. (Note that the income would come back into the settler’s estate and therefore should be spent!)

Trust law is complex and therefore specialist advice is generally required, pushing up costs and meaning trusts are only viable for larger sums. We would point readers to the SIFA handbook on estate planning as one excellent example of a resource in this area.

The SIFA Financial Solutions for Estate Planning handbook is available at www.sifa.co.uk.

Again, where clients are nervous about the complexity and restrictions of trusts, BPR can be an alternative.

OTHER CONSIDERATIONS WITH TRUSTS

Lifetime Chargeable Transfer: When a living person transfers assets into a trust, that transfer is deemed to be a Lifetime Chargeable Transfer (LCT) on which 20% IHT is immediately payable on the value of assets above the nil rate band. When the person dies, the remaining 20% of IHT is due on the value of the assets transferred above the nil rate band, subject to any taper relief.

Ten Year Periodic Charge: On each tenth anniversary of the trust creation, an IHT charge will be levied of up to 6% of the value of the property in the trust exceeding the nil rate band.

Exit Charge: When the property leaves the trust and is transferred to the beneficiary, an exit charge of up to 6% is payable, based on the value of the property in the trust exceeding the nil rate band.

It’s worth noting that BPR qualifying investments can also be used in conjunction with trusts; one way to mitigate the charges and IHT payable when setting up a trust is to convert wealth into BPR qualifying assets which are held for two years before transferring into trust. Since there is currently no limit on the amount of BPR qualifying assets that can be held, this could be extremely tax efficient.

INSURANCE

Insurance policies can be taken out to provide a windfall to cover the inheritance tax liability. As a result, this is not IHT mitigation as such, but rather a method to set aside funds to pay the bill. Since the premiums paid will reduce the value of the estate while the policy-holder is alive, this also further reduces the IHT bill. This is another simple and low risk (there is no investment risk) estate planning option.

As we noted previously, insurance doesn’t reduce the IHT liability (premium payments excepted) and also requires medical underwriting, so it won’t be an appealing option for everyone.

It has been reported that over half a billion pounds is paid over to HMRC annually from life insurance policies because they are not written in trust and therefore do not fall outside of the estate of the policy-holder (Unbiased). Depending on the value of the policy, this could increase any probate fees (See Proposed Increase in Probate Fees section of this report) and/or bring the estate into the scope of IHT. It will also considerably slow down the speed of any pay-out. We wonder if one day this will be make the headlines as another mis-selling scandal.

!

"BPR is a powerful last-minute estate planning tool. For an individual in their 80s, it can double their chances of successfully mitigating IHT." - ***James Hipkiss, Oxford Capital***

WHEN TO USE BPR INSTEAD OF TRUSTS

SIMPLICITY

Many trust types are in common use, but their complicated legal nature makes them more difficult for advisers to explain to clients, making it more difficult to ensure that clients fully understand the rules and risks.

BPR is much more straightforward, with the relief being largely black and white and investments usually based on the income or growth that a specific underlying asset can produce.

COST

Expert advice on trust structures is expensive and this can extend to their set-up and operation. In addition, the 10 year periodic charge, exit charge and particularly the charges for settling LCT assets into trust, are not inconsiderable.

BPR does require product due diligence (although experienced investors could do this themselves) and BPR products do charge fees, but the main aim is capital preservation and BPR qualifying assets are exempt from the charges for placement in, holding and removal from trust.

SPEED

Whilst trusts provide a useful means of taking assets outside of death estates, in order to achieve 100% IHT mitigation, they must be held for seven years.

Full relief is available through BPR in two years.

ACCESS AND FLEXIBILITY

There is some access to assets within certain types of trust, but these can be very complicated and the rules do not usually allow for disposal of the asset if the settler is unsatisfied with the asset or its performance.

For BPR, access depends only on the liquidity of the BPR qualifying assets and any or all of these assets can be disposed of and replaced without the need to re-set the two year holding period to obtain the relief (as long as replacement takes place within three years of disposal).

RISKS TO CONSIDER

BPR ASSOCIATED RISKS

BPR products are clearly not a risk free estate planning solution as they expose those that use them to the risks associated with investments. However, for many clients the benefits of BPR may outweigh the risks: certainly the risk of doing nothing if there is an IHT liability means a certain 40% loss when the estate is passed on to the beneficiaries.

INVESTMENT RISK

Inherent in any investment is the potential for loss of part or all of the capital invested. Any future predictions are just that – predictions – and therefore the performance of the investment cannot be guaranteed. In addition, the nature of BPR qualifying assets (unquoted companies) means that they tend to be labelled "high risk". Advisers should consider BPR to be more risky than the other estate planning options mentioned in the previous section: that is almost certainly how the regulator and ombudsman will view it.

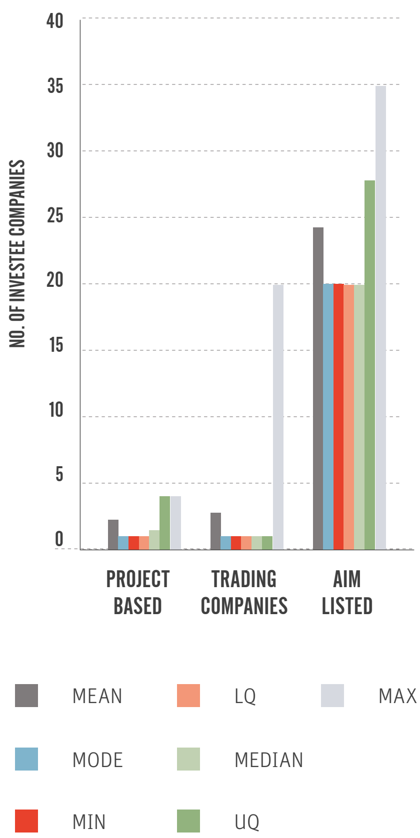
However, this is far from the whole story: as with any investment sector, a range of product risk profiles is available. As capital preservation is the overarching objective and because they are not tasked with earning spectacular returns, managers can develop lower risk options for clients. In the AIM market this requires skilful stock picking based on applying sound investment criteria. In the private company market, managers carry out thorough due diligence and use their sector knowledge and industry contacts to identify suitable investments.

DIVERSIFICATION

AIM based BPR products are typically far more diversified than products which invest in unlisted trading companies. However, this is one area where lower levels of diversification are not necessarily a bad thing: these opportunities might be asset backed or have secure revenue streams for example (think renewable energy or infrastructure) and often the investment manager can exercise a high degree of influence over the underlying asset (they may well own it in fact).

Therefore as a rule of thumb we would suggest advisers look for sensible levels of diversification in an AIM product (20-30 companies, much more than this might actually mean higher transaction costs and more effort monitoring the underlying portfolio for little additional diversification benefit). In private company BPR products, if the policy is not to diversify, look for predictable revenue streams, high value underlying assets that can be sold to return cash to investors if needed and tight controls over the investees.

DIVERSIFICATION OF OPEN OFFERS BY INVESTEE COMPANY TYPE



LIQUIDITY

Even though ongoing access to funds is one of the advantages BPR has over other estate planning options, liquidity can be limited due to the nature of the underlying assets. The product providers are well aware of this contradiction and therefore make provision for liquidity. This ranges from access available on a match bargain basis, fortnightly to quarterly dealing, or retaining a percentage of funds to buy back shares and regular, lump sum or ad hoc withdrawals can also be made with some products. However others require substantial notice periods of up to six months before cash is available. We review the range of liquidity options in the Industry Analysis section.

It might be advisable for potential investors to establish exactly how managers fund withdrawals as part of their research and due diligence.

Finally, the two year qualifying period must of course be considered.

GEARING

Gearing is available to BPR investment managers and whilst it can have a greatly beneficial effect on the returns, of course it also increases the risk profile. Since the key objective of BPR products is capital preservation, gearing would seem to be an unlikely strategy for BPR product managers, but the judicious use of gearing can make sense. Again, advisers will need to verify managers' use of gearing and ask, if they do use gearing, when they use it and how much they use.

INTEREST RATES AND INFLATION

Interest rates set the risk free rate against which all other investments are judged and with rates stuck at historical lows almost any alternative to cash seems attractive. This encourages more risk taking and may be a factor in people being more willing to invest in BPR products.

"With the wealth of information now available from independent reviewers, advisers can now due diligence what is under the bonnet of all BPR Services." - ***TIME Investments***

When it comes to returns, it also means that the bar is set very low for BPR products. A rise in inflation might mean that some BPR products need to do a bit more work to preserve capital and earn returns in real terms: this would depend upon the assets they were invested in and how they were correlated to a rise in inflation.

Some may have a positive correlation to inflation and see an increase in their returns. The pitfall to look out for would be products that use gearing (mentioned above) but with underlying assets that have a negative correlation to inflation – their cost of borrowing would increase, without a concurrent increase in the return from their underlying investments.

Certainly the low bar for inflation beating returns makes life easy for managers at the moment.

However, let's be realistic here. The current thinking is that rate rises are unlikely for some time – March 2016's Economic and Fiscal Outlook from the Office for Budget Responsibility stated, "the market now believes that Bank Rate is more likely to fall than to rise over the next two years and that it will only reach 1.1 per cent by the end of the forecast period [2020/21]. Bank Rate does not top 0.75 per cent until more than a decade after it was first cut to 0.5 per cent in March 2009."

DEAL FLOW

Having a pipeline of the right qualifying investments in sufficient number to satisfy investment inflows (less than half of the BPR products currently open have a specified target raise amount) is important: if the investment manager is not able to identify a suitable number of BPR qualifying investment opportunities, they may not be able to deploy funds as quickly as hoped. Not only would this delay BPR qualification (the BPR qualification clock only starts ticking from the moment the funds are invested by the manager), but it could also result in hastily made, ill-conceived investments in an effort to get the clock started.

However, with many SMEs still struggling with traditional funding methods such as banks and consequently looking for alternate means of funding, it appears that this risk is currently minimal. Certainly all of the managers tell us that they have sufficient deal flow, but again it is another area advisers should query in their research and due diligence. Deal Flow is also linked to the possibility of investment inflows creating a bubble in BPR qualifying AIM stocks – see our earlier section on AIM for more detail on this.

TAX RISK

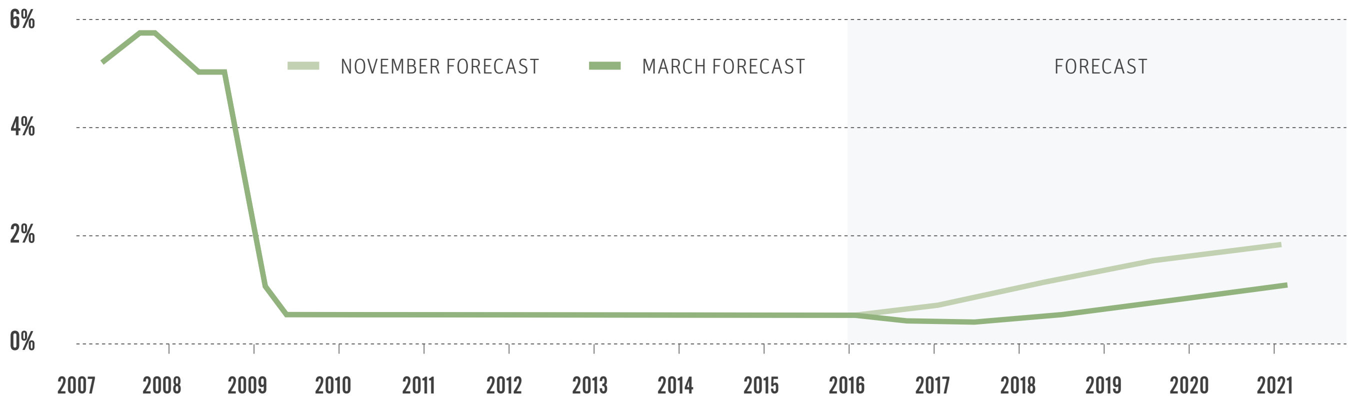
Since the main objective of BPR qualifying investments is to take advantage of the IHT relief, ongoing compliance with the qualification criteria is vital. It is important to note that there is no "pre-approval" for BPR relief – the relief is retrospective in that it is only granted on a case by case basis when it's applied for.

In AIM based products the manager will continually review the portfolio to ensure the underlying shares qualify for BPR. Products investing in unquoted trading companies will also do this, although the manager may be able to exercise more influence (the provider may indeed own the underlying investee) to ensure BPR qualification.

Likewise, managers need to keep a weather eye on any cash or non-qualifying assets within the underlying portfolio to ensure that there is no excess (beyond what is needed to provide liquidity or run the business day to day) which would not qualify for BPR.

To date, investment managers appear to have successfully managed the tax status of their BPR products but this is an ongoing task: it's also worth noting that managers do not provide a guarantee that all the underlying assets will retain BPR qualifying status. A sensible (if slightly morbid sounding) question to ask managers is "how many successful deaths have you had?"

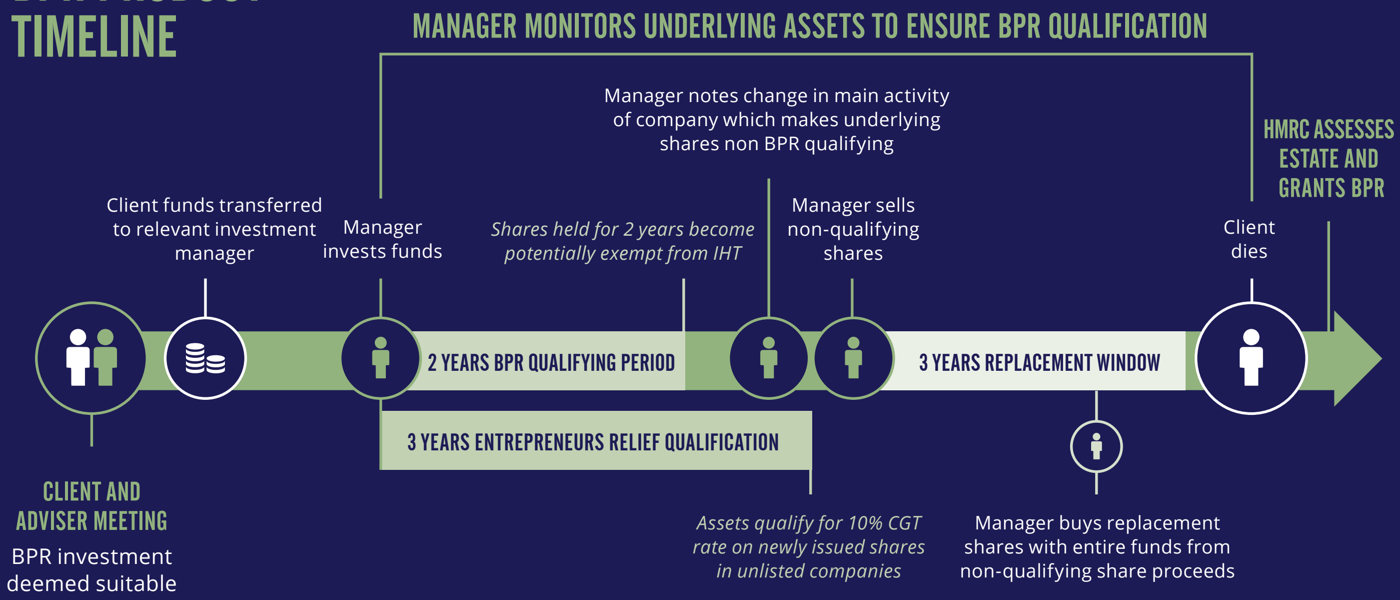
BANK INTEREST RATE FORECAST



SOURCE: BANK OF ENGLAND

"It is important to note that there is no "pre-approval" for BPR relief – the relief is retrospective in that it is only granted on a case by case basis when it's applied for."

BPR PRODUCT TIMELINE



SYSTEMATIC RISKS

We highlighted the risk of changes to IHT as a result of a change in government policy in the 2015 edition of this report: one of the changes we discussed was the possibility of an increase in the nil rate band or the exemption of a primary residence. This will become reality in 2017 with the introduction of the RNRB, removing thousands of people from the scope of IHT and thereby removing any need for them to be invested in BPR products.

It remains to be seen if this will be a trigger for large-scale withdrawals from BPR products in April 2017, but based on our discussions with providers, this has not been the case to date – and as we indicated in our earlier section on the RNRB, within a few short years the number of households caught by IHT and the amounts being collected are predicted to be on the rise again.

We have already referred to the rising cost of BPR and the pressure on HMRC to ensure that it's providing value for money, and this brings another risk into focus: the possibility of a change to the existing tax incentives being offered via BPR investments. This could potentially result in less favourable tax reliefs or the BPR criteria being further restricted – so that what may be a BPR qualifying investment at present may not be in the future.

If this came to pass, it could mean that the underlying assets of some products are abruptly left outside of the qualifying criteria. However, if the three year replacement assets window remains intact there would be no major rush to sell the ineligible assets and replace them with eligible ones.

OTHER CONSIDERATIONS

Not exactly risks, but issues that advisers and investors must bear in mind when considering BPR.

Financial Services Compensation Scheme

BPR products do not provide their investors with access to the FSCS in the event of failure of the product; like any other service where investors hold direct equity in a company, the investment itself doesn't have FSCS cover. The only route to the FSCS is if investors take professional advice and that advice is faulty.

Note that the managers are FCA authorised and may participate in the FSCS (check their terms).

Charges and Performance Fees

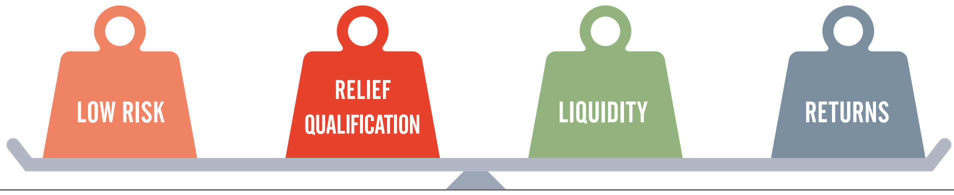
As with all investments, BPR products have a cost element and this may be higher than other investments such as unit trusts and open-ended investment companies (OEICs) in order to cover the additional costs associated with investing in unquoted companies and screening and monitoring for continued BPR qualification. Advisers must be aware that some fees and charges will reduce the value of the investment, and by extension the amount that qualifies for the relief when applied for.

Insurance and Hedging

As capital preservation is the overarching objective, some products have additional features to protect the investment.

A small number of products offer insurance that pays out if, on the day the investor dies, the value of

BALANCING BPR PRODUCT PRIORITIES



their portfolio is less than what was invested. Other products use insurance to cover the costs of the IHT bill if the policy-holder dies within the first two years. However, these types of guarantees are not without cost and it's important to note that IHT BPR insurance options may have exclusions and termination/renewal dates, and that no policy will insure against relief not being granted by HMRC.

Some providers also use derivatives, to hedge portfolios against market downturns as is common with many mainstream funds. Of course hedging is not foolproof and carries its own risks, such as counterparty credit risk or a mistake in implementing the strategy. Costs, particularly for smaller projects, can also be significant.

Timing of Deployment

It is important for advisers to consider the amount of time a manager would take to deploy new investments, because the two year qualifying period only starts when the money is fully invested into qualifying companies. In other words, the investment may not qualify for the IHT relief after two years if the money has been held in a custodian's account for an extended period of time. Our research shows on average there is a 6-week interval between the acknowledgement of application and the confirmation of investment. AIM based offers take longer to settle investments, while project based offers tend to be quicker.

This information can usually be found on an offer's application form or brochure under the 'how to invest', 'application process' or 'what happens next?' sections. Note that BPR products offered by the same manager can have different timing of investment, so information found on one product does not necessarily apply to another.

SUMMING UP - JUGGLING PRIORITIES

Considering all of the above, we can see that the managers of BPR qualifying investments are engaged in juggling the different, and sometimes contradictory, investment objectives: low risk, relief qualification, generating worthwhile returns and retaining liquidity are particularly important. Different products will have a different emphasis on these considerations, giving more or less weight to one or the other. Advisers need to bear this in mind when assessing BPR investments and thinking about what is suitable for their client(s).

TIMING OF DEPLOYMENT (WEEKS)

	PROJECT BASED	TRADING COMPANIES	AIM LISTED
MEAN	8	4	6
MODE	3	6	8
MIN	1	1	4
LQ	3	1	4
MEDIAN	3	4	6
UQ	4	6	8
MAX	52	12	8

PLANNING AHEAD

Effective planning for IHT mitigation is best undertaken early to allow for maximising the reliefs and giving clarity about the transfer of assets. This is something that is much more difficult to achieve close to the client's time of death because of the understandable emotion and distractions during this period, but also because of the time needed to put IHT mitigation strategies in place before the client's demise.

Yet it seems that there is a serious lack of awareness of and perhaps an unwillingness to address IHT issues. Recent research found that only 14% of adults and 18% of over-70s even know the current IHT threshold and that 29% of homeowners aged 70-plus hadn't considered estate planning or thought about ways to reduce or eliminate the inheritance tax bill they would leave behind for their families (Octopus, February 2016).

Since inheritance tax is so unpopular, it's unlikely that people are really happy to leave 40% of their (already taxed) wealth to HMRC, so it's the job of the adviser to regularly speak to their clients, assess their estate planning needs and to determine their suitability for the various solutions.

Advisers often look a client's total wealth and then divide it into three buckets:

- Assets they absolutely must keep – to meet their living expenses or keep a roof over their heads for example.
- Assets they absolutely don't need – these can be gifted to beneficiaries to reduce the size of the estate.
- Assets they might need – these can be converted to assets that are exempt from IHT, such as BPR qualifying investments.

SUITABILITY

THINGS TO CONSIDER

Suitability is going to be of particular interest to the FCA in 2016 as it considers the Financial Advice Market Review (FAMR) and pursues the key risk areas noted in its 2016/17 Business Plan. As a result, 700 randomly selected firms have been sent letters to request the release of one or more files so that the regulator can review the suitability assessments, with a focus on non-pensions investment advice, pensions accumulation advice and retirement income advice. For these reasons it is worth us spending some time examining suitability. Adviser due diligence has also been an area of concern for the FCA: TR16/1 was their most recent publication on the topic and appeared to leave the door open to revisit the issue once we know more about how MiFID II and PRIPS will be implemented. We'll also look at due diligence in relation to BPR products.

SUITABILITY CONSIDERATIONS

Advisers know that each client is different and that their personal circumstances and attitudes will shape both the advice that's given and the advice that's taken. One of the main reasons why the use of BPR qualifying investments is less prevalent than gifts and trusts is that these solutions are higher risk. The mere mention of risk will be enough to put off some clients who will simply not be willing to take any gamble with the assets they have accumulated over a lifetime of work.

However, if individuals are looking for income to maintain their lifestyle, to continue growing their funds or just to stave off the corrosive effects of inflation on their capital, and are sophisticated enough to understand the investment, there is a case for using BPR products.

The advice relies on two important elements:

- Ensuring that the client fully understands the risks involved.
- Ensuring that the tax tail – in this case IHT exemption – does not wag the investment dog.

In short, the client must be suitable for the investment itself. They must have the appropriate attitude to risk, capacity for loss and grasp of the reasons why they are taking this course of action – bread and butter stuff for advisers and financial planners today.

VULNERABLE CLIENTS

"Many vulnerable individuals have the capacity and willingness to be valuable customers – if firms are able to better respond to their needs and grant them a greater degree of flexibility in order to prevent them from 'withdrawing' from mainstream finance options and the market." - ***FCA***

The FCA defines a vulnerable consumer as someone who, "due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care." In February 2015, the FCA published guidance on dealing with vulnerable clients and the Financial Ombudsman Service (FOS) criticised the industry in April 2016, emphasising the need for extra consideration where age, physical or mental health, disability, poor literacy, caring responsibilities and life-changing events such as redundancy, relationship breakdown or bereavement should be taken into account.

This emphasises the importance of looking beyond financial holdings, tax liabilities and risk assessments in order to identify any vulnerability to take into account. This, along with clarity and time for reflection, can help to build a trusting and fruitful relationship for both adviser and client. The recommendation is for advisers to be flexible regarding what is sensible for each individual client and not to simply undertake a tick box exercise.

OVERVIEW OF VULNERABILITY THEMES

SOURCE: FCA (2015)

“The IHT threshold for an individual will be substantially lower for a single individual with no children than for a married person with a family, so perversely the single person may require more estate planning advice.”

CONSIDERATIONS WHEN ADVISING FAMILIES

There are certainly some advantages to being married or in a civil partnership when estate planning. This obviously has an effect on an adviser’s recommendations in terms of whether estate planning is necessary, whom assets should be left to and even how secure assets should be during the lifetime of the client.

IHT is not payable on any inheritance that a person leaves to his or her spouse and gifts between a husband and wife or civil partners are also exempt from IHT, which means it can be worth considering one partner leaving their entire estate to the other so that there is then no IHT to pay on the first death. In terms of BPR, if death occurs to one spouse within the two year qualification period, 40% IHT would be payable unless the BPR shares were transferred to the other spouse, with the added benefit that the two year countdown to BPR qualification would continue from the original investment date, without the need to restart the clock.

Transfer of a full estate from one spouse to another does, however, mean that the combined estates of the couple (excluding any exempt assets) will be subject to IHT on the second death, although the surviving partner will also benefit from his or her partner’s unused nil rate band and residence nil rate band. As a result, he or she will have an allowance of £1 million by 2020/21.

If an individual isn’t married, in a civil partnership and doesn’t have children (including stepchildren, adopted and foster children, plus grandchildren), under the draft legislation at the time of going to print, the RNRB won’t be available to them. This is because, other than the spouse or civil partner, the relief will only be available where the family home is passed to children and this does not include other family members such as nieces and nephews.

Consequently, the IHT threshold for an individual will be substantially lower for a single individual with no children than for a married person with a family, so perversely the single person may require more estate planning advice.

It’s worth looking again at the rules governing passing on a family business. Although the business will qualify for BPR (provided it’s not wholly or mainly carrying on an excluded activity), if there is an excess of cash or assets that are not required for the operation of the business, these will not qualify for BPR. Investing the excess in other BPR qualifying opportunities is one solution. Similarly, anyone who continues to run a business they would rather exit in order to retain their BPR should be made aware they can sell and reinvest the proceeds in a BPR product, and retain their IHT relief without having to restart the two year qualifying period.

Unlike a trust, BPR investments on their own can’t delay the transfer of assets to a third party after death, e.g. to young children, but could still be of use in conjunction with trusts in order to eliminate Lifetime Transfer Charges, periodic charges and exit charges. To do this the BPR qualifying shares should be settled into a discretionary trust to be transferred to the children by the trustee when they come of age.

DUE DILIGENCE

The FCA stated in its February 2016 thematic review on Due Diligence that the three stages of due diligence that advisers should engage in are:

- Understanding the nature of the investment
- Understanding the risks and benefits
- Assessing the provider to establish whether they believe it appropriate to entrust the provider with client assets.

There is a certain level of subjectivity involved in assessing the product and the product provider and advisers will need to record their conclusions and how they arrive at them. As long as these are reasonable and logical, different advisers may come to varying conclusions on some of the items being scrutinised, although some factual information such as level of diversification and past delivery of targets lend themselves to more objective examination based on the adviser’s set criteria.

What follows is not comprehensive, but picks on some key areas advisers might want to consider when conducting due diligence.

DUE DILIGENCE ON PROVIDERS

SCRUTINY OF MANAGERS

FINANCIAL STABILITY

Issues such as the provider's financial stability are important and details including the company name, address, registered address, time in business, and its ownership structure should be reviewed, as well as the balance sheets, exposure to debt, current revenues and profit. These are potentially long-term investments, particularly in light of the increasing longevity of the UK population, and providers need to be robust enough to continue to exist and operate the products in the long term. If this is not the case, not only could relief be lost, but so could capital.

PERFORMANCE

In terms of current strength, the levels of assets under management, market share and how these have developed over the last several years are of interest as they give some indication of potential progression or possible decline.

Larger firms may have more resources to draw on versus smaller, more specialised entities, but any company whose future depends on assets under threat, limited opportunities, or contrived structures (e.g. those which pose a risk of being excluded from the relief or deemed to not be within the intended parameters of the relief) may be problematic.

Past performance, whilst not a reliable indicator of future returns, may reveal the skill of the manager and their record for achieving their objectives. In BPR products, the most important objectives are 100% BPR qualification and delivering the target level of returns, with consistent liquidity available if realisation is required.

EXPERIENCE

The manager's experience in the field is also pivotal: the background of the board and investment committee, including their involvement in BPR compliant products, should be reviewed. Any regulatory issues that are connected to them should be identified and the turnover of members should be looked at to pinpoint key person risk, but also to gauge the relevant knowledge and stability of the team.

The relevant knowledge and experience might also need to encompass wider investment experience such as the use of derivatives to hedge a portfolio if the product lists hedging as part of its risk minimisation efforts.

CONFLICTS OF INTEREST

If the offering is investing in independent companies then advisers' due diligence should focus on the ability of the provider to choose investments. If the offering is investing in companies linked to the product provider, the adviser should also try to gain an understanding of what conflicts of interest exist between the provider, the operator and any other relevant stakeholders.

INVESTMENT PHILOSOPHY

A manager's particular approach to maximising returns is comprised of the guiding principles that shape their decision-making process. In the BPR product provider universe, the investment philosophy should, in most cases, be primarily focused on long-term capital preservation.

The generalist or specialist nature of the manager will also play into the investment philosophy, with some calling on their expertise in certain sectors to target opportunities that fit with their investment style. Others use traditional analysis methods to identify a wide range of areas and companies that have strong fundamentals that comply with their core beliefs about good investments. The adviser will therefore need to consider the value of diversification benefits versus deep sector knowledge.

This means that investment criteria, research processes, the limits of what will and will not be considered for investment and the ratio of investments screened versus those actually made vary, as do their chances of success. The resources, experience and efficiency of the manager will also affect the rigour and efficacy of their research processes and will also inform the firm's likely threshold of investment per annum in terms of how quickly funds can be deployed without compromising investment criteria and investee company quality.

PRODUCTS

Detailed due diligence should reveal that the legal structure of the investment is clear and robust. Advisers must understand the underlying assets to be held, how they are owned and managed, as well as the strategy regarding selling or transferring them.

It's important to evidence that the underlying assets are actually performing and that the targeted returns are logical and match the

"Advisers can rely on factual information provided by other EEA-regulated firms as part of their research and due diligence. However, they should not rely on the provider's opinion, for example, on the investment's risk level." - **FCA**

"We understand that when it comes to estate planning, clients are looking for risk-managed investment opportunities, so we focus on asset-backed and renewable energy businesses allowing choice on the proportion allocated to each." - ***Laurence Callcut, Downing***

client's risk tolerance, taking into account the potential yield of the assets in the open market, the product fees and charges, as well as the corporation tax of the underlying companies.

It is vital to understand the range of project level returns that are sought by a manager and the strategy used to achieve those returns; some managers may take more risk than others whilst delivering the same bottom line client return, with a corresponding increase in volatility of returns. Others may use gearing somewhere within the product structure to boost their returns and this may not be appropriate for all clients seeking a capital preservation investment.

ASSET CONCENTRATION

For AIM product managers, our research shows that diversification across at least 20 holdings across several sectors is normal and this is a sound policy to offset potential losses in one or more investee companies.

Nevertheless, good stock selection is still essential and the investment mandate and portfolio construction criteria used in the product are useful when assessing its genuine diversification level. The product rules and its adherence to them in relation to the following are also revealing:

- Maximum percentage of the portfolio that can be allowed in any one firm
- Maximum percentage holding of a single company that is allowed
- Maximum exposure to a single sector
- Minimum number of holdings
- Maximum/minimum held in cash

Any deviation from these rules should sound alarm bells, and the reasons why this is happening should be investigated.

Generally, unquoted investment products where providers focus on a specific sector will have fewer underlying assets. This obviously decreases the protections that diversification can bring, but managers will often have a strategy of exercising meaningful control over the companies in order to put their expertise to work in guiding them to better performance. In this instance, the degree of influence and quality of guidance provided by the manager must be assessed as well as the risk of the underlying assets. We touch on this again in the Industry Analysis section.

GENUINE TRADING

In order to qualify for BPR, without the possibility of HMRC investigation, investee companies must be commercially trading – with a view to making a profit, i.e., not just being used to manufacture tax reliefs.

PRODUCT PROMISES

Some of these are obvious, but others might not be so clear and require further questioning beyond the product documentation:

POTENTIAL QUESTIONS FOR PROVIDERS BEYOND PRODUCT DOCUMENTATION

TERMS AND CONDITIONS INFORMATION	FURTHER QUESTIONS
Target level of returns	Has the target ever been missed?
Maximum return ceiling for investors	Does this incentivise the product provider to invest in higher risk (and therefore higher return) assets than are appropriate for the target level of returns for the investor?
The target level of liquidity	Has it ever been missed?
The initial charge, annual management charge and performance fee	Are there any other costs or expenses?
The performance targets	What happens if these are missed?

"One of the drivers for me has been the extension of our panel of BPR providers."
*- **Kevin Bradley, Elegant Solutions***

WHERE TO START RESEARCH

Given that these are unregulated products which are particularly concerned with wealth preservation and that involve smaller, potentially riskier assets across a variety of markets, it is not surprising that they probably require more due diligence than mainstream investments. However, assistance is available to advisers when making their assessments and it is worth their while to make the effort as there is real value to IFA advice in the complicated area of estate planning, where most clients do not have the confidence or capability to DIY invest.

Resources that make researching the whole-of-market and analysing due diligence less daunting include:

MICAP

MICAP aims to bridge the gap between providers, advisers and investors through its online Fund Finder platform, which is a comparison engine providing independent product reviews, due diligence and independent research on all the main types of tax-efficient alternative investments available in the UK. It also provides an audit trail of the selection process to help meet compliance requirements.

Tax-Efficient Review and Tax Shelter Report

These companies are long established independent product reviewers.

PROVIDER SUPPORT

Documentation, research, briefings and seminars, often CPD accredited, are regularly supplied by product providers who are keen to ensure that advisers are aware of the general concepts of the BPR field. Obviously, the product providers are also keen to make their own sales pitch and advisers must make their own objective product comparisons. But in terms of education and relationship building opportunities, provider support can be very useful.

PROFESSIONAL INDEMNITY COVER

If advisers are extending their advice to include BPR products, they will need to ensure that they have relevant and sufficient PI cover and this will mean that they do need to notify their current PI providers. Since these types of alternative investment are generally considered more risky than standard retail investments by the insurers, it could result in higher premiums or more difficulty in finding cover.

Our anecdotal experience of this issue is that advisers who have a long-term insurer, with which they have built a relationship, encounter far fewer problems in finding cover for advice relating to BPR products than those who regularly change insurers in an effort to find the most affordable. This means that, to some extent, there is a trade-off between lower insurance premiums and the ability to develop new business in a growing area which is a value adding proposition for future and existing clients.

PANEL CONSIDERATIONS

Although there are currently only a small number of open BPR products, it is worth considering creating a panel as a way to become familiar with what is available, save time and effort in the future and to ensure that a firm has a centralised investment proposition which is compliant with the whole-of-market regulations. This can be time-consuming but will also enable the firm to form a relationship with the managers on the panel and ensure that the firm is picking the most suitable investments for its clients.

This can have the added benefit of giving more advisers within the firm the confidence to recommend BPR products, however advisers should be wary of what the FCA calls 'status quo bias' and for that reason, ongoing monitoring of the panel selection criteria and new products on the market is important.

The key items to be taken into account for a panel are likely to be the same as those which need to be investigated for due diligence purposes so that the main investment components, objectives, risks and mechanics can be easily compared across products.

External advice may be useful in determining the best criteria and developing a Due Diligence Questionnaire which addresses all of the required elements and allows the application of filters to reduce the panel size.

PANEL CREATION STEPS

- Identify all BPR products in the market
- Apply filters to reduce to a manageable size
- Send focused questionnaire to those on reduced list
- Evaluate returned questionnaires and create shortlist
- Meet with providers (where necessary) and choose panel
- Maintain and monitor the panel of BPR products
- Keep records of the research and selection process

CASE STUDIES

BPR SOLUTIONS

CORPORATE 01

A 65 year old company director sells her trading business with proceeds of £1 million after tax

NRB used so potential £400,000 IHT liability

Investment of £1 million is made into BPR qualifying asset within three years of business disposal

Replacement Property Relief means the £1 million is immediately exempt from IHT, with no need to wait two years

BPR WITHIN EIS 02

A 90 year old widow has a share portfolio with a base cost of £500,000 and current value of £750,000

NRB used so potential £300,000 IHT liability

Share portfolio is sold and the £250,000 gain is invested into an EIS

EIS allows the CGT liability to be deferred for the life of the investment and if held until her death, the CGT liability will die with her

After two years the EIS investment becomes potentially exempt for IHT purposes

The £500,000 remaining share proceeds are available for BPR investment/other estate planning

POOR HEALTH 03

Based on the 2017/18 BPR rules (so the RNRB is applicable)

The main asset of a 60 year old single man is his house which is currently valued at £600,000

He is in ill health and is aware that, because he has no children, his estate will not benefit from the RNRB, but is very close to his godson to whom he wants to leave an inheritance

He downsizes to a property valued at £300,000 and sets aside £100,000 for any potential care costs

He invests his £200,000 remaining assets into a BPR product

After two years the BPR investment becomes potentially exempt for IHT purposes

After four years, he withdraws £50,000 from the BPR product to use to continue funding his care, leaving the remaining £150,000 BPR investment IHT exempt

On death, his house value has appreciated to £325,000 but does not exceed the nil rate band, so no IHT is due

The £150,000 in the BPR product is IHT exempt

NOTE: UNLESS OTHERWISE STATED, ALL OF THE ABOVE HAVE BEEN BASED ON THE 2016/17 BPR RULES (SO THE RNRB IS NOT APPLICABLE).

"Our Estate Planning Service may be attractive for investors seeking to protect their assets from IHT while maintaining access to, and control of, their funds." - ***Tony McGing, Downing***

RETAINING FLEXIBILITY 04

This example looks at how the new Residence Nil Rate Band will work in practice in 2021.

A widow owns three properties in her life:

She lived in house 1 with her husband, worth £800,000

She then moved to a smaller property with her husband, house 2, worth £400,000

When her husband died, she purchased a buy to let property, house 3, worth £500,000

Her husband used £125,000 of his nil rate band

She also invested the £400,000 excess after the sale of house 1 and purchase of house 2 in a BPR – qualifying product – after two years the BPR investment becomes potentially exempt for IHT purposes

A year later, she removes £50,000 from the BPR product to take a round the world trip

On her death, a year after that, the executors can choose between house 1 and house 2 as they were both, at one point, her main residence and her property is left to her children

They cannot choose house 3 as this was never her main residence

They choose to take the RNRB relief on house 2 and also use her husband's totally unused RNRB (RNRB total £350,000), leaving £50,000 unrelieved

She has £850,000 of remaining assets (£350,000 in the BPR product and £500,000 in the buy to let property)

Her NRB relief and the remaining NRB of her husband (totalling £525,000) is used to relieve the value of the buy to let.

The remaining £25,000 of the nil rate band is used to relieve £25,000 of the £50,000 unrelieved value of house 2, leaving a 40% IHT liability on £25,000 totalling £10,000

The £350,000 in the BPR product is IHT exempt

LASTING POWER OF ATTORNEY 05

A 71 year old man suffers from dementia (but is otherwise physically healthy) and is unable to look after his own financial affairs

He has not owned a house for some years, but has an investment portfolio of £1 million and his care costs are taken care of outside of his portfolio

His wife died several years ago and her full nil rate band was used

His son and daughter have power of attorney and they cannot gift any assets away as they do not want to go through the courts

£675,000 (£1 million less his £325,000 nil rate band allowance) of his investment portfolio is liquidated and invested into BPR products which will be IHT exempt in two years

PROFESSIONAL CONNECTIONS

ACCOUNTANTS, LEGAL FIRMS AND BPR

Estate planning is one obvious area where financial advisers should consider forging links with professional connections such as solicitors and accountants. They often come across the issue of a potential IHT liability, but do not always have the knowledge they need to provide solutions, and in particular to provide investment based solutions such as BPR. In these instances the option to refer to a trusted IFA can add another dimension to the service they offer their clients.

ACCOUNTANTS

Accountants often have longstanding relationships with their clients, meet with them regularly and will understand critical issues such as the client's attitude to risk, current net worth and tax position. A connection with an accountancy firm could yield significant amounts of new business for an adviser, but the relationship has to be set up in the right manner.

The ICAEW (and other bodies such as ACCA and ICAS) give their members advice on best practice when working with advisers, and a good accountancy firm will want to carry out due diligence on the advisory firm before engaging with them.

Their code of practice states that any advisers accountants refer to should be independent, but they can refer to restricted advisers provided that they document the reasons why they are using a restricted adviser in this instance. Accountants will want to see evidence of the adviser's competence, in the form of years of experience and/or relevant qualifications in this area – such as the Society of Trust and Estate Planners (STEP) qualification. They are also recommended to document the terms of engagement with the adviser and to share this with the client when a referral is made in order to make clear to all parties exactly who is responsible for what, and who is being paid for what.

Finally, and perhaps most importantly, accountants will want to have confidence that the culture and personality of the two firms and the individuals involved are a good fit, and that they can trust the adviser to form a good working relationship with their clients.

The key piece that accountants should have in place is the DPB or Designated Professional Body licence, issued by the ICAEW and the other accountancy membership organisations. This licence means that in addition to making generic comments, when working with a financial adviser they can:

- Explain and evaluate the advice (provided they don't recommend the course of action)
- Identify unsuitable advice
- Endorse the advice the client receives.

Rather than being a threat to the adviser, working with a DPB licensed accountancy firm actually means that the client places a higher value on any advice received as the accountant (who as we noted will have an established relationship with the client) is still involved in the process.

> *"I see benefits to both accountants and financial advisers in working together to give their clients the best possible advice. The combined knowledge of accountancy and financial services professionals can improve both the quality of the advice and the trust the client places in the process."*
>
> ***- Alan Hind, ICAEW***

LEGAL FIRMS

Working with solicitors and legal firms is a slightly different prospect. Their business models tend to be much more transactional and many firms do not have deep ongoing relationships with clients where they seek to continually add value (and sell services).

However, this is changing. The Legal Services Act (2007) created a new regulatory structure for legal services, which allows different types of lawyer and non-lawyer to form businesses together. It also permits non-lawyers to be involved in the management or ownership of businesses that provide legal services. As a consequence, aside from the very small list of reserved activities, all solicitors' work is up for grabs and there is much more competition in the sector. In this brave new world clients will expect solicitors to look outside the legal silo and address their wider needs.

Estate planning is one such area where breaking out of the legal silo makes sense, and smart legal firms are responding by forming relationships with financial advisers. As with accountants, solicitors often come across estate planning issues, but won't have the knowledge to recommend investment based solutions such as BPR qualifying investments.

Best practice for legal firms that form partnerships with IFAs is similar to what is recommended to accountants. The Solicitors Regulation Authority (SRA) code of conduct requires solicitors to ensure that when they make a referral, the client is able to make "an informed decision" that the

"There are good reasons why advisers should form connections with accountancy firms and legal firms, especially when it comes to estate planning where there is some overlap between the three professions."

referral is in their best interests. This means that the solicitor must do more than just pass a client on to an IFA, or give them a choice of two or three with no supporting information or guidance.

There is no prohibition on referring clients to restricted advisers, but The Law Society and SIFA (a professional services firm for both IFAs and solicitors) very strongly advise solicitors to seek out independent advisers. SIFA also advises them to look for qualifications such as the STEP qualification, or membership of the Society of Later Life Advisers (SOLLA) and the Later Life Adviser accreditation. According to Ian Muirhead of SIFA, the key to a successful relationship is for the IFA to complement the solicitor's advice.

The whole relationship will be policed at the solicitor's end by the Compliance Officer for Legal Practice (COLP), and so it's vital for IFAs to form a strong relationship with whoever is fulfilling this role at the legal firm to ensure there is mutual trust.

SUMMING UP

In conclusion, there are good reasons why advisers should form connections with accountancy firms and legal firms, especially when it comes to estate planning where there is some overlap between the three professions.

These connections could be on the basis of making mutually beneficial referrals, or could take the form of a Joint Venture or Alternative Business Structure (ABS – the structure that allows non-lawyers to participate in owning and/or managing law firms). There is certainly a growing number of examples of holistic practices offering advice that covers financial planning, law and accountancy.

Whatever the basis of the relationship, the terms of engagement should be documented and made clear to the client, and who is getting paid, by whom, and for what should be equally clear. And logically, the more data that firms can share with each other, the better they will be able to serve their mutual clients, and by extension win more business.

ACKNOWLEDGEMENTS

This section was put together with input from Ian Muirhead of SIFA and Alan Hind of the ICAEW and we're very grateful for their help and support.

SIFA PROFESSIONAL SERVICES

ICAEW

"The key to a successful relationship is for the IFA to complement the solicitor's advice." - ***Ian Muirhead, SIFA***

ADVISER'S CHECKLIST

- ✓ Get an accreditation: STEP is level four and has a wide application
- ✓ Produce a due diligence statement for solicitors and accountants to give to their clients
- ✓ Network via the professional clubs: SIFA, ICAEW, STEP, SOLLA
- ✓ Look for like-minded firms you can form productive relationships with
- ✓ Carry out your own due diligence on potential partners

"BR qualifying investments are increasingly becoming more mainstream as a complementary addition to clients' existing portfolios given that their returns tend to be uncorrelated to the traditional asset classes." - ***Belinda Thomas, Triple Point***

EXAMPLE CHECKLIST FOR POTENTIAL PARTNER FIRMS

THE FIRM SEEMS EFFICIENT AND LIKELY TO SURVIVE	✓
THE FIRM HAS A COMPLEMENTARY BUSINESS MIX OR CLIENTELE	✓
THE FIRM HAS A SIGNIFICANT WILLS DATABASE	✓
THE MAIN CONTACT PARTNER OR FEE-EARNER IS INFLUENTIAL IN THE FIRM	✓
YOUNG GO-AHEAD PARTNERS HAVE A SIGNIFICANT VOICE IN THE FIRM	✓
THE LOCATION AND SIZE OF THE FIRM ARE SUITABLE TO A RELATIONSHIP	✓
NO OTHER IFA REFEREES ARE ENTRENCHED	✓
MOST OF THE OTHER PARTNERS ARE AMENABLE	✓
THE FIRM'S COLP UNDERSTANDS THE NEED FOR DUE DILIGENCE	✓
THE PARTNERS HAVE AGREED TO RECEIVE A PRESENTATION	✓
THE FIRM IS RECEPTIVE TO A CORPORATE RELATIONSHIP	✓
THE FIRM IS WILLING TO ENGAGE IN JOINT CLIENT MARKETING	✓
SCORE	

CONCLUSIONS TO SECTION 3

There is obviously a range of estate planning solutions available other than BPR and generally they don't involve the same level of risk as BPR products. However, there certainly seems to be a place for BPR products where risk minimisation strategies are robust, where clients fully understand the potential for loss of capital and where their risk appetite matches the risk profile of the particular product.

The costs of investing, both initial and ongoing, are largely higher than mainstream investments, but advisers and clients also need to remember that establishing and operating a trust is not free of charge and requires capital.

The versatility of BPR products means that they can be combined with other IHT mitigation methods, such as trusts, to maximise their tax efficiency and in some cases where there is mental incapacity, they represent the only real option. Additionally, in these times of ever increasing longevity, a BPR investment can not only provide the flexibility to withdraw funds to meet the costs of care and illness, but also pay for longer, active and adventurous retirements.

It is essential that advisers carefully evaluate the viability of the products and the suitability of their clients for BPR investment as some will simply not need or want them. Whilst the product assessment process can be a time consuming task, assistance is available and by adding these products to their kitbags, advisers are better equipped to provide a valuable service.

Finally, advisers might want to consider forming mutually beneficial relationships with accountants and solicitors; there is a lot of scope for referrals when it comes to estate planning.

MARKET RESEARCH

ADVISER SURVEY

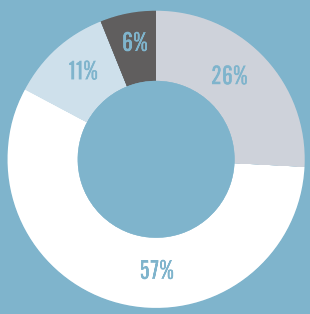
FEEDBACK FROM THOSE IN THE KNOW

One of the methods we use to get an insight into various markets is to conduct surveys of market participants. This helps us to understand what is happening and any issues that are emerging in the sector with insights from those at the sharp end who are actually writing business.

This year we have surveyed advisers and providers in the BPR arena by contacting a cross section of involved parties. The responses to our survey emails are collated and kept entirely anonymous and confidential.

The adviser survey was sent to our database of advisers which has been constructed with co-operation from adviser networks and BPR product providers. We had 120 responses from advisers in total and our aim was to look at advisers' perceptions of BPR products, their concerns and preferences, as well as to look at any differences in certain areas, to last year's responses.

DO YOU RECOMMEND BPR TO YOUR CLIENTS?



- FREQUENTLY
- NEVER
- SOMETIMES
- NO RESPONSE

83% of advisers stated that they do recommend BPR products to their clients. This is down on last year's finding of 94% but can be attributed to the expansion of our survey sample.

WHAT ARE YOUR TOP 3 REASONS FOR RECOMMENDING BPR PRODUCTS?

(PERCENTAGE OF PEOPLE WHO TICKED)

- 79% IHT PLANNING
- 39% DIVERSIFICATION
- 23% GROWTH
- 13% EXPOSURE TO A SPECIFIC SECTOR
- 10% DONT RECOMMEND
- 9% TAX PLANNING
- 9% OTHER
- 7% INCOME

Advisers were asked to tick their top three responses. The most common reason for recommending a BPR product was IHT planning, which isn't surprising! Growth is also a strong factor, which mirrors last year's survey and shows the importance of earning returns beyond pure capital preservation.

WHAT ARE YOUR TOP 3 CRITERIA WHEN SELECTING BPR?

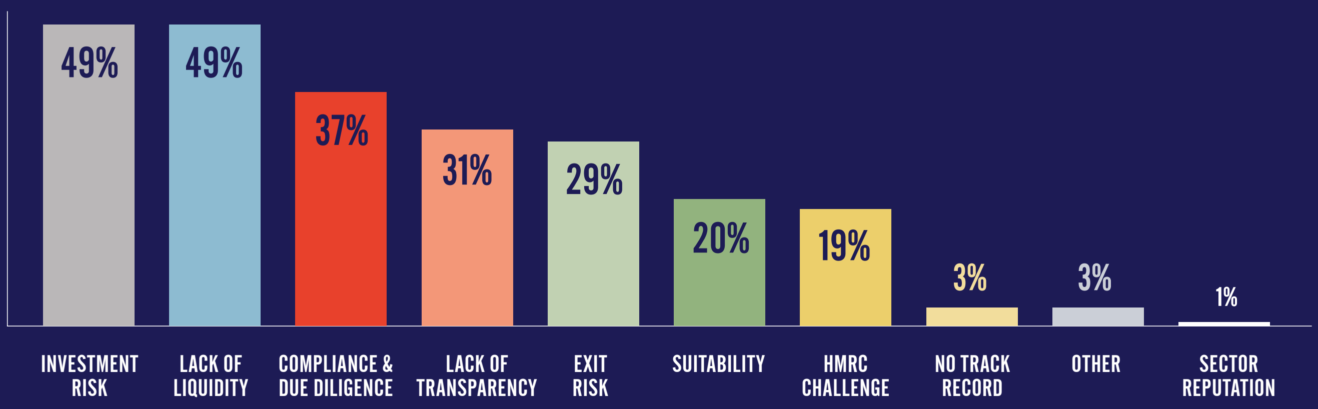
(PERCENTAGE OF PEOPLE WHO TICKED)

- 60% PROVIDER REPUTATION
- 56% TRANSPARENCY OF UNDERLYING ASSETS
- 40% PERFORMANCE HISTORY
- 40% PREVIOUS EXPERIENCE WITH THE MANAGER
- 30% THIRD PARTY REVIEWS
- 10% INVESTMENT PROCESS
- 10% DON'T RECOMMEND
- 6% OTHER

Provider reputation, in this specialised market, is obviously of great importance to advisers and this result is similar to last year's survey in this respect. Notably, transparency of underlying assets comes in before performance history, highlighting that advisers are very concerned with what the product is actually investing in and the mechanism for preserving and creating value. Transparency clearly makes the due diligence process easier and when it comes to third party reviews, almost one in three advisers puts this in their top three selection criteria, suggesting the importance of independent due diligence.

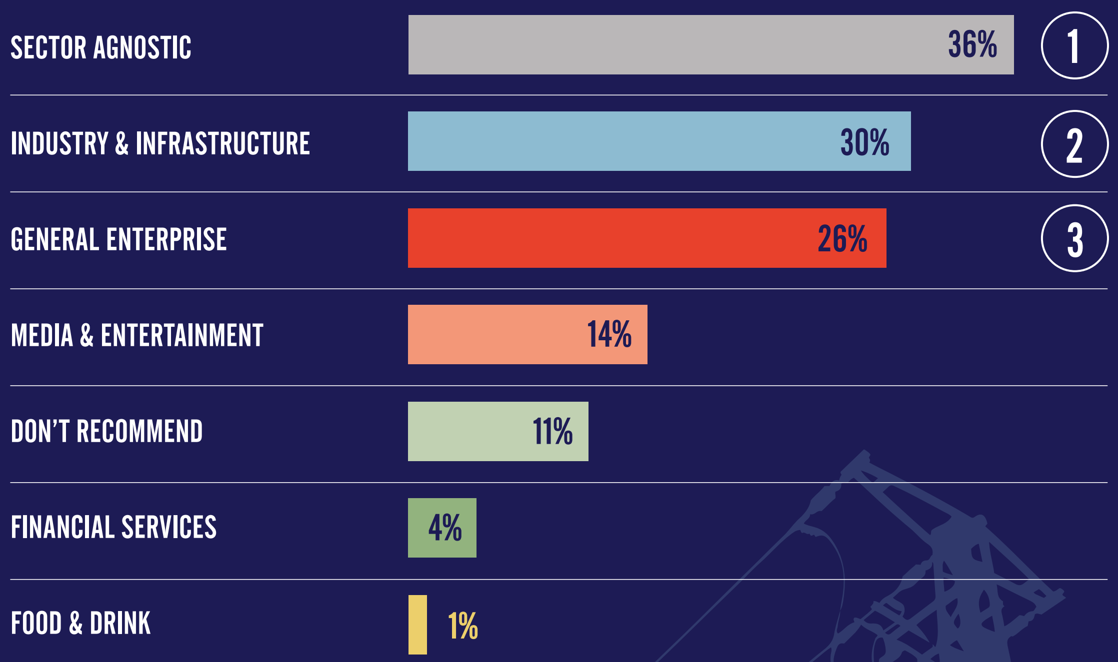
"Transparency clearly makes the due diligence process easier and when it comes to third party reviews, almost one in three advisers puts this in their top three BPR selection criteria, suggesting the importance of independent due diligence."

WHAT ARE YOUR TOP 3 CONCERNS WHEN SELECTING BPR PRODUCTS?



Like last year, liquidity and investment risk were the two top adviser concerns and these are factors that we have highlighted throughout this report. Perhaps of more interest is the greater level of concern shown this year than in 2015 in relation to compliance and due diligence. This may also be linked to the FCA again raising the profile of due diligence and how firms are undertaking it with 2016's thematic review.

WHAT ARE YOUR PREFERRED SECTORS FOR BPR?

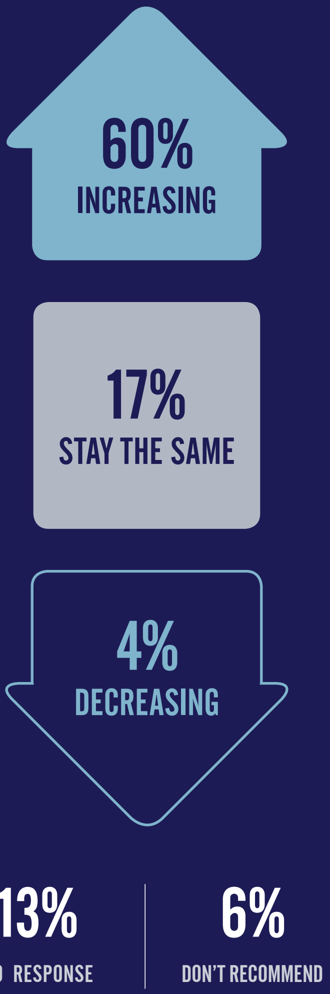


Most advisers are sector agnostic. This may well be an acknowledgement that the product providers are the experts in choosing the sector. The advisers who do have a preference have largely chosen the main sectors which product providers also favour, possibly as a result of previous successful BPR recommendations into them.

*This year the investment providers did NOT send our survey out, removing an element of bias in our survey sample.

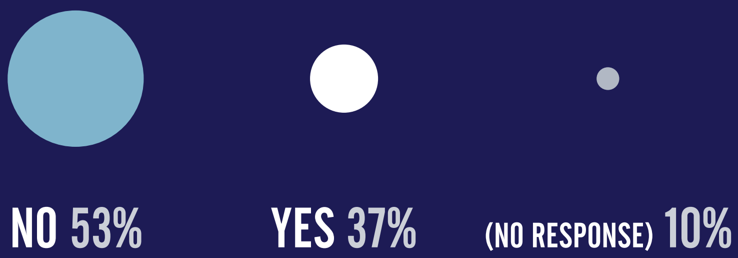
"ISAs are a great tax-efficient investment in your lifetime but more people need to be thinking about how to pass on their hard earned money to their loved ones when they die. Our research has shown that there is a worrying lack of awareness that ISAs are subject to a 40% inheritance tax charge on death."

DO YOU SEE YOUR USE OF BPR INCREASING OR DECREASING OVER THE NEXT 2 YEARS?



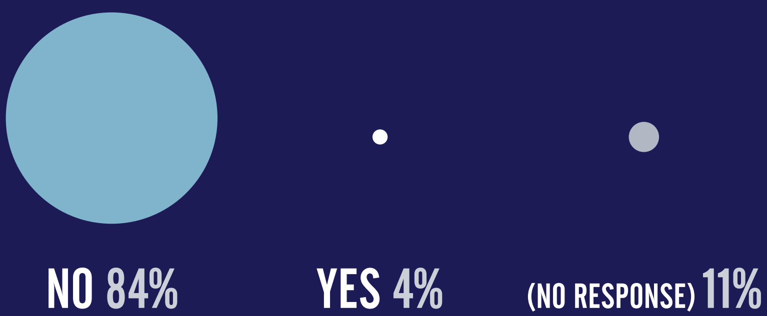
77% of advisers surveyed felt that their BPR investments business would remain the same or increase over the next two years. However, the number expecting to do more business is down on last year's figure. This could be as a result of the introduction of the RNRB, which will take several thousand estates outside of the reach of IHT and there may also be an increased intention to use pensions as IHT efficient vehicles. That said, the percentage who report that they expect their BPR business to decrease has also gone down – from 5% to 4%.

ARE ONLY HIGH NET WORTH AND SOPHISTICATED INVESTORS SUITABLE FOR BPR INVESTMENTS?



53% of advisers stated that they think BPR products are NOT only suitable for high net worth and sophisticated investors. This is down on last year's finding of 63% but this could be attributable to the expansion of our survey sample. More conservative advisers are likely to be less comfortable with offering an IHT solution with investment risk to retail investors because of the regulatory risk to their business. However, more than half of the advisers surveyed felt that BPR investments could be suitable for retail investors and this is understandable when considering that, in some circumstances, BPR products are the only route to IHT mitigation.

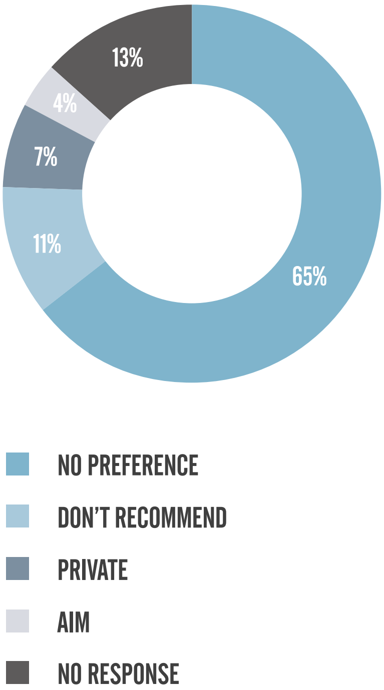
ARE BPR INVESTMENTS ONLY APPROPRIATE ONCE BOTH ISA AND PENSION LIMITS HAVE BEEN MAXIMISED?



Less than one in twenty advisers believes that BPR investments are appropriate only after ISA and Pension Limits have been used. This reveals that advisers consider BPR qualifying investments as separate and distinct from the mainstream tax wrappers: BPR fulfils a different function to ISAs and Pensions.

"When working in a complex area like BPR, advisers have to be willing to do their own research to supplement what the providers supply." - ***Christopher Green, Christopher J Green Wealth Management***

DO YOU PREFER EXPOSURE TO AIM OR PRIVATE COMPANIES FOR BPR INVESTMENTS?



Advisers remain open to AIM or private company BPR investments, letting the particular situation of the client determine the products used, depending on risk appetite and what the client is looking to achieve. Last year's research found that slightly fewer preferred private companies and significantly more preferred AIM investments. Perhaps this change is the result of advisers reviewing additional products to avoid 'status quo' bias and becoming more comfortable with private company involvement.

The main comments from advisers on what they would like to see from the industry in the future don't provide any real shocks! Most have been addressed in this report:

- Lower charges
- Greater public awareness
- Clearer long-term tax structure
- Long-term outlook for companies and sectors with analysis
- More competition
- Confirmed government support
- Acceptance as retail solution
- Greater compliance acceptance
- More providers
- Greater transparency
- More readily available analysis for smaller advisers
- HMRC qualifying certification upfront
- Clarity around underlying company profitability
- Enhanced tax benefits
- More attention to suitability
- Better returns
- Higher income levels
- Exit track record
- More due diligence information
- More "true" growth investments
- Better explanation of the nature of the risks involved would help investors
- Educating the FCA that not everything is high risk

CONCLUSIONS

A majority of advisers both recommend BPR investments to their clients and expect to do the same or more BPR business in the future, even if this may have been dampened a little from the 2015 sentiment because of the impact of the RNRB and changes to pensions.

The importance of transparency and, in particular, due diligence seems to be a concern for advisers, especially at a time when the regulator is putting it under the spotlight again. There is still a strong reliance on the provider's reputation, perhaps understandably in such a specialised market.

Investment risk and liquidity issues also remain major concerns of advisers who recommend BPR products to their clients.

ADVISER ROUNDTABLE

MARKET DISCUSSION

We held a roundtable discussion with a handful of experienced advisers and investment professionals who use BPR qualifying investments to get a more qualitative view of how advisers perceive the BPR market.

ATTENDEES

DAN KIERNAN

INTELLIGENT PARTNERSHIP

Moderator **(M)**

NEIL COLE

UBS WEALTH MANAGEMENT

CHRISTOPHER GREEN

CHRISTOPHER J GREEN WEALTH MANAGEMENT

KEVIN BRADLEY

ELEGANT SOLUTIONS

JAMES PARKER

RADCLIFFE & NEWLANDS

(M) Firstly, does the group feel that their use of BPR qualifying investments has been increasing or decreasing recently, and what are the drivers for any change? Are you still using more conventional estate planning options?

Well technically it has stayed the same for us, as we haven't launched our BPR proposition yet, but we will be launching shortly. The driver for creating the BPR proposition has been the increasing prevalence of the IHT issue. We use trusts and more often life insurance, but we think BPR is a proven investment based solution that can complement the options our advisers use.

Definitely increasing over the last 2-3 years, the driver is simply that my clients are getting older and their options are running out. There is a reluctance to make significant gifts, so BPR ticks the boxes that conventional options do not. For younger clients we would typically consider EIS, but for clients 70 and upwards it's really BPR. I have used it – successfully I might add! – with a client who was 98. I used to use a lot of DGTs, but far fewer now. What I found was that in many cases clients did not need the income, so even though the capital was outside the estate, the income was coming back into the estate and then just sitting in a bank account, incidentally earning next to nothing in interest.

Increasing. As an SJP partner one of the drivers for me has been the extension of our panel of BPR providers. In addition a number of people have been realising gains recently, and so we have reinvested the proceeds into BPR qualifying EIS – partly to defer the CGT and partly to start planning for IHT. Of course we make sure that the client's will is tax efficient, still use DGTs and use life insurance as well.

Certainly increasing. I have more clients facing IHT issues because the allowance [Nil Rate Band] hasn't been raised and clients in general are wealthier. We still use traditional options as well, it depends on the client's objectives. For example, we would look at longevity risk: if I'm advising a couple in their 60s, I probably wouldn't use BPR because there is a strong chance that one of them will survive for 20+ years.

(M) Do you think there is a sufficient range of risk/return profiles in the products available and what do you do to inform yourself about the sector?

There is a good range, starting from products targeting 2-2.5%, but for clients who are prepared to take on a bit more risk that can go as high 5-7%. We're happy with the range of products in the market. However, similarly to EIS and VCT, the information is limited and the industry could do more to develop in this area.

We're very conservative so we really look at the lower risk BPR product in the 3-5% range. We're not looking for shoot the lights out performance; we are focused on capital protection. In fact the risk issue is a constant debate with the compliance department, who tend to view these solutions as higher risk. In terms of keeping up to date, I read widely, I've been chartered since 2006 so I am always reading and keeping myself up to date with the market.

Yes, no problem with the risk structure. Clients tend to be HNW with

DAN KIERNAN | NEIL COLE | CHRISTOPHER GREEN | KEVIN BRADLEY | JAMES PARKER

estates that are typically £1.5m and upwards so they have not just been caught in the IHT net and they have been used to taking risk when they were accumulating wealth. And if the other option is doing nothing, it makes sense: where else can you make an investment and all you have to do is live for 2 years to make 40%! I use the usual resources and events. I spend a lot of time talking to the providers and making sure I understand and have a good grasp of their product. When working in a complex area like BPR, advisers have to be willing to do their own research to supplement what the providers supply.

We like to spread capital across a range of products. For example, in a recent case we spread £850,000 over seven providers. We're looking to diversify any risk associated with the providers, diversify the underlying investments, take into account various inflation hedging strategies, and ensure we have encompassed a range of income options and ways to access the funds. So yes, there is a sufficient range of products out there to enable us to carry out this kind of investment planning.

(M) Is there enough competition? What has your experience with the providers been like?

Yes, 12-13 providers are sufficient. Some of the products are very similar, but there is enough differentiation across the whole of the market. One of the issues for us when we first started looking at this market was the size of the funds, which were probably a bit too small for us, but they have grown rapidly since then and we're comfortable with them now. Our experience has been good. We already have existing relationships with the providers based on EIS and VCT products, and we're pleased that they have not rested on their laurels and have innovated and brought these IHT products to market. But we haven't written any business yet – I guess that will be the acid test!

My experience has been very positive. In fact I prefer that the sector is still niche. The investment objective is so specific that you need to be confident that the manager knows what they're doing, so I am actually grateful that the big life cos are not involved.

My experience has been perfectly good. They are helpful and timely. We don't need them to do much, but what they do promise to do, they deliver on.

Our experience has been extraordinarily positive. We have very close relationships with them and they give us lots of access – not just to training but to the fund managers as well.

(M) How do you introduce the concept of BPR qualifying products to clients and how do they tend to respond to the idea of investing?

As with the current advice process, we start by discussing IHT and the size of the potential liability. We then break the estate into three pots: assets they absolutely must keep for living expenses and liquidity, assets they really don't need which they can begin to pass on to their beneficiaries and the middle pot which is where decisions need to be taken about IHT and which options are the most suitable: trusts, life insurance or a BPR investment.

Because of the nature of my client base they tend to be older and they tend to start from the assumption that apart from gifts there is nothing they can do about IHT. They might have heard about the seven year time frame and they would assume that gifts are the be all and end all of IHT planning. Very, very few of them will have heard of BPR before, so when you introduce it to them and explain the benefits, they react very positively. Clients in their 80s and 90s can see a two year horizon. But advisers need to be comfortable having conversations about short-term life expectancy.

I take the approach of never telling clients what they have to do, instead I talk them through their options and help them decide. I find clients understand BPR remarkably easily because it is based on bricks and mortar and real businesses. Clients don't have to hand over their money to a manager who will make bets with it in the stockmarket as with a long only fund. Of course there are other risks – for example the investments are illiquid – and clients do have objections. Mostly they object to the high charges and poor access to funds.

I find that people who have an IHT issue have organised their lives in such a way that they don't want to just blow money to take it off the balance sheet, and they don't want to give it away and have to survive seven years, so BPR is a solution that addresses IHT but leaves the money on the balance sheet should they need it in the future.

"I find clients understand BPR remarkably easily because it is based on bricks and mortar and real businesses. Client don't have to hand over their money to a manager who will make bets with it in the stockmarket as with a long only fund" - ***James Parker, Radcliffe and Newlands***

DAN KIERNAN | NEIL COLE | CHRISTOPHER GREEN | KEVIN BRADLEY | JAMES PARKER

(M) What is your opinion on the costs of investing in BPR?

Heinous! Although no clients have ever objected. If the alternative is 40% lost to tax, an initial charge of 7% perhaps doesn't look as bad!

They need to come down and probably will as the market grows. At the moment I think providers are slightly taking advantage of the fact that BPR products are relatively new, and that clients have no other choice and will just accept what is put in front of them. However, advisers are not blameless, I know of advisers who charge ongoing fees for EIS and BPR, which I think is hard to justify – once the investment is set up, what an adviser can do in terms of ongoing servicing is very limited at best. It's not the same as running a portfolio of funds or bonds.

Probably too high. I think a lot of managers have replicated the fee structures they have on their VCT and EIS offerings, but BPR is different. With EIS there is a lot of hands on management and we have no problems explaining this and justifying the fees to clients, but with BPR most of the time you are deploying the funds into trades that have already been set up, so it's hard to justify the same level of charges.

I think it is hideously expensive. An awful lot of the return can be taken by charges. Of course what you are looking at is a 40% loss if you do nothing, so what you want from the manager is IHT mitigation and above inflation returns without taking on any more risk than is necessary. If they can do this and they take a reasonable share of the returns I think this is acceptable, but I object to providers who take too much for themselves. I also object to the nepotism in the sector: firms where the EIS fund sells to the BPR fund, where the right hand sells to the left hand and some of the value gets pocketed on the way through, or where they are charging for services that they bring in-house rather than using external providers. This kind of activity dilutes clients' returns.

(M) Finally, what future developments would you like to see?

I'm basically happy with what I've got and the way the providers are delivering their offers. The fact that there is competition and different specialists is a good thing as for wealthier clients with larger estates we will diversify across a couple of offers.

Greater transparency over charges and less nepotism.

Apart from my comment on fees, we're pretty happy, but we would like to see more vocal support from the government. At the moment there is always a nagging doubt that at some point the government will take a look at the amounts going into BPR, decide it's too much and make a change. There is a lot of support for VCT and EIS and we'd like to see that replicated for BPR.

I agree. Stop keeping it a secret! This is one option that has been around for a while and hasn't scratched the surface of the mass market – the additional risk accepted.

Other advisers we have spoken to report clients' concerns about paying for things such as long-term care, making them nervous about gifting money away, and for that reason, they're happy to see so many more offerings in the market.

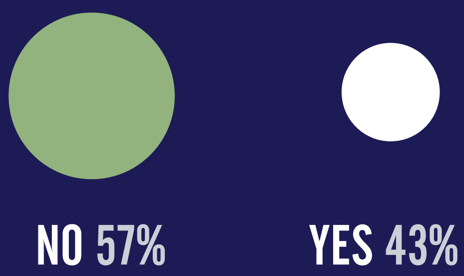
They've also echoed our round table attendees, saying that, for the most part, clients are not familiar with BPR, but by going through the history they can see that it's a genuine relief and not a contrived scheme. And whilst many advisers feel that the fees are too high, there is an understanding that there are fixed costs to be spread across small volumes and therefore it is hard for providers to get the price down. Besides lower fees, they are keen to see higher liquidity and more upside – perhaps another driver for the increased target returns we've identified this year.

MANAGER SURVEY

ANALYSIS AND COMMENT

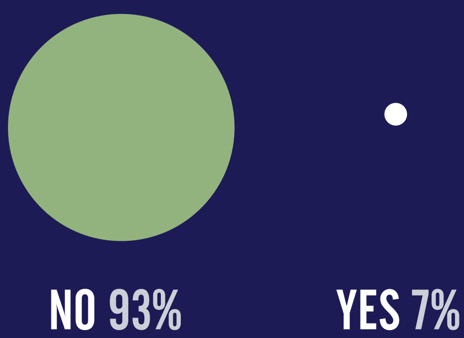
The survey was sent to the providers captured on our investment register with the intention of gauging the understanding of the provider community of the needs and concerns of advisers and investors. We also asked about the market for their company since last year's report and the outlook for the next two years, including the impact of the recent IHT and pensions changes we have discussed earlier in the report. We received 17 responses.

ARE ONLY HIGH NET WORTH AND SOPHISTICATED INVESTORS SUITABLE FOR BPR INVESTMENTS?



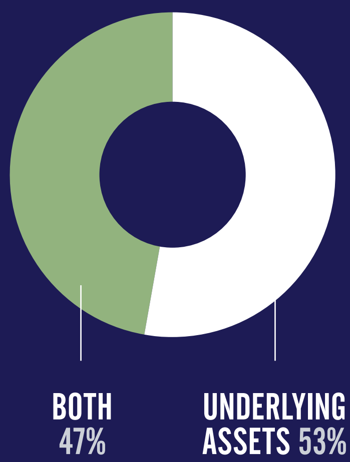
In last year's survey, 25% of providers felt that BPR investments are ONLY suitable for high net worth and sophisticated investors. This mirrors the adviser survey which also saw a fall in the percentage who considered BPR investment suitable for retail investors. This could be a consequence of the FCA's increased attention to suitability, or perhaps it is related to the increased average target returns in recent BPR offerings equating to more potential complexity and risk. Whatever the reason, the majority of providers are positive that their BPR investments meet the needs of ordinary retail investors and high net worth individuals.

ARE BPR INVESTMENTS ONLY APPROPRIATE ONCE BOTH ISA AND PENSION LIMITS HAVE BEEN MAXIMISED?



Providers are only a little more emphatic than advisers here, with 84% of advisers feeling that BPR investments are not just for use after other options have been exhausted. But this is still an impressive testament to the benefits and sheer utility of BPR.

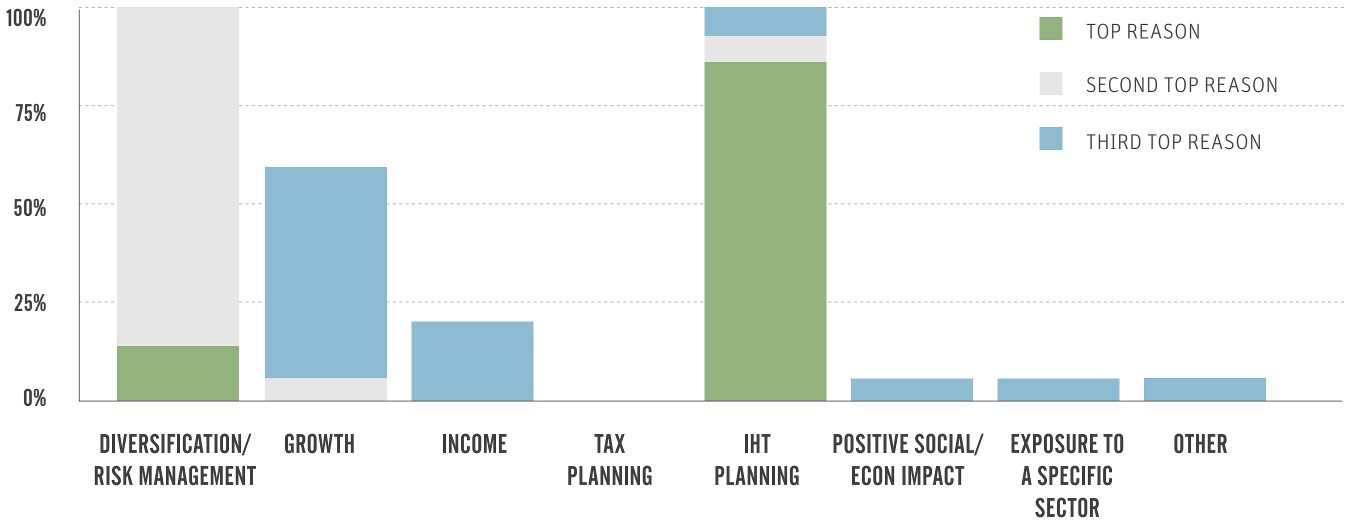
DO YOU CONSIDER DIVERSIFICATION ACROSS BPR PRODUCTS AND/OR UNDERLYING ASSETS IMPORTANT FOR INVESTORS?



Last year's survey showed 56% of providers felt diversification across both was important. This year, the increased number of providers who feel that diversification only across underlying assets is necessary shows rising confidence among them that the diversification in place in their product(s) and/or their risk minimisation strategies make further diversification superfluous. This differs somewhat from previous adviser research which has shown that advisers are keen to diversify across both underlying assets and providers.

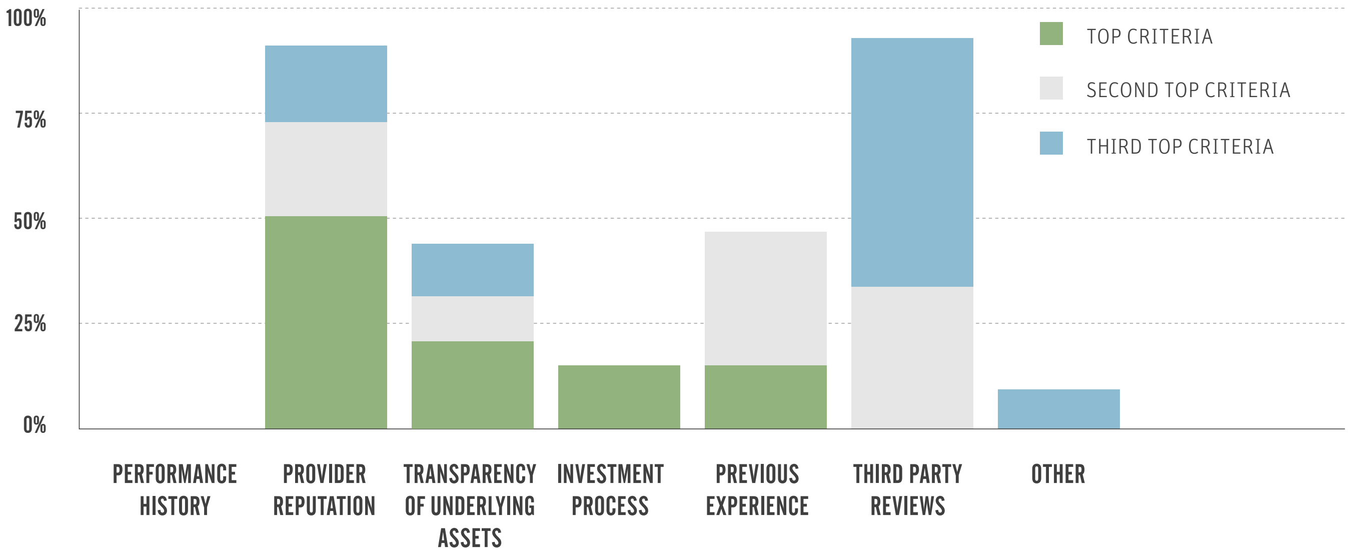
“Business Relief qualifying investments can be a useful tool for IHT planning and, depending on the proposition, can also provide predictable income from an asset-backed portfolio.”
- Ian Warwick, Deepbridge

WHAT DO YOU BELIEVE THE TOP 3 REASONS FOR INVESTING IN BPR PRODUCTS ARE?



The top three investment reasons, IHT planning, diversification/risk management and growth, are the same as those identified by advisers as reasons for recommending BPR products.

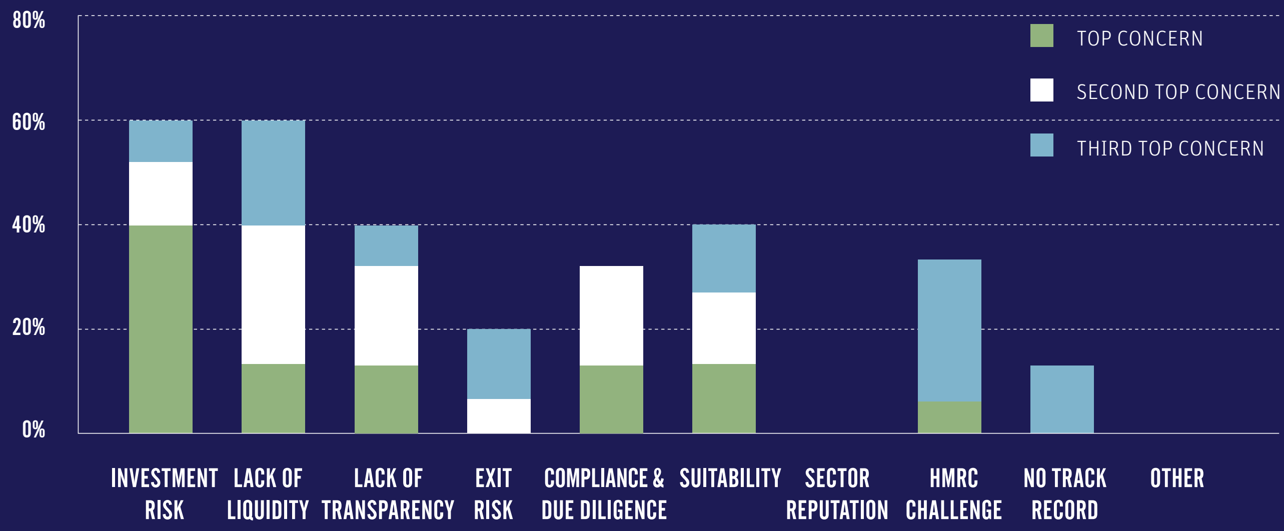
WHAT DO YOU THINK INVESTORS’/ADVISERS’ TOP 3 CRITERIA ARE WHEN CHOOSING A BPR PRODUCT PROVIDER?



Providers are fully aware of how important their reputation is to advisers and investors, with almost all of respondents putting it in their top three criteria and 53%, as opposed to 60% of advisers, ranking it at number one. Of greater note is that 100% of providers consider third party reviews as the second or third most necessary criteria. This is consistent with the importance that advisers are now placing on due diligence. It is also startling that no providers view performance history as a top three consideration when 40% of advisers do.

"Certain expats, will now immediately face full UK tax on their worldwide income and capital gains and trusts will no longer give them tax benefit while they are here." - ***The Telegraph, July 2015***

WHAT DO YOU THINK INVESTORS'/ADVISERS' TOP 3 CONCERNS ARE WHEN INVESTING IN A BPR PRODUCT?



The perception of providers is that investment risk is of most concern to advisers and investors. This matches the advisers' survey results, however, of equal concern for advisers was the lack of liquidity – perhaps not as strongly reflected in the providers' responses. Lack of transparency was the third most important concern that providers perceived, and it is of great interest to advisers, but more important to them (at least this year) are compliance and due diligence, and suitability.

DO YOU SEE YOUR COMPANY INCREASING OR DECREASING ITS BPR BUSINESS OVER THE NEXT TWO YEARS?

INCREASE 93% **NO CHANGE 7%**

There is a still a lot of positivity amongst providers in the market, in spite of the changes which have recently been enacted. The question is: what strategies will providers use to continue growing their BPR business? Perhaps the ageing population, expats and non-doms disadvantaged by the change will help offset any losses of business caused by the RNRB and the use of pensions as IHT planning vehicles.

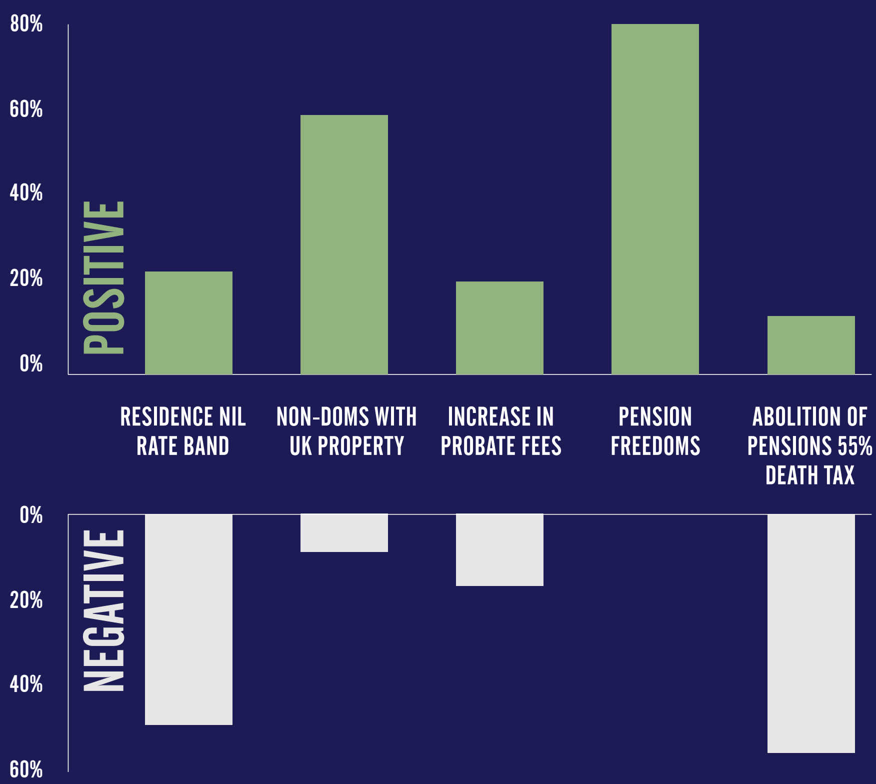
DID YOUR COMPANY INCREASE OR DECREASE ITS BPR BUSINESS OVER THE LAST YEAR?

INCREASE 100%

With growing numbers of people becoming liable to IHT, it's not surprising that providers have confirmed the increasing need/appetite for BPR investments.

"The reasons for the growth in BPR use are not complex: advisers' client banks are aging and getting wealthier, and the nil rate band has not been increased in line with the growth in personal wealth."

WHAT IMPACT DO YOU THINK THE FOLLOWING CHANGES WILL HAVE ON THE MARKET FOR BPR PRODUCTS?



It seems that providers feel that two of the latest developments are largely positive, two largely negative and the jury is out on the other; bearing in mind the number of people that the RNRB is predicted to remove from IHT liability in the next few years, it's not surprising that BPR investment providers see it as negative. They also recognise the potential for people to use their pension as a tax-efficient vehicle now that the 55% pension death rate has gone. Both may well reduce the number of individuals who need a BPR solution.

On the other hand, there is obviously an awareness that non-doms who own UK property which suddenly brings them into the IHT scope and that those who have now been able to access their pensions thanks to the freedoms introduced in the last few years could provide new investor audiences.

There is, understandably, much less consensus over the changes to probate fees, which seem less likely to have a significant direct impact on BPR.

CONCLUSIONS TO SECTION 4

A couple of important headlines are apparent from our research.

Firstly, advisers' use of BPR is still growing, and they expect to continue to increase the amount of BPR business they write in the near future. The number of new IHT services we've seen launched recently (see our earlier analysis) shows that the industry is increasing supply in order to meet this demand.

The reasons for the growth are not complex: advisers' client banks are ageing and getting wealthier, and the nil rate band has not been increased in line with the growth in personal wealth. More estates are falling into the IHT net, and the OBR's own predictions show that the new RNRB will only temporarily slow down this trend (and the increase in the actual tax take from IHT won't slow down at all). Advisers cite the simplicity, short time frames and accessibility of BPR as key reasons to favour BPR over other options.

The reputation of the investment provider is still the biggest consideration for advisers, followed by transparency of underlying assets. Investment performance is only the third biggest consideration: this reflects the primary drivers behind the decision to use BPR – IHT mitigation and capital preservation.

We can speculate that this is not an area of the portfolio where advisers are keen to take risks on untested providers. However, there is some unease about potentially exposing clients to extended periods of low returns.

Advisers have had very positive experiences with providers and are satisfied with the range of products in the market and the support they receive. The big negative is charges. Advisers feel that providers are perhaps taking advantage of the fact that investors facing a 40% IHT bill are prepared to swallow higher charges than are justified by the work involved.

INDUSTRY ANALYSIS

BPR INDUSTRY ANALYSIS

DATA ON KEY METRICS

This section will take a look at the current market for inheritance tax planning products that utilise Business Property Relief (BPR). The analysis is based on data supplied by the MICAP platform and is correct as of April 2016.

Our intention here is to give advisers data on key metrics – such as costs, minimum subscriptions and target returns – so that they have a reference point when they are reviewing the market for BPR qualifying investments and can understand what is cheap, what is expensive, what is aggressive, what is conservative, etc.

TERMINOLOGY

OFFER STATUS

SINCE INCEPTION OFFERS	All BPR investment products recorded in our register
OPEN OFFERS	BPR investment products that are open to new investments at the time of writing
HISTORICAL OFFERS	BPR investment products with a launch date prior to 06/04/2015 (UK tax year 2015)

INVESTMENT STRATEGY

CAPITAL PRESERVATION	Investments that are exploiting an asset, either a physical asset or the rights to an intangible asset
CAPITAL PRESERVATION & GROWTH	Investments into asset-backed trading companies
CAPITAL PRESERVATION & INCOME	Investments that are exploiting an asset typically with contractual income streams that will allow it to pay an income to investors
GROWTH	Investment into trading companies for long-term capital growth
INCOME	Investments that only produce an income and are not expected to experience capital growth.
GROWTH & INCOME	Investment into trading companies for long-term capital growth and income

INVESTMENT SECTOR

RENEWABLE ENERGY	Generating energy from renewable sources, including wind, solar, tidal and biomass
GENERAL ENTERPRISE	Providing general products and services, or an investment with no sector bias
FINANCIAL SERVICES	Operating in the financial industry, such as banks, insurance companies, brokers and other investment companies/Lending to creditworthy, usually asset-backed, borrowers
INDUSTRY & INFRASTRUCTURE	Operating in the diversified manufacturing, cars, heavy equipment, aerospace, roads and business services areas
MULTISECTOR	Investment across two or more sectors

INVESTEE COMPANY TYPE

PROJECT BASED	A company set up for a specific project, e.g. solar farm, hotel
AIM LISTED	A company listed on the Alternative Investment Market of the London Stock Exchange
EARLY STAGE	A post revenue company that is yet to become profitable or has only been profitable for less than two years
LATER STAGE	A company that has been profitable for at least two years
EARLY/LATER STAGE	A mixture of Early and Later stage companies
SEED/EARLY/LATER STAGE	A mixture of all types of investee company excluding project based

INVESTMENT TYPE

DISCRETIONARY PORTFOLIO SERVICE	Investors contract with an investment manager who will invest their funds on their behalf
INVESTMENT COMPANY	Investors purchase shares in a company that invests in assets, including shares, debt securities, properties, commodities

NOTE: ALL DATA SOURCED FROM MICAP, THE ONLINE RESEARCH AND COMPARISON SITE FOR TAX-EFFICIENT INVESTMENTS.

MARKET COMPOSITION ANALYSIS

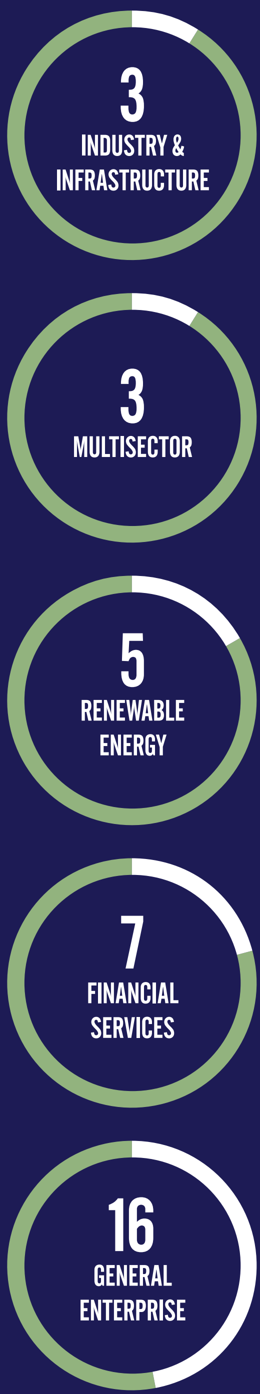
BPR OPEN OFFERS

Our industry analysis begins with looking at the composition of the market for BPR products. We will examine the market by grouping products by their investment strategy, investee company types and investment sectors.

In addition to looking at the current market status, we will also show our readers how the BPR market has developed by comparing our statistics on open offers to historical offers.

BY INVESTMENT STRATEGY	NUMBER OF PRODUCTS	%
CAPITAL PRESERVATION	◆◆◆	9%
CAPITAL PRESERVATION & GROWTH	◆◆◆◆ ◆◆◆◆ ◆◆◆◆	35%
CAPITAL PRESERVATION & INCOME	◆◆◆◆ ◆◆◆◆	23%
GROWTH	◆◆◆◆	12%
INCOME*	◆	3%
GROWTH & INCOME	◆◆◆◆ ◆◆	18%
TOTAL	34	100%

BY INVESTMENT SECTOR



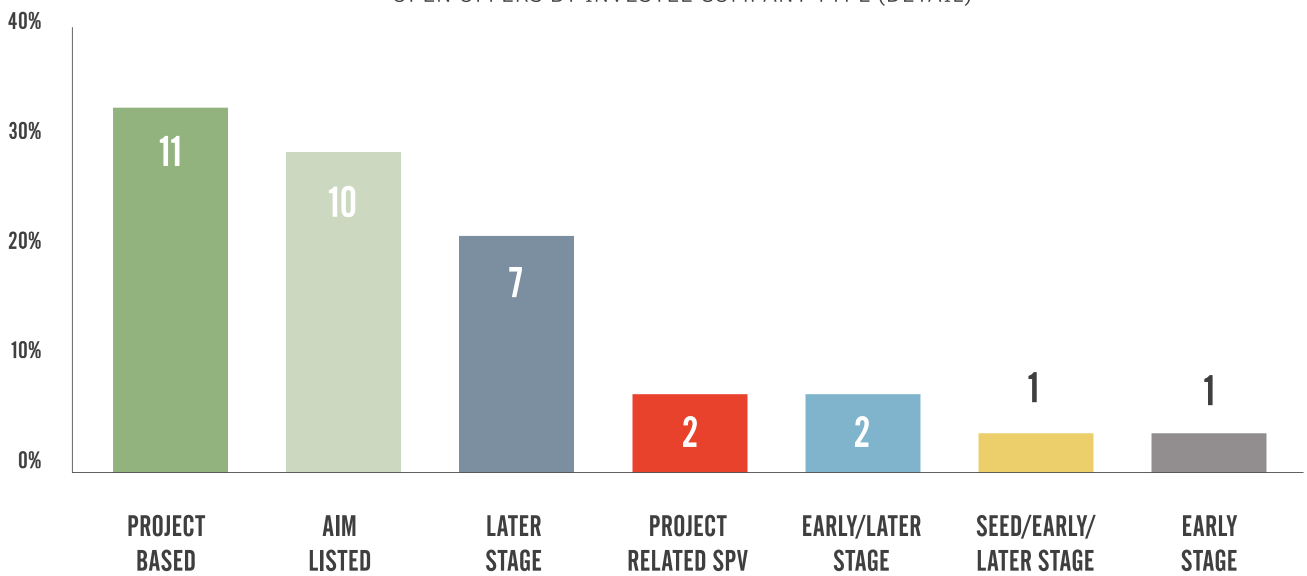
“In contrast to past offerings, the 8 new offers in 2015 tend to focus on growth and income and not just pure capital preservation; this may be a sign of a new demand trend emerging in the market and the new offers show providers’ effort to accommodate different investment needs.”

* STOP PRESS: ONE OF THE PRODUCTS INCLUDED IN OUR ANALYSIS HAS SUBSEQUENTLY CLOSED TO NEW INVESTMENT. THIS WAS THE SOLE INCOME PRODUCT.

"We can speculate that some younger investors, who are concerned with estate planning but are also interested in seeking high levels of return, are also investing in BPR products."

MARKET COMPOSITION BY INVESTEE COMPANY TYPE	NUMBER OF PRODUCTS	%
PROJECT BASED	◆◆◆◆◆◆◆◆◆◆◆◆◆	39%
TRADING COMPANIES	◆◆◆◆◆◆◆◆◆◆◆	32%
AIM LISTED	◆◆◆◆◆◆◆◆◆◆	29%
TOTAL	34	100%

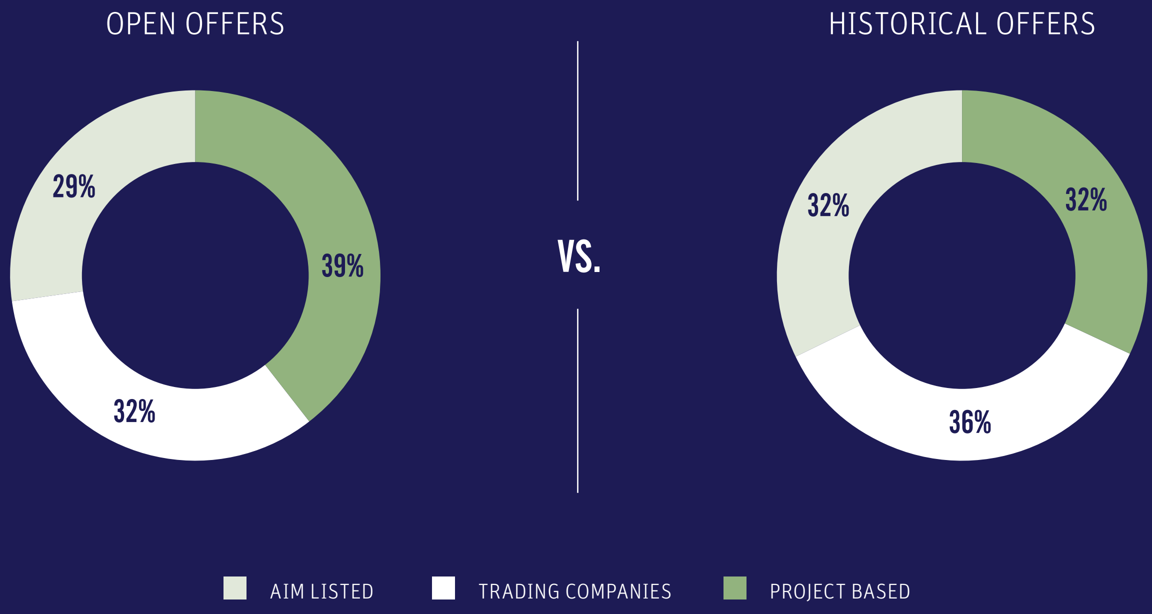
OPEN OFFERS BY INVESTEE COMPANY TYPE (DETAIL)



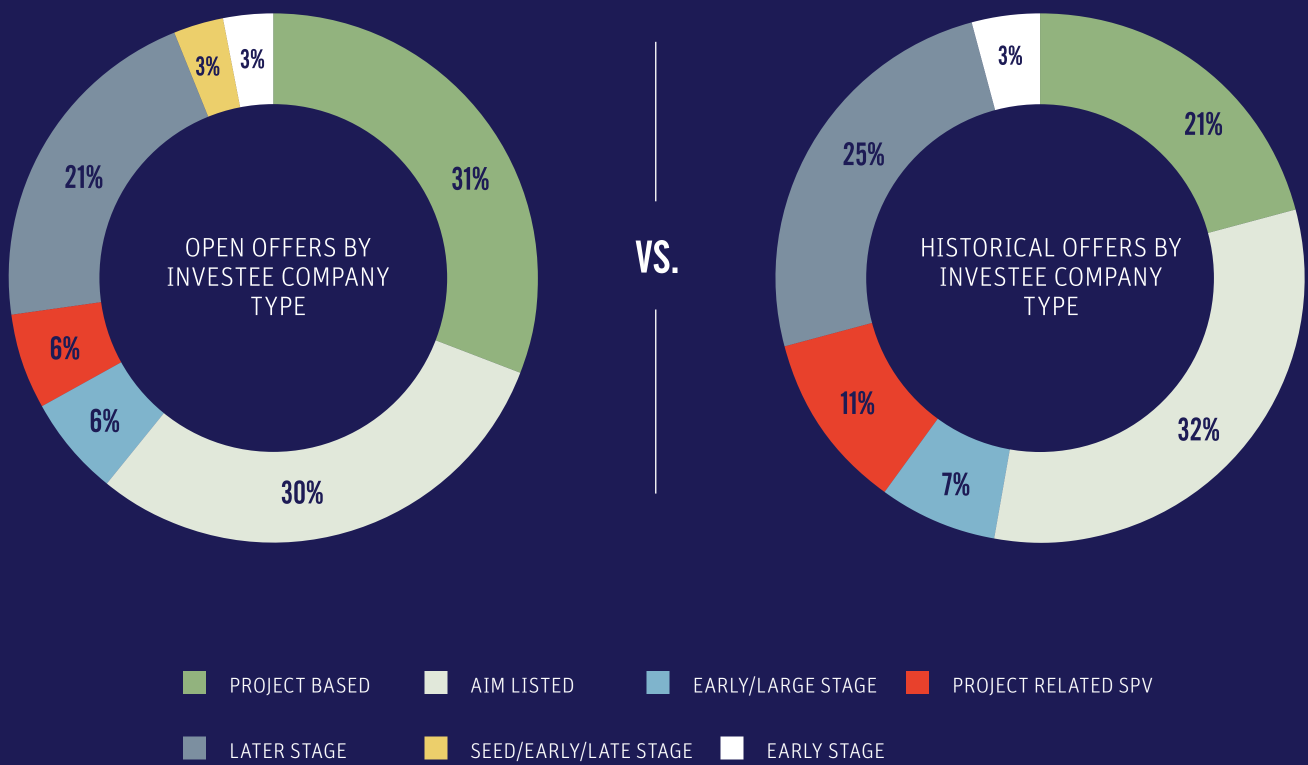
- In our register, there are 36 offers in total and 28 historical offers, indicating 8 new investment product launches in the previous tax year. Two historical offers have closed to new investments.
- There is a new offer this year which targets income generation. Prior to this, none of the BPR offers had this investment objective.
- There is a large increase in the number of growth & income investment opportunities, from 11% historically to 18% in 2015.
- The total number of capital preservation products fell by 8% compared to the historical statistics.
- In contrast to past offerings, the 8 new offers in 2015 tend to focus on growth and income and not just pure capital preservation; this may be a sign of a new demand trend emerging in the market and the new offers show providers' effort to accommodate different investment needs.
- Although only 9% of opportunities purely aim for capital preservation, capital preservation is still the top concern for most BPR investors. 67% of all BPR products regard capital preservation as at least part of their objective. This explains why a large number of investments are made in later stage and "asset rich" projects because of their greater stability.
- Growth opportunities represent 12% of all BPR investments and we have already highlighted the large increase in the proportion of growth & income investments.
- Because of the wide variety of businesses qualifying for Business Relief, this type of investment can also be used as a vehicle to generate growth.

"Project based offerings increased by 7% from 32% to 39% in 2016."

MARKET COMPOSITION BY INVESTEE COMPANY TYPE



MARKET COMPOSITION BY INVESTEE COMPANY TYPE (DETAIL)



To make the market less fragmented we group investee companies into project based, trading companies and AIM listed. We can see that investment in trading companies shrank by 4%, while the project based investments increased by 6%. AIM based products remained relatively stable with 1 new offer this year. There are 6 new project based offers among 8 total new offers in 2015/16.

The proportion of AIM based products and later stage products fell by 2% and 4% respectively, while project based products increased by 7% from 32% to 39% in 2016.

A new product has been introduced to the BPR market this year which invests across seed, early and later stage companies.

Just over a quarter of BPR products invested in AIM listed companies. Out of the 1,029 companies that are currently listed on AIM, half to three-quarters of them are estimated to be BPR qualifying investments.

Almost half of the private company investments are project based opportunities, as investee companies in this category are usually "asset-rich", for example, renewable energy plant and infrastructure. These investments are perceived as less risky due to their high liquidation value, which satisfies the capital preservation objective.

Some fund managers diversify their portfolios by investing in companies in different stages of growth, which makes up 12% of all offers.

Later stage investments contribute to more than one-fifth of all offers. This again shows that managers are more likely to hold less risky companies.

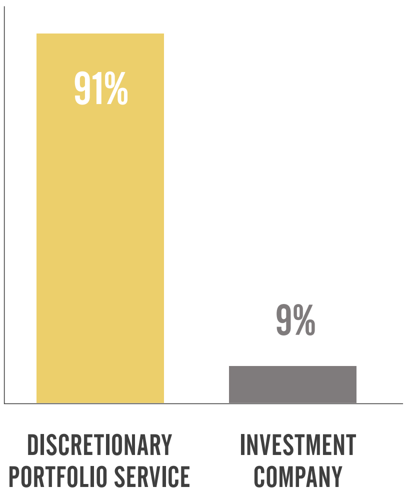
The market composition by investment sector remained relatively stable compared to the historical picture. Perhaps the largest change here is the increase in the proportion of investments in the renewable energy sector.

Compared to last year, there is a 4% increase in investments in the renewable energy sector; this may be caused by the exclusion of renewable energy investments in EIS and VCT in 2014/15 budget, so managers who were specialised in this sector under EIS or VCT may have continued to utilise their talents under the BPR tax wrapper.

The general enterprise sector, which covers a wide range of businesses from multiple industries, has 47% of all investment products invested in it.

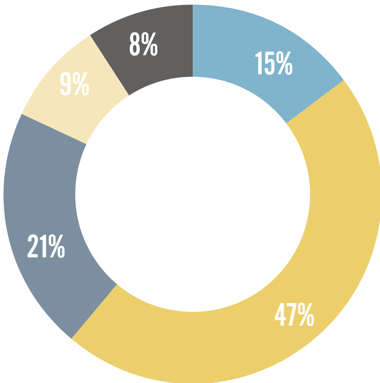
In this market, "financial services" usually involves lending to low risk and often asset-backed creditworthy companies and/or projects. This sector comprises over 20% of the market.

NUMBER OF OPEN OFFERS BY INVESTEE COMPANY TYPE

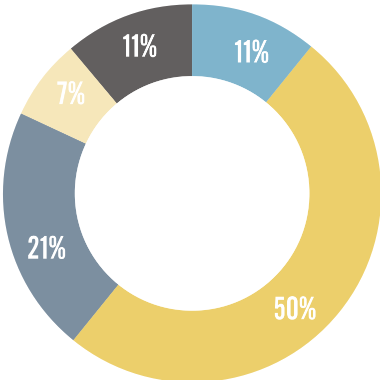


MARKET COMPOSITION BY INVESTMENT SECTOR

OPEN OFFERS



HISTORICAL OFFERS



RENEWABLE ENERGY

GENERAL ENTERPRISE

FINANCIAL SERVICES

INDUSTRY & INFRASTRUCTURE

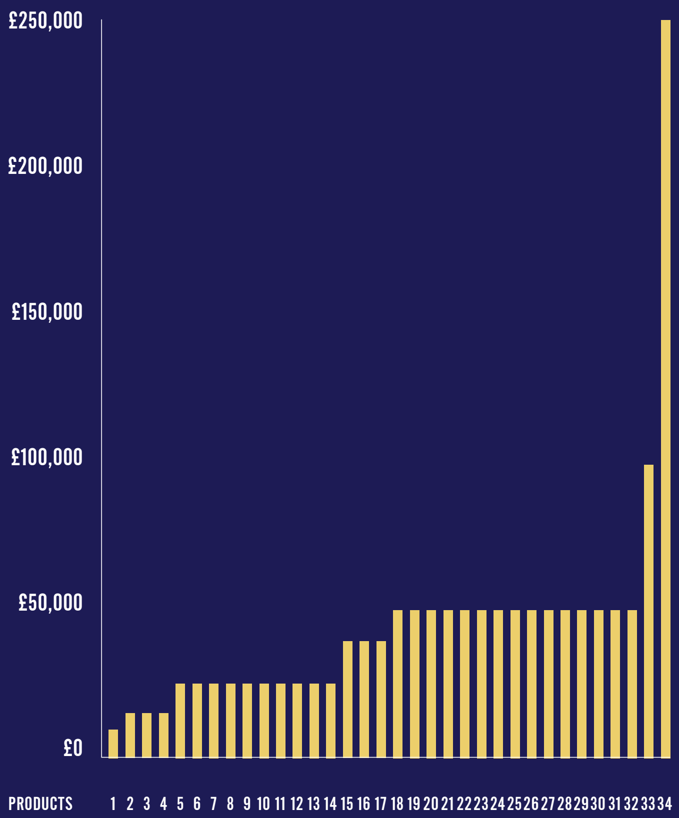
MULTISECTOR

MINIMUM SUBSCRIPTION

BPR OPEN OFFERS VS. HISTORICAL

This section looks at the minimum subscription levels in the market for BPR products. The minimum subscription is the lowest initial amount of money an investor has to commit in order to enter a contract with the product provider. Additional investment can be made after the initial investment if an investor would like to protect further wealth against inheritance tax. However, it is important to note that any additional investment would take another two years to qualify for the IHT relief.

MINIMUM SUBSCRIPTION DISTRIBUTION (OPEN OFFERS)



MINIMUM SUBSCRIPTION	OPEN / HISTORICAL £
MIN	£10,000 / £5,000
MAX	£250,000 / £250,000
MEAN	£44,860 / £46,616
MODE	£50,000 / £50,000
MEDIAN	£45,000 / £50,000
UQ	£50,000 / £50,000
LQ	£25,000 / £25,000

On average, the market requires a minimum initial investment of £44,860, 4% lower than the historical figure. The mode remains at £50,000. One point worth noting is the wide range of minimum subscriptions required by managers. The required amounts range from £10,000 to £250,000, showing that the IHT relief that is offered by BPR investment opportunities is obtainable by people with various levels of personal wealth.

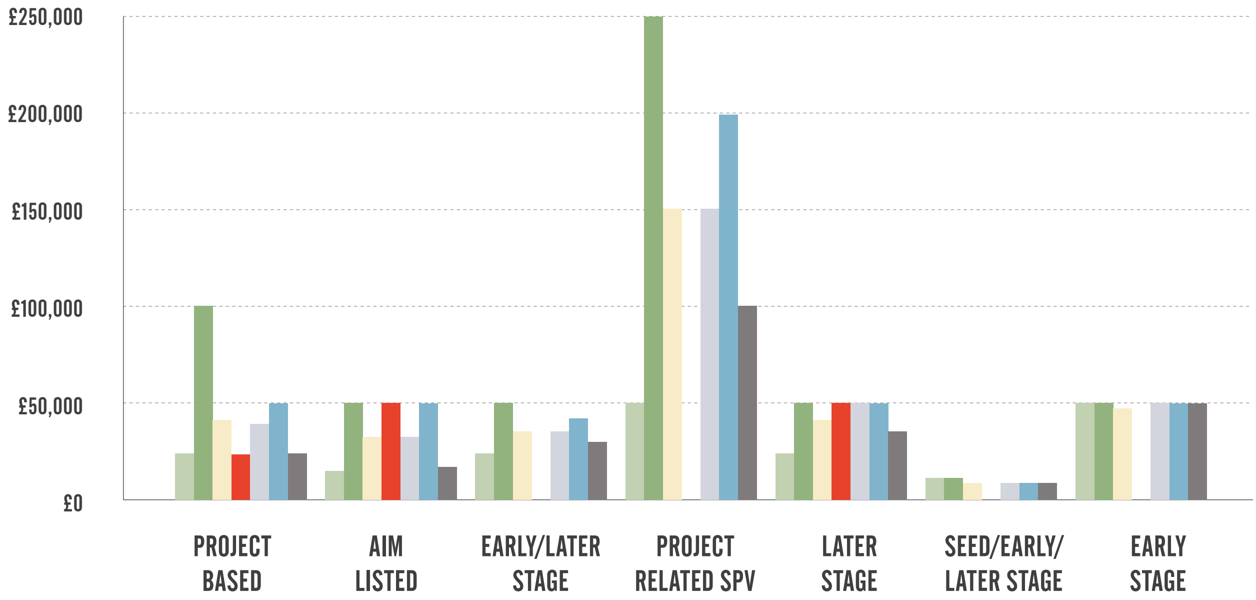
Compared to the historical picture, this year's range has slightly narrowed, as the lowest minimum subscription doubled while the highest remained at £250,000. (The most expensive investment used to have minimum subscription of £500,000.) The overall picture remains stable too; the only outlier we see here is the offer that asks an initial investment of £250,000.

The chart above shows that 94% of all products have a minimum subscription less than or equal to £50,000. The average minimum subscription is £37,293 if we remove the £250,000 outlier in our calculation (17% lower than the average including the outlier).

*"The IHT-mitigation market demands that providers of BPR products offer as much choice, control, flexibility and balance of risk and reward as is possible, along with transparency of where money is invested and the fees and charges levied." - **Jerry Price, Blackfinch***

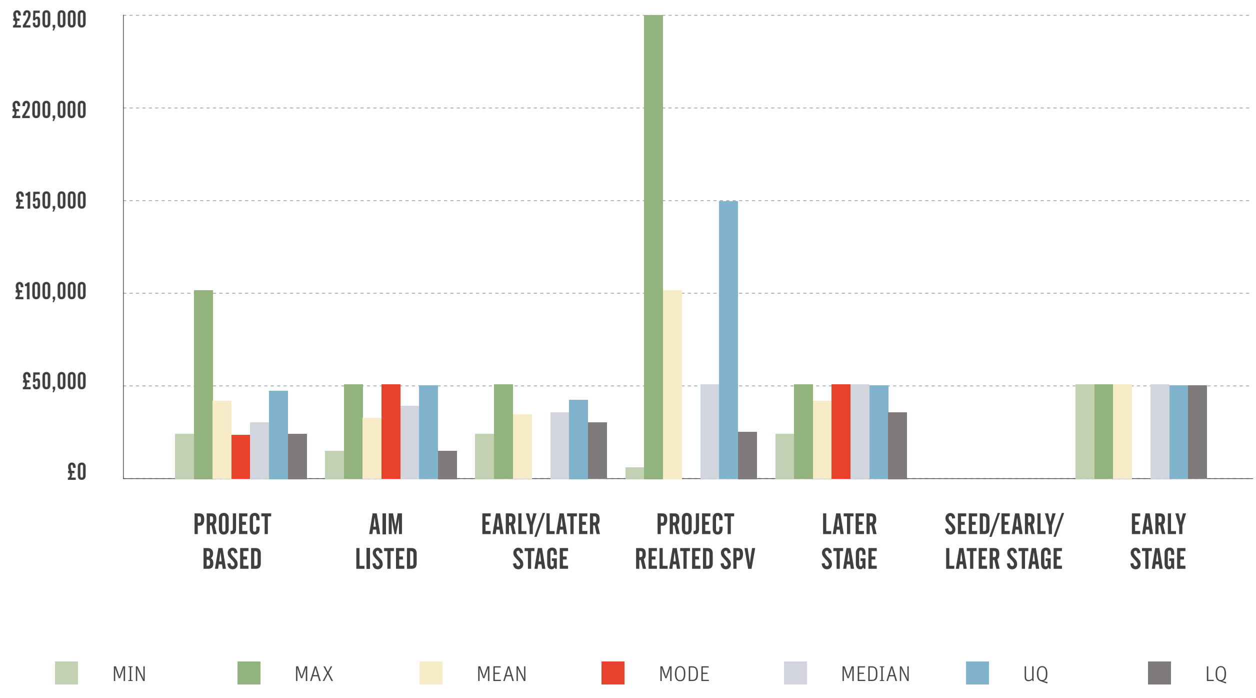
MINIMUM SUBSCRIPTION BY INVESTEE COMPANY TYPE

MINIMUM SUBSCRIPTION OF OPEN OFFERS



VS.

MINIMUM SUBSCRIPTION OF HISTORICAL OFFERS



"It is clear that in general the market demands a minimum subscription of £50,000 or less. AIM based products generally require a lower initial investment. Investing in AIM company shares gives managers more flexibility to adjust their portfolios even with smaller amounts of additional funds."

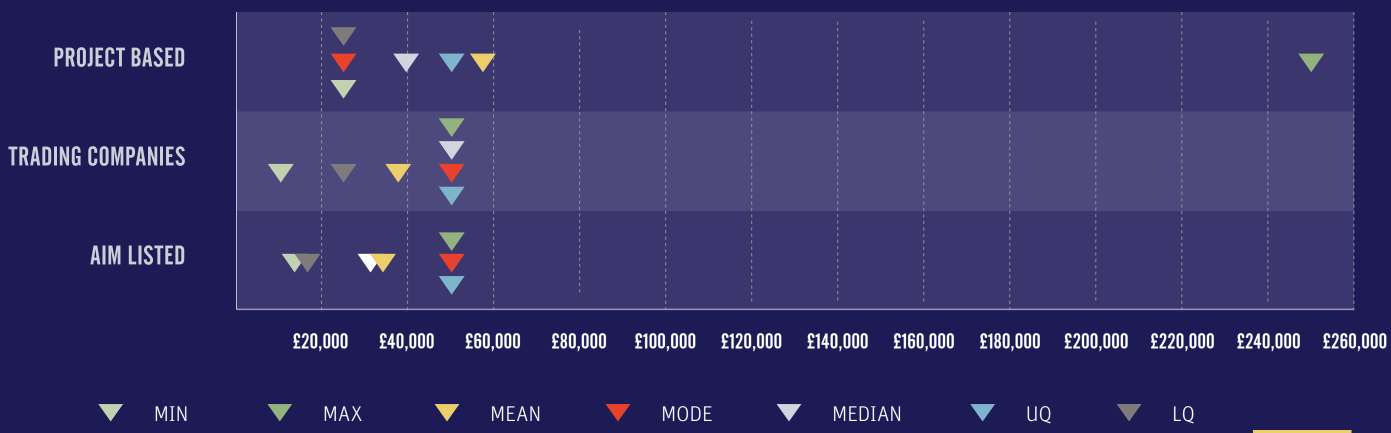
- Project related SPV(s) investments have the highest minimum subscription, while the seed/early/later stage type requires the lowest minimum subscription. However, this conclusion is based on a limited amount of data, which may not indicate the difference between different investee company types.
- To address that, we group trading companies together into one category regardless of their stage of growth; we also group all project based investments together.
- Project based products have the highest average initial threshold to invest with a higher than market average mean at £58,077 (39% of all products are project based). However, this mean is misleading due to the outlier that sits at £250,000. The median, which mitigates the effect of outliers, is much lower at £40,000.
- AIM based products generally require a lower initial investment. Investing in AIM company shares gives managers more flexibility to adjust their portfolios even with smaller amounts of additional funds.
- Looking at trading companies, we find the overall market minimum here. However, the mean is higher than AIM based products.
- IIt is clear that in general the market demands a minimum subscription of £50,000 or less.

MINIMUM SUBSCRIPTION BY INVESTMENT STRATEGY (OPEN OFFERS)

	CAPITAL PRESERVATION	CAPITAL PRESERVATION & GROWTH	CAPITAL PRESERVATION & INCOME	GROWTH	INCOME	GROWTH & INCOME
MIN	£25,000	£10,000	£25,000	£15,000	£50,000	£15,240
MAX	£50,000	£250,000	£100,000	£50,000	£50,000	£50,000
MEAN	£33,333	£56,667	£43,750	£41,250	£50,000	£30,040
MODE	£25,000	£50,000	£25,000	£50,000	N/A	£25,000
MEDIAN	£25,000	£50,000	£37,500	£50,000	£50,000	£25,000
UQ	£37,500	£50,000	£50,000	£50,000	£50,000	£36,250
LQ	£25,000	£36,250	£25,000	£41,250	£50,000	£25,000

The lowest minimum subscriptions can be found with products that target growth & income as their objective.

MINIMUM SUBSCRIPTION BY INVESTEE COMPANY TYPE

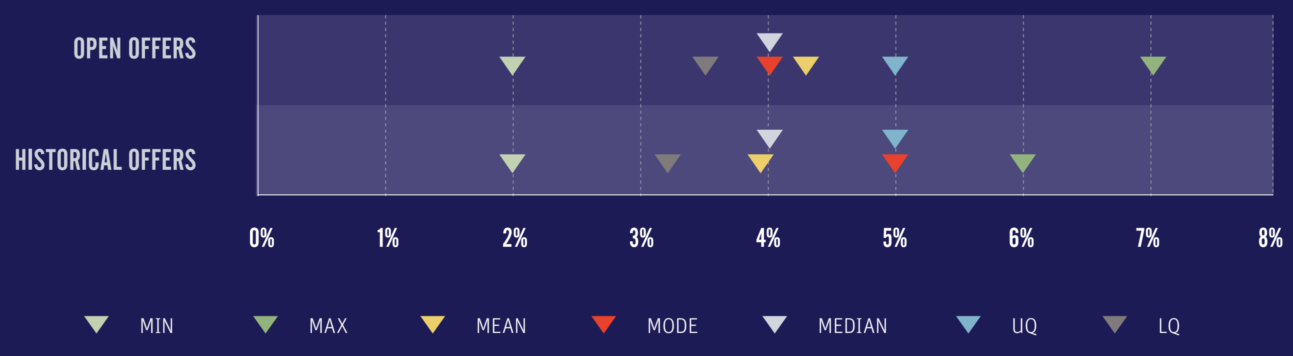


TARGET RETURNS

ANALYSIS OF PROVIDER PROJECTIONS

In this section, we discuss the annual target returns that are stated by investment providers. Our database has this information for 23 of the 34 open offers: not every manager states a target return. Investors should note that the stated target return is what a fund manager aims to achieve; it is not guaranteed and assured by that fund manager. Hence, investors should not make investment decisions solely based on the rate of target return. Instead, target returns may be used to gauge the risk return profile and strategy of the investment considered.

TARGET ANNUAL RETURN



- The annual target rate of returns range from 2% to 7%, indicating the dispersion in risk-return profiles of BPR products investors can choose from.
- In the two-thirds of open products that state a target return, the average target return is 4.26%, higher than the return targeted by historical offers. This is a reflection of the greater number of growth offers that came into the BPR market this year.
- In our register, none of the AIM based products specify a target annual return, because their performances are dependent on the market's performance. However, some of these managers aim to beat the FTSE AIM Index.
- The index has exhibited high volatility in the past due to IPOs of mining and technology companies which tend to create short-term fads among investors.
- However, large and stable companies such as ASOS and Majestic Wine are also listed on AIM. The takeaway here is to not be misled by the high volatility but to pay attention to the investee companies in a manager's AIM portfolio.

TARGET RETURNS BY INVESTMENT STRATEGY (OPEN OFFERS)

	CAPITAL PRESERVATION	CAPITAL PRESERVATION & GROWTH	CAPITAL PRESERVATION & INCOME	GROWTH	INCOME	GROWTH & INCOME
MIN	0.00%	3.00%	3.50%	5.00%	7.00%	5.00%
MAX	4.00%	5.00%	6.00%	5.00%	7.00%	7.00%
MEAN	3.00%	3.75%	4.38%	5.00%	7.00%	6.00%
MODE	N/A	4.00%	3.50%	N/A	N/A	N/A
MEDIAN	3.00%	4.00%	4.25%	5.00%	7.00%	6.00%
UQ	3.50%	4.00%	5.00%	5.00%	7.00%	6.00%
LQ	2.50%	3.00%	3.50%	5.00%	7.00%	5.50%

"Even capital preservation opportunities' 3% annual target return looks appealing in the low inflation and low interest rate environment we face today."

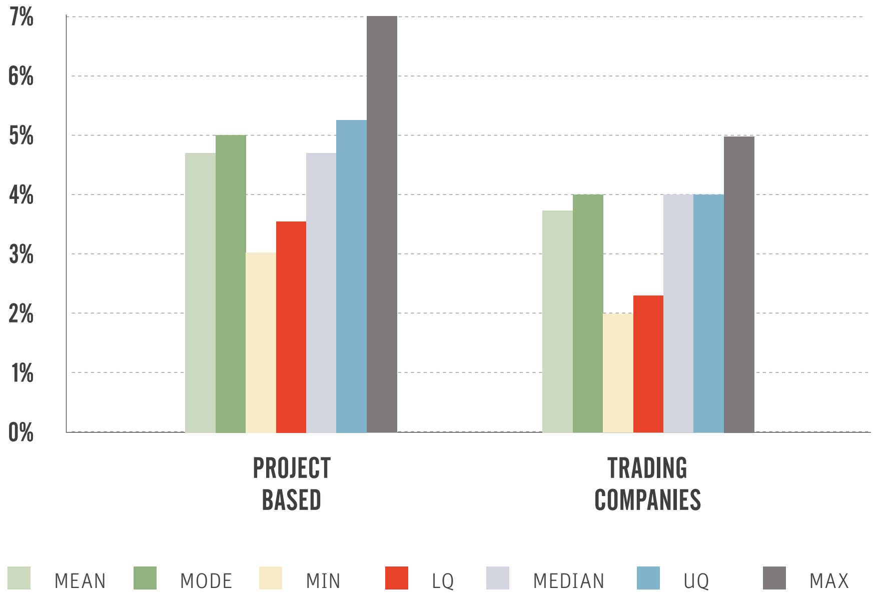
Capital preservation opportunities on average have a much lower target return than the overall market and it is logical to see the target returns increase when a manager has growth or income as an additional objective. In theory, investors take on high risks in exchange for potential high returns in the form of risk premium.

Not surprisingly the growth & income offer targets a high annual return of 6%.

The anomaly here comes from the new income offer which targets 7% annual return. This offer is relatively new and is the only one with an income strategy.

Pure capital preservation funds have the low target of 3%, which again is a logical observation.

TARGET RETURNS BY INVESTEE COMPANY TYPE



TARGET RETURNS BY INVESTEE COMPANY TYPE (DETAIL)	MIN	MAX	MEAN	MODE	MEDIAN	UQ	LQ
PROJECT BASED	3.00%	7.00%	4.86%	5.00%	5.00%	5.50%	3.75%
AIM LISTED	0.00%	0.00%	N/A	N/A	N/A	N/A	N/A
EARLY/LATER STAGE	3.50%	4.00%	3.75%	N/A	3.75%	3.88%	3.63%
PROJECT RELATED SPV(S)	3.00%	3.00%	3.00%	N/A	3.00%	3.00%	3.00%
LATER STAGE	2.00%	5.00%	3.57%	4.00%	4.00%	4.00%	3.00%
SEED/EARLY/LATER STAGE	4.00%	4.00%	4.00%	N/A	4.00%	4.00%	4.00%
EARLY STAGE	5.00%	5.00%	5.00%	N/A	5.00%	5.00%	5.00%

From this chart we can see that the average target return for Early Stage investee companies is the highest, as one would expect.

However, project based opportunities have the biggest range of target returns, ranging from 3% to 7%, reflecting the greater number of investments in this category

If BPR managers do deliver their target returns, then even capital preservation opportunities' 3% annual return looks appealing in the low inflation and low interest rate environment we face today.

NOTE: IN THE MAIN, AIM BASED PRODUCTS DO NOT SPECIFY TARGET RETURNS.

LIQUIDITY ANALYSIS

INVESTOR ACCESS

💧 TIME TO ACCESS (DAYS)

◆ NUMBER OF PRODUCTS

BY INVESTEE COMPANY TYPE (OPEN OFFERS)

Time to access (days)	AIM	TRADING COMPANIES	PROJECT BASED
- 30	◆◆◆◆◆◆◆◆◆◆	◆◆◆◆	◆◆
30-60	-	◆	◆◆◆◆
+60	-	◆◆◆◆◆◆	◆◆◆◆

AIM portfolios are liquidated by selling shares on the market; hence the liquidity is dependent on market conditions. We expect liquidation of AIM holdings to ordinarily take less than a month.

BY INVESTMENT STRATEGY (OPEN OFFERS)

Time to access (days)	CAPITAL PRESERVATION	C. PRESERVATION & GROWTH	C. PRESERVATION & INCOME	GROWTH	GROWTH & INCOME	INCOME
- 30	◆	◆◆◆◆◆	◆◆◆	◆◆◆	◆◆◆◆	N/A
30-60	-	◆◆◆◆	◆	-	-	N/A
+60	◆◆	◆◆	◆◆◆◆	◆	◆	N/A

BY INVESTMENT SECTOR (OPEN OFFERS)

Time to access (days)	FINANCIAL SERVICES	GENERAL ENTERPRISE	INDUSTRY & INFRASTRUCTURE	RENEWABLE ENERGY	MULTISECTOR
- 30	-	◆◆◆◆◆◆◆◆◆◆◆◆◆	◆	◆◆	-
30-60	◆	◆	-	-	◆◆◆
+60	◆◆◆◆◆◆	◆	◆	◆◆	-

- Nearly all providers quoted a liquidation policy. Overall, 52% of all funds can be redeemed within a month and the longest quoted notice periods come from managers who only deal with withdrawal requests on a quarterly or semi-annual basis. They make up 32% of the market. Finally, 16% of all managers specified a notice period of 30-60 days.

- Some managers provide multiple liquidity offers depending on the size of redemption and how long the subscription has been invested.

- Looking at liquidity by investment sector, general enterprise is the most liquid sector, with 13 products that can be redeemed in less than 30 days.

- However, liquidity in the general enterprise sector may also be subject to the market conditions as many investments in this sector are AIM based – see our notes above.

- Opportunities in Financial Services tend to have far fewer investee companies and are based around lending opportunities; therefore they are less liquid than investments in other sectors.

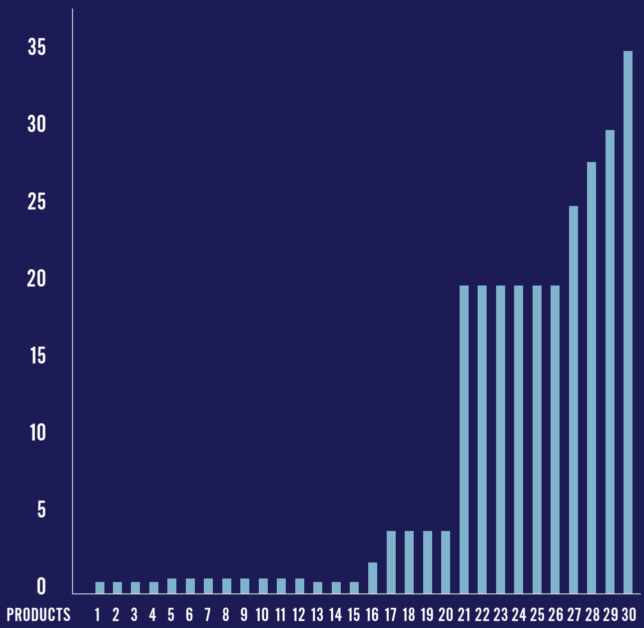
DIVERSIFICATION ANALYSIS

SPREADING RISK

This year, we have expanded the scope of our research and added a new section looking at diversification. This section aims to examine how diversified the BPR products are by looking at the number of investee companies either held in fund managers' investment portfolios, or the number of investee companies the manager states that they will target.

We were also able to obtain this data for historical offers and therefore we performed a retrospective analysis for comparison.

TARGET NUMBER OF INVESTEE COMPANIES
(WHERE STATED) DISTRIBUTION OF OPEN OFFERS



TARGET NO. OF INVESTEES	OPEN / HISTORICAL
MIN	1 / 1
MAX	35 / 35
MEAN	9 / 10
MODE	1 / 1
MEDIAN	2 / 3
UQ	20 / 20
LQ	1 / 1

At first sight, there is a large dispersion among BPR products in terms of diversification. For both periods' data, the number of investee companies targeted by each offering ranges from 1 to 35.

On average, the market has become slightly less diversified this year with the average number of portfolio companies dropping from 10 to 9 and the mode at 1 (investing in a single company/project).

We note that this finding has not been caused by any outliers as the median is also lower than 2015's figure. The decline in diversification is a result of the growth in the number of project based products this year as they usually consist of a single investment.

TARGET NUMBER OF INVESTEES BY COMPANY TYPE	MEAN	MODE	MIN	LQ	MEDIAN	UQ	MAX
PROJECT BASED	2	1	1	1	1	4	4
TRADING COMPANIES	3	1	1	1	1	1	20
AIM LISTED	24	20	20	20	20	28	35

"Many offerings tend to be backed by assets or collateral, for example, the Renewable Energy sector and the Industry & Infrastructure sector both rely on heavy industrial equipment and sometimes may control a large area of land. This feature grants companies a high value even in the event of bankruptcy."

- AIM based products are on average 8 times more diversified than other trading company investment opportunities. The additional liquidity and lower transaction costs of AIM allow fund managers who specialise in AIM to diversify their portfolios across 20 or more companies.
- Therefore, it is not surprising to see that the most diversified product (which targets 35 investee companies) is an AIM based product.
- However, opportunities with a lower level of diversification are not necessarily inferior investments as diversification is not the sole driver of security.
- Many tend to be backed by assets or collateral; for example, the Renewable Energy sector and the Industry & Infrastructure sector both rely on heavy industrial equipment and sometimes may control a large area of land. This feature grants companies a high value even in the event of bankruptcy.
- One might perceive that the Financial Services sector (the second largest sector in the BPR market) covers challenger banks and small brokerage firms. However, according to HMRC's rules, Business Relief cannot be claimed on companies that mainly deal with securities, stocks or shares, land, buildings, or in making or holding investments. Thus, financial services here refers to loans made to creditworthy borrowers, usually asset-backed property developers.

TARGET NUMBER OF INVESTEES BY INVESTMENT SECTOR (OPEN OFFERS)

	MIN	MAX	MEAN	MODE	MEDIAN	UQ	LQ
RENEWABLE ENERGY	1	2	1	1	1	1	1
GENERAL ENTERPRISE	1	35	17	20	20	23	4
FINANCIAL SERVICES	1	1	1	1	1	1	1
INDUSTRY & INFRASTRUCTURE	1	1	1	1	1	1	1
MULTI SECTOR	1	1	1	1	1	1	1

"Opportunities with a lower level of diversification are not necessarily inferior investments as diversification is not the sole driver of security."

CHARGES

COMMENTARY AND ANALYSIS

This section looks at the charges and fees in the BPR investment market. There are two main charges associated with BPR products: the initial fee and the annual management charge (AMC), as is common with many investment products. The initial fee is charged upfront as a percentage of initial subscription. The AMC is payable to the manager on an annual basis regardless of the fund's performance, usually as a percentage of the investment's NAV (but occasionally as a percentage of the initial subscription). In addition, there are eight offers which also charge an annual admin fee.

Depending on the offer, other charges include initial and exit deal fees, annual performance fee, annual admin fee and exit performance fee. Performance fees act as an incentive for fund managers to achieve superior returns; they should align the interests of investors to those of fund managers. While not many offers charge a performance fee, among those that do there is often an associated hurdle rate and it's usually equal to the annual target return quoted by the manager.

NO. OF OFFERS THAT CHARGE EACH FEE / OUT OF 34 OPEN OFFERS

The fee structure has remained stable with virtually all managers quoting an initial charge and an AMC. In contrast, the annual performance fee is the least quoted fee in 2014/15 and has become more uncommon this year; only 12% of products now charge it versus 18% previously. The biggest change here is the 7% fall in the number of managers who charge the initial deal fee.

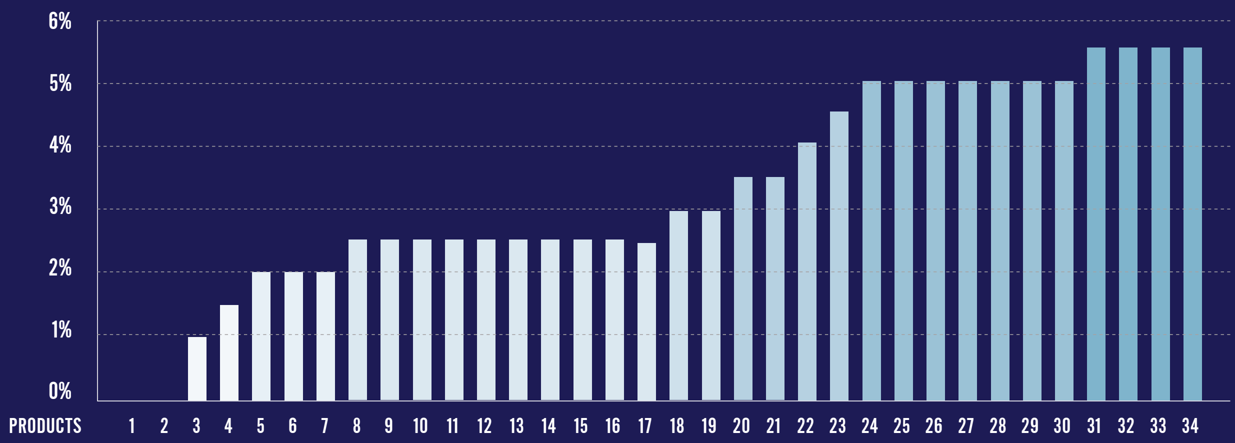
OVERALL FEES OF OPEN OFFERS

	MEAN	MODE	MIN	LQ	MEDIAN	UQ	MAX
INITIAL CHARGE	3.29%	2.50%	0.00%	2.50%	2.75%	5.00%	5.50%
ANNUAL AMC	1.34%	1.00%	0.50%	1.00%	1.25%	1.50%	2.50%
ANNUAL PERFORMANCE FEE	4.12%	0.00%	0.00%	0.00%	0.00%	0.00%	50.00%
INITIAL DEAL FEE	0.51%	0.00%	0.00%	0.00%	0.35%	1.00%	2.00%
EXIT DEAL FEE	0.69%	1.00%	0.00%	0.00%	1.00%	1.00%	2.00%
EXIT PERFORMANCE FEE	2.97%	0.00%	0.00%	0.00%	0.00%	0.00%	20.00%
ANNUAL PERFORMANCE HURDLE	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.00%
EXIT HURDLE	0.64%	0.00%	0.00%	0.00%	0.00%	0.00%	5.00%
ANNUAL ADMIN CHARGE	0.12%	0.00%	0.00%	0.00%	0.00%	0.19%	1.25%

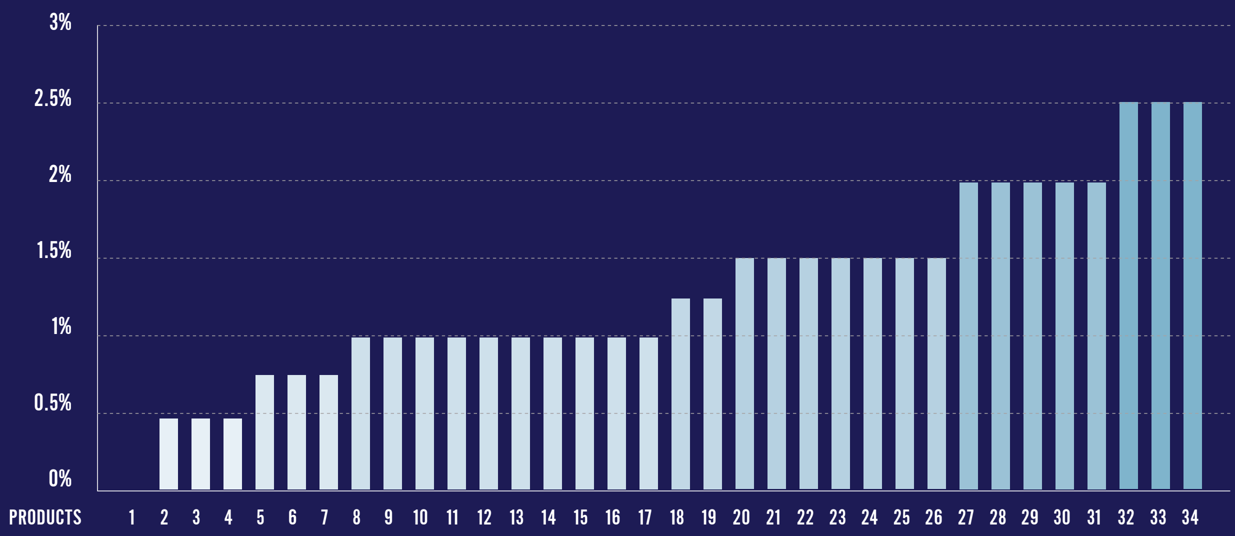
NOTE: NOT ALL OFFERS CHARGE ALL OF THESE FEES.

"Advisers must be cautious of performance incentives that encourage excessive risk taking that would not be in line with investors' objectives."

INITIAL CHARGE DISTRIBUTION OF OPEN OFFERS (WHERE STATED)



ANNUAL MANAGEMENT CHARGE DISTRIBUTION OF OPEN OFFERS (WHERE STATED)



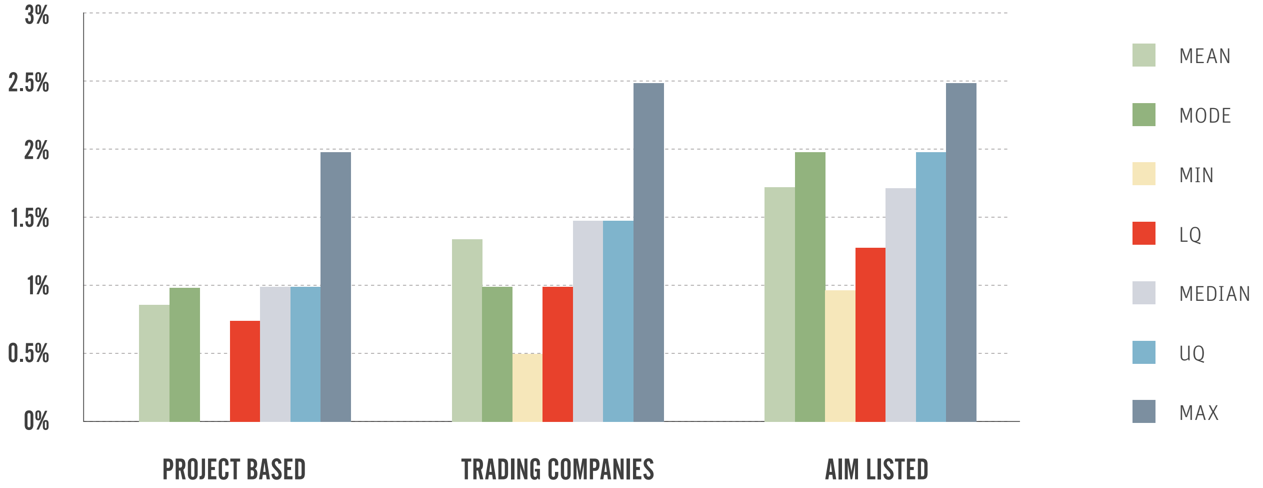
- Initial charges range from 0% to 5.5%, and annual management charges range from 0.5% to 2.5%. Some managers only charge the AMC after a performance hurdle.
- The annual performance fee has the highest average of all the fees at 4.12%. But it is not a true representation of the market for two reasons. First, it has been averaged downward by managers who charge zero performance fees. Second, the performance fee mode is 0%, indicating the majority of investments on our register don't charge this fee, but the maximum can be as high as 50% once the return has reached the performance hurdle.
- Exit performance fee is another type of incentive fee few managers quote, but is only payable on exit in proportion to the total amount of return accumulated over the course of the investment.
- By comparing the open and historical BPR products side by side we can see that the market has remained stable in terms of fees apart from some noticeable changes in incentive fees.
- The average annual performance fee fell by 1.48% to 4.12% in 2015/16, but the corresponding average hurdle rate is now lower at 1.00%.
- The opposite is true for the exit performance fee and exit hurdle. Offers that were introduced to the market this year have a tendency to incentivise managers to generate long-term accumulated returns.
- A few managers allow investors to defer fee payments until withdrawals.
- Advisers must be cautious of performance incentives that encourage excessive risk taking that would not be in line with investors' objectives.

"Early stage companies may to take several years to mature and returns are often realised in the form of trade sale, and hence performance fees are charged on exit."

CHARGES BY INVESTEE COMPANY TYPE

INITIAL CHARGE OF OPEN OFFERS	MEAN	MODE	MIN	LQ	MEDIAN	UQ	MAX
PROJECT BASED	3.31%	2.50%	2.00%	2.50%	2.50%	5.00%	5.00%
TRADING COMPANIES	3.32%	2.50%	1.50%	2.50%	2.50%	4.25%	5.50%
AIM LISTED	3.25%	0.00%	0.00%	1.25%	4.25%	5.00%	5.50%

ANNUAL MANAGEMENT CHARGE



Project based offers have the highest annual performance fee, but there is a large reduction this year, dropping from 19.45% to 9.09%. As noted elsewhere, the number of project based offers has almost doubled since last year, and the new offers that came into the market this year typically do not charge annual performance fees.

However, rather than charging investors an incentive fee annually, our research shows that the market trend is for project based managers to charge the incentive fee on exit. None of the historical project based offers charged an exit performance fee, but it's now at 3.64%. In total, seven offers in our register quote an exit performance fee.

Project based offers are usually more predictable and therefore the managers demonstrate their confidence by taking more of their fees at the end of the investment.

No AIM based offers charge performance fees and none of these offers specify a target annual return. However, the AMC and initial fees are typically the highest for AIM based offers. Given AIM products have no performance fee, this is logical.

Among trading companies, the annual performance fee is only applied to later stage investments, while early stage investments tend to charge the exit performance fee.

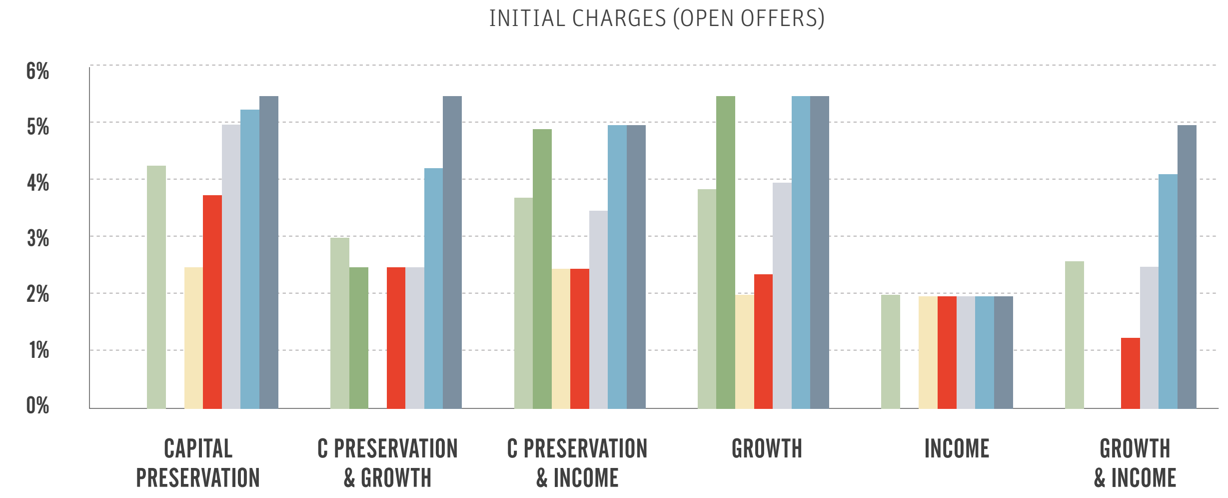
Later stage companies are more established and more capable of generating cash flows on a regular basis, so returns can be realised annually and performance fees can then be levied.

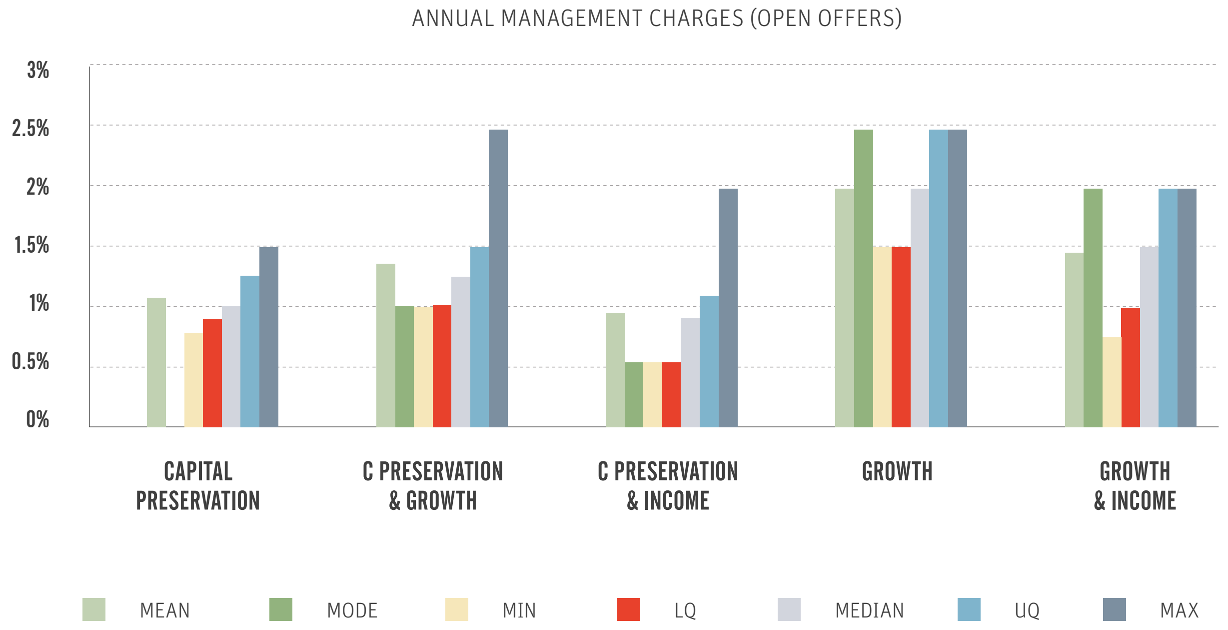
On the other hand, early stage companies may take several years to mature and returns are often realised in the form of trade sale, and hence performance fees are charged on exit.

In addition, the maximum annual performance fee (20%) is observed in the later stage category and the maximum exit performance fee (20%) in the early stage.

“Pure capital preservation strategies typically have the highest initial charge and it increased from 3.5% to 4.33% in 2015/16, so investors who prefer to have a greater sense of capital protection may pay a premium.”

CHARGES BY INVESTMENT STRATEGY

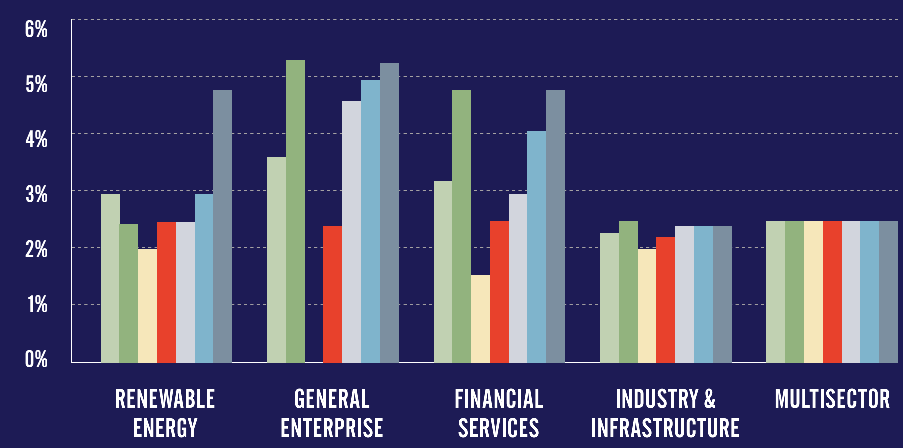




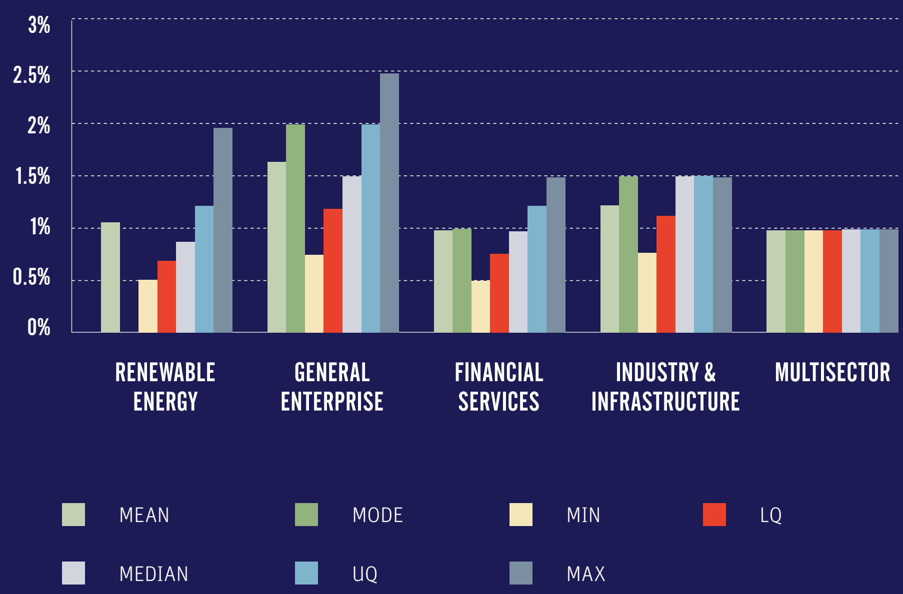
- Pure capital preservation strategies typically have the highest initial charge and it increased from 3.5% to 4.33% in 2015/16, so investors who prefer to have a greater sense of capital protection may pay a premium.
- On the positive side, no performance fees are charged and the AMC is low compared to other strategies and fell by 0.42%, making long-term investments cost much less.
- In contrast, growth and income offers have higher AMCs than the overall market; the higher charge is justified by the expense associated with the post investment support that managers usually offer to their investee companies. In some cases, the AMC is only incurred when the hurdle is met.
- One anomaly here is the high initial fee charged by the growth strategy; this is due to a single manager who holds two growth offers and both have 5.5% initial fees.
- Only four offers stated an annual performance fee, one under the capital preservation & income strategy and the remaining three are in the capital preservation & growth strategy.

CHARGES BY INVESTMENT SECTOR

INITIAL CHARGES (OPEN OFFERS)



ANNUAL MANAGEMENT CHARGES (OPEN OFFERS)



Looking at fees by sector, the highest initial and AMC both come from the General Enterprise sector. The higher cost may be justified by the amount of initial due diligence and extensive ongoing involvement in running these portfolios – often they are AIM based products.

On average, offers in the Industry & Infrastructure sector have the lowest initial charge and a relatively low ongoing charge compared to other sectors. However, investment managers in this sector charge a much larger annual performance fee, showing managers' confidence in generating returns on an annual basis. In addition, two out of three Industry & Infrastructure offers are later stage opportunities.

Investing in the Financial Services sector has the highest initial cost, while the ongoing charge is the smallest. Given our previous definition, this fee structure makes sense because the upfront research and credit analysis can be costly, but once the loan is made, less input is needed from the manager side.

The Renewable Energy sector, which charges no annual performance fees at all, has the highest average exit performance fee. Almost all offers in this sector are project based, and usually have higher than average exit performance fees for that sector.

The Multisector has a low fee structure in comparison to other sectors with no performance fees in any form.

ANNUAL PERFORMANCE FEE (OPEN OFFERS)	MEAN	MODE	MIN	LQ	MEDIAN	UQ	MAX
RENEWABLE ENERGY	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
GENERAL ENTERPRISE	3.13%	0.00%	0.00%	0.00%	0.00%	0.00%	50.00%
FINANCIAL SERVICES	7.14%	0.00%	0.00%	0.00%	0.00%	0.00%	50.00%
INDUSTRY & INFRASTRUCTURE	13.33%	20.00%	0.00%	10.00%	20.00%	20.00%	20.00%
MULTISECTOR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

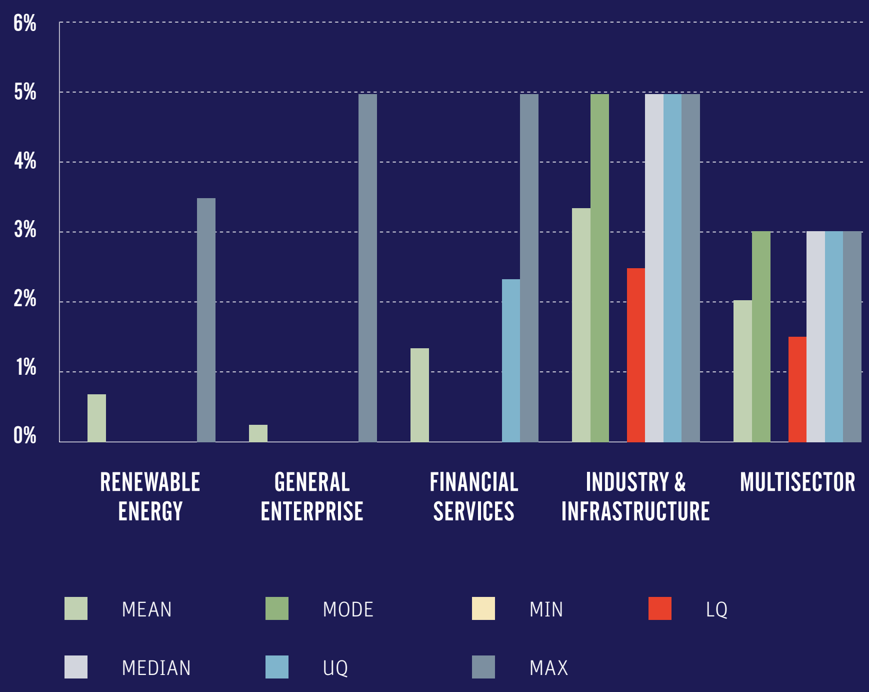
"AIM based offers usually don't quote annual performance targets or charge annual performance fees."

ANNUAL PERFORMANCE HURDLE

There are eight offers in our register which quoted an annual performance hurdle. Managers often use their annual target returns as the hurdle. Our research shows that the annual performance hurdle isn't always associated with an annual performance fee. Some managers try to further align interests by applying the hurdle rate to AMC, so the AMC is payable only if the manager delivers the target rate of return.

BY INVESTEE COMPANY TYPE (OPEN OFFERS)	MEAN	MODE	MIN	LQ	MEDIAN	UQ	MAX
PROJECT BASED	1.15%	0.00%	0.00%	0.00%	0.00%	1.50%	5.00%
AIM LISTED	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EARLY/LATER STAGE	1.75%	N/A	0.00%	0.88%	1.75%	2.63%	3.50%
PROJECT RELATED SPV(S)	1.50%	N/A	0.00%	0.75%	1.50%	2.25%	3.00%
LATER STAGE	2.14%	0.00%	0.00%	0.00%	0.00%	5.00%	5.00%
SEED/EARLY/LATER STAGE	0.00%	N/A	0.00%	0.00%	0.00%	0.00%	0.00%
EARLY STAGE	0.00%	N/A	0.00%	0.00%	0.00%	0.00%	0.00%

ANNUAL PERFORMANCE HURDLE OF OPEN OFFERS BY INVESTMENT SECTOR



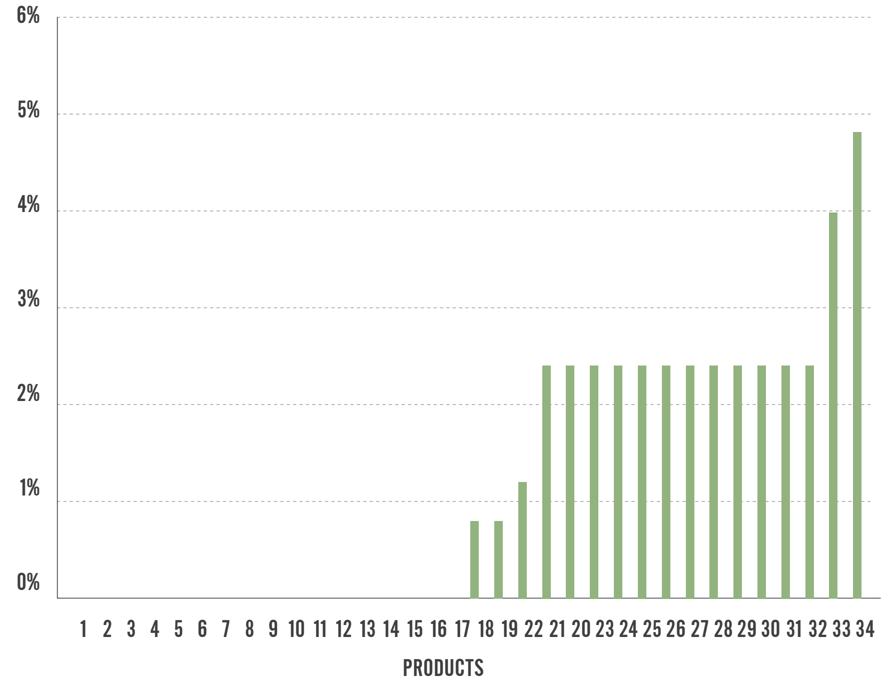
- The annual hurdles range from 3% to 5%. The highest figure can be found in the later stage investments. Since early stage investments and AIM based products don't charge annual performance fees, these offers also don't quote hurdle rates.
- The average hurdle is small for project based investments, although the annual performance fee is the greatest.
- The Industry & Infrastructure sector has the highest average hurdle (3.33%), followed by the Multisector at 2% and the Financial Services sector at 1.37%.

"Offers that don't charge deal fees have a 0.5% higher initial fee on average."

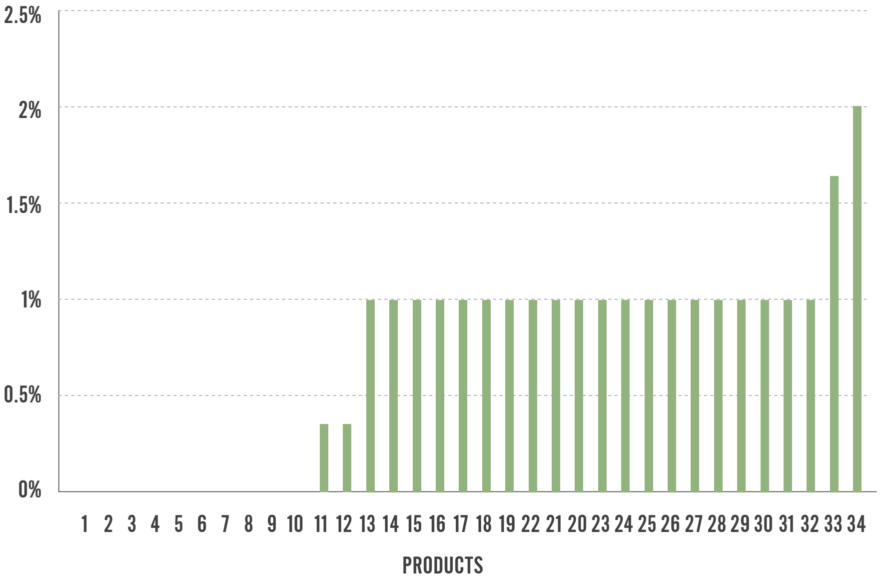
INITIAL DEAL FEE AND EXIT DEAL FEE

This section looks at the initial and exit deal fees in the BPR product market. According to our research, exit deal fees are more common than initial deal fees. There are 18 offers which charge initial deal fees and 24 which charge exit deal fees. The most quoted deal fee is 1% for both initial and exit and their distributions are very similar, with the highest deal fee at 2% and the lowest at 0.35%. Given their concentrated distributions, it is less helpful to study the fees by breaking down the market, as any difference in average would mainly be a result of different denominators used for each category.

INITIAL DEAL FEE DISTRIBUTION OF OPEN OFFERS (WHERE STATED)



EXIT DEAL FEE DISTRIBUTION OF OPEN OFFERS (WHERE STATED)



- The initial deal charge has not changed much from last year but the maximum charged this year is 2%, up from 1.65%. Initial and exit deal fees are charged by a project based income offer in the Renewable Energy sector.
- The two products that charge the minimum 0.35% deal fees are both offered by one manager, who focuses on capital preservation & growth and operates in the Industry & Infrastructure sector.
- When comparing BPR products based on fees, dealing charges should not be viewed negatively or treated as an additional charge on top of the initial fee. Our research shows that the average initial fee of offers that do not charge an initial deal fee is 0.48% higher than those that do. Given the average initial deal charge is 0.51%, offers without an initial deal fee are not necessarily cheaper. The key is to study a product's fee structure carefully and compare it with similar products.
- Based on our survey and the comments that were made in our adviser roundtable in particular, advisers do feel that BPR fees are too high and hard to justify.

"Similar types of fees should be aggregated to make comparisons unbiased."

EXIT HURDLE AND ADMIN FEES

TYPICAL CHARGES INVESTOR FACE	AVERAGE	% OFFERS THAT APPLY IT
INITIAL CHARGE	3.29%	94%
INITIAL DEAL FEE	0.51%	50%
ANNUAL AMC	1.34%	97%
ANNUAL ADMIN CHARGE	0.12%	26%
ANNUAL PERFORMANCE FEE	4.12%	11%
EXIT DEAL FEE	0.69%	68%
EXIT PERFORMANCE FEE	2.97%	20%

- Exit hurdles range from 3.5% to 5% and are concentrated in early stage investments; this is because the exit performance fees are usually observed in these investments.

- The mechanism for exit hurdles is different from that of annual hurdles. An investment's "true" exit hurdle equals its exit hurdle rate compounded by the number of holding years. Hence, the longer the holding period the higher the exit hurdle rate upon withdrawal.

- Some managers charge an annual admin fee on top of the AMC. Admin charges are generally equal to or less than 0.5%, with one outlier at 1.25%. An admin charge of 1.25% might seem unappealing, but we found that the AMC for this offer is much lower than the market average. Again, similar types of fees should be aggregated to make comparisons unbiased.

THOUGHTS ON CHARGES

Discussing BPR with advisers at the roundtable we held for this report, and speaking to advisers at BPR related events we have held around the country, high charges are clearly a big concern. For this reason we've focused on them in detail over the last few pages in an attempt to try and give readers an indication of the landscape for charges on BPR qualifying investments: what charges they may face, and what looks cheap or expensive.

It's worth making some further points on this to keep things in context. Firstly, a low charge does not always equate to good value and we know that advisers' decisions are not driven by price alone. Secondly, in some cases the managers will defer taking some of their charges until they have overcome certain hurdles, hopefully aligning their incentives with their investors' interests. Finally, no single offer applies all of these charges, so advisers need to look at the charging structure of offers in the round in order to make meaningful comparisons.

INDUSTRY ANALYSIS CONCLUSIONS

BPR INVESTMENTS

Compared to EIS, the BPR market is more stable, with fewer new product launches and a smaller range of investment objectives. Nonetheless, with the support of the MICAP platform we were able to observe several changes and developments in this market since the release of our last report. New inputs from MICAP have also enabled us to extend the scope of our research to provide advisers with additional insights into the IHT product market. For instance, we have quantified the diversification and liquidity to facilitate objective comparisons. The following section concludes the industry analysis section.

MARKET COMPOSITION

As one would expect, the BPR market is dominated by investments which seek to protect wealth. However, the proportion of capital preservation related strategies has fallen this year. Looking more closely at the market composition, we can make the following two conclusions.

First, the market has become more flexible at accommodating different investment needs as the reduction in capital preservation related offers is roughly matched by the increase in growth & income products.

Second, a large increase in the proportion of project based offers corresponds to a small drop in the number of all other types of investments. Finally, a new offer with a pure income objective launched this year.

MINIMUM SUBSCRIPTION

The most common minimum subscription among new offers is £25,000 and the lowest minimum subscription of £10,000 also comes from a new offer. We would expect that any clients with wealth to protect from IHT would be willing and able to pay these minimum amounts. AIM based products generally require the lowest initial investments, reflecting lower sourcing and transactions costs in the underlying investments.

Overall, BPR products have become more affordable compared to the past and the range is large enough to accommodate various levels of estate planning.

TARGET RETURNS

The average annual target return is higher compared to last year, a reflection of the higher proportion of project based and growth offers. Investment theory states that there is a trade-off between risk and return, and the BPR market is in alignment with this theory. One point to note is that none of the AIM based offers quote an annual target return.

We can speculate that as people plan for longer retirements, demand for estate planning products that can still provide above inflation growth or income is increasing.

LIQUIDITY

The BPR market is less liquid compared to mainstream investment instruments. It is not uncommon to take more than a month to liquidate a BPR investment. AIM based products are relatively more liquid, but still subject to market conditions. The liquidity of BPR products has a U-shaped distribution, in which the majority of the products are either very liquid or very illiquid. Note that a handful of managers do offer regular withdrawals and multiple liquidity options though.

We would expect that investors would be prepared for illiquidity if IHT relief is the main investment objective, as any invested capital would take two years to be exempt from IHT anyway.

DIVERSIFICATION

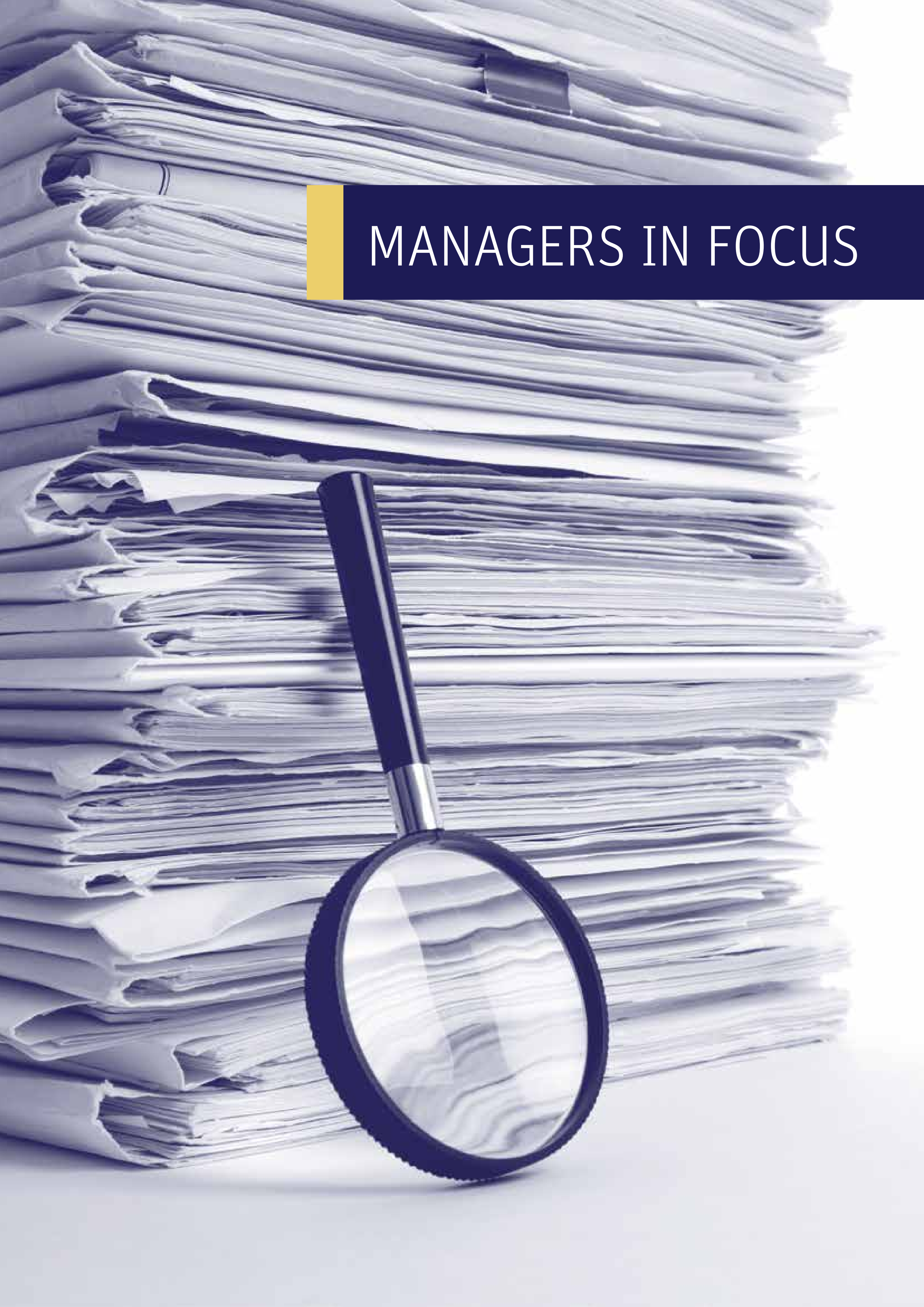
We have analysed the diversification by examining the number of investee companies either held or targeted by BPR managers. Similar to other measures, a large range is observed. Half of the products show no diversification; whilst the most diversified investment opportunity consists of 35 portfolio companies. Those highly diversified offers are all AIM based (20 or more investee companies), whereas other opportunities typically have four or less investee companies. The average level of diversification fell from last year due to the new project based offers.

As we noted in the analysis, lower levels of diversification are not necessarily a bad thing: project based offers are often asset backed and have predictable revenue streams, providing an alternative source of security.

CHARGES

Fee structures vary significantly from one to another depending on the investment strategy and investee company type. Initial charges and AMC are charged by nearly all managers. Less common are fees that are charged on exit. When comparing products based on fees, it's important to aggregate all of the fees. In addition, advisers should find it useful to compare a product's fees with its peer group by investment strategy or investee company type, etc. Favourable features such as applying a hurdle rate to the AMC should not be overlooked either.

MANAGERS IN FOCUS



MANAGERS IN FOCUS

INSIGHTS INTO LEADING BPR INVESTMENT MANAGERS

Fund managers have all designed their estate planning services that utilise BPR with the same key investment objectives in mind:

- Capital Preservation
- IHT Mitigation
- Ongoing Access to Funds
- Steady Growth
- Risk Mitigation
- Investing in unquoted companies (which includes AIM listed shares)

However, the BPR industry has developed a number of strategies to accomplish these objectives, and there are in fact meaningful differences between the various providers and their offerings. The biggest difference will be between the underlying investments – and whether they are listed on AIM or unlisted – but even beyond this, managers have different approaches, different philosophies and they will utilise different legal structures.

No two offerings are exactly alike, so we think that advisers have to look beyond the investment objectives and investigate just how the providers structure and manage the investments – different offers will suit different investors.

COLLABORATION

Over the next few pages the BPR investment providers who agreed to cover the costs of designing and printing this report are profiled so readers can get a feel for just how firms and their offerings can differ. As such, these pages do not qualify for structured CPD.

We've worked closely with these providers to develop the report. They were given the opportunity to input into the original scope of work, review and comment upon earlier drafts and gave us guidance on some of the more technical points. Some of their quotes and comments have been included in relevant sections of the report, attributed to the contributor. However, whilst the providers have had this input and participation in putting the report together, we should stress that the work has been done by Intelligent Partnership and any errors or omissions are entirely our own.

This collaboration is part of our effort to work with the tax-efficient investment providers in an industry-wide initiative to educate financial advisers on their products and services. As with our previous EIS Industry Report, the intention is to get this report into the hands of over 6,000 financial service professionals who are interested and engaged in this topic. We've also worked with the industry organising training events covering EIS and VCTs.

BLACKFINCH IHT PORTFOLIOS

BLACKFINCH

ABOUT BLACKFINCH

Blackfinch Investments is an established UK provider of tax-efficient investment solutions. Blackfinch has a history which dates back to 1992, giving us more than 24 years' experience of trading in the UK, and has approximately £500 million of assets under administration and management. Our philosophy is based on transparency and simplicity and our services provide real solutions to real financial planning challenges faced by individuals today. The objective of this service is to mitigate Inheritance Tax (IHT) liabilities after two years by investing in Business Property Relief (BPR) qualifying assets. We aim to balance capital preservation with competitive returns, undertaking trading activities which are asset-backed or benefit from secure and predictable revenue streams. Blackfinch IHT Portfolios currently target three distinct sectors, housed within a discretionary managed portfolio; property development lending (backed by a charge over underlying property), asset-backed lending (security is taken over underlying assets and / or cash flows) and renewable energy production and trading. We make these assets visible and transparent to the investor and structure our fees and charges so that our interests are aligned.

Blackfinch is innovative and constantly alive to the needs of advisers and their clients. With this in mind,Blackfinch have developed the Blackfinch AIM Portfolios. These will be eligible to be held within ISAs and will also be made available on a number of leading platforms. The AIM Service will offer both growth and income portfolio options.

Flexibility, coupled with our competitive fee structure, has made Blackfinch a recognisable and respected name in IHT mitigation through sensible and innovative investment strategies.

THE TEAM

Our Investment Management Team is led by Chief Executive Officer Richard Cook and Chief Investment Officer Richard Simmonds, with a combined senior investment experience of over 30 years across deal execution and fund management, covering multiple asset classes including property, renewable energy and asset-backed lending. Tom Davies, who is a CFA charter holder and has experience in tax-efficient products and fund management, providing highly analytical due diligence on underlying companies and investment opportunities for organisations such as Investec and Wesleyan. Stefan Agopsowicz focuses on project and deal execution, as well as oversight and monitoring, and has over a decade of experience in asset management and holds the Investment Management Certificate.

Viable investment opportunities are then given further scrutiny and review by the external Investment Committee, which provides additional independent oversight and expert guidance on an arm's-length basis. The external Investment Management team comprises Andrew Troughton (RICS) and Paul Chivers, among others. Andrew Troughton is a RICS surveyor with two decades of experience with a particular focus on land and development valuations. Paul Chivers has over 20 years' experience in the energy and commodity sector, working for Deutsche Bank and Crédit Agricole Indosuez with a particular focus on renewable energy.

Our capital preservation and growth model portfolios, launched in July 2015, are both exceeding their respective 4% and 6% targets.

Blackfinch featured as a finalist in the 2015 Growth Investor Awards for the Best BPR Investment Manager and now has in excess of £33 million BPR assets under management.

INVESTMENT APPROACH

Our investment philosophy is focused on transparency and simplicity, coupled with innovation, tax efficiency and capital protection. Advisers are able to select between our two model Inheritance Tax (IHT) portfolios, based on either capital preservation or growth, in order to provide the best solution to the individual investor. We believe that investments, based on real trades, should provide the opportunity for the investor to see and understand where their money is invested, and we think that investors should benefit from the returns created by those underlying trades. Where necessary, we access our network of specialist asset managers and experts within each sector, which provide access to a wide range of new investment opportunities, extensive track record and trading histories, as well as strong asset specific expertise. Opportunities must meet our strict investment criteria and offer strong risk adjusted returns, whilst still providing the opportunity to minimise risk. Within our property development lending company, developers undergo a rigorous initial due diligence process and our ongoing monitoring function ensures that investments stay on track.

Our renewable energy generation companies are able to offer steady, predictable returns underpinned by Feed-in-Tariffs, which are guaranteed by the government and index linked for the next 20 years. We work closely with Anesco, one of the country's leading energy efficiency companies, to provide specialist technical design, construction and ongoing support for our projects. Underpinning this investment strategy is a first-class client services and intermediary support team based at our head office. Their approach embodies the Blackfinch philosophy of transparency and simplicity.

DEEPBRIDGE IHT SERVICE

Deepbridge
CAPITAL

ABOUT DEEPBRIDGE

Deepbridge is a different kind of investment manager, growing an enviable reputation for providing tax-efficient investment opportunities based on sector experience of actively managing and growing businesses. We work closely with financial advisers and investors to design innovative products, ranging from investment in technology growth companies to asset-backed renewable energy projects. We also partner with innovative and committed management teams to help UK based companies realise their potential and become successful leading-edge businesses. Deepbridge operates across four principle divisions: disruptive technology, sustainable technologies, life sciences and renewable energy.

Deepbridge was founded with the principles of applying robust governance and stringent selection criteria to investment, with the security of the investor at the forefront. Deepbridge encourages investors to understand the underlying investee companies within any portfolio and the Deepbridge IHT Service allows investors to directly own physical renewable energy assets, which have a physical presence and can be visited, and viewed. With a strong investment committee of seasoned professionals overseeing investors' interests in an aligned manner, the Service invests in real, physical, operational assets that aim to lower a portfolio's risk profile and help mitigate liability to inheritance tax.

Having considerable experience in the renewable energy sector, Deepbridge has previously successfully raised and deployed funds into UK based wind and hydropower projects via the Deepbridge Renewable Energy EIS and Deepbridge Hydro EIS.

THE TEAM

The Deepbridge Renewables Team possesses a depth of knowledge and expertise across a range of renewable energy projects. To date, these have predominantly been UK based wind and hydropower.

Ian Warwick is founder and Managing Partner at Deepbridge. Prior to the untimely death of Dr Franz Hammerschmidt, founder of the Deepbridge Renewables Team, Ian was actively mentored for two years in technological innovation and development in renewable power generation. Ian was instrumental to the success of the first Deepbridge Renewable Energy EIS (now fully invested), and has also been involved in the assessment of a large number of hydro, wind and solar projects in Italy and Eastern Europe.

The Deepbridge Renewables Team is headed by Andrew Hughes. Andrew and his team have responsibility for the day to day running of the technologies and services that deliver robust and predictable returns to investors. As Head of his team, Andrew also oversees the identification, due diligence, development, and ongoing management of all the Deepbridge renewables projects across the UK, with a specific focus on hydropower and wind turbine development. After a distinguished military career in the British Army, Andrew has over two decades of operational experience managing diverse teams and delivering complex projects, on time and within budget, both in the UK and on a global basis. Andrew takes a hands-on approach to management of projects and regularly visits development and operating sites; managing timescales of deliverables, working closely with all parties to ensure that the interests of our investors are protected at all times.

INVESTMENT APPROACH

The investment returns from investing in green energy generating assets have a low correlation to the macro economy. Earnings rely on long-term contracts with robust counterparties that are considered unlikely to default, thereby providing a relatively predictable income stream on which to base the business model. As part of a well-balanced and diversified portfolio strategy, an allocation to green energy can help mitigate market risk and provide a predictable income.

The Service's primary focus is capital protection. Risk to capital is mitigated and what remains is carefully managed. In the main, risk is mitigated by focusing on wind and hydropower generation (using some of the most proven renewable energy technologies, with thousands of hours of operational data).

The Service seeks to avoid planning risk and projects are accepted only when required planning and environmental permissions, etc., have been obtained.

Wind turbine sites are selected for above average wind speeds, and hydro sites are selected on their attractive flowrates. Once the wind and hydro installations commence producing electricity and are connected to the National Grid, their net asset values are expected to experience uplift in valuation.

Wind and hydropower projects in the UK still benefit from various forms of Government subsidy which assist with the predictability of the income. Understanding the subsidies, their drivers and the mechanics thereof helps to ensure that projects are delivered in a manner which ensures long-term income is guaranteed.

DOWNING ESTATE PLANNING SERVICE

Downing

ABOUT DOWNING

We were established in 1986, and since then we have raised £1.7 billion from more than 35,000 investors to support smaller UK businesses that may struggle to find traditional finance, such as bank debt.

In the design and management of our products and services, we put our investors' financial wellbeing first. This is why we look for risk-managed investment opportunities in a variety of industries, to provide diversification. Our Downing Estate Planning Service ('Service') focuses on two distinct sectors; asset-backed businesses (such as pubs, hotels and care homes), which provide an extra element of protection because they trade from freehold premises; and renewable energy businesses, which can benefit from predictable revenue streams and government-backed subsidies.

One of our core values is flexibility, so we have designed our Service to allow investors to obtain IHT relief after only two years while retaining access to, and control of, their funds – unlike traditional options to mitigate IHT. We provide monthly opportunities to exit (subject to liquidity), with no exit penalties or charges, and investors can opt to receive regular distributions.

We value transparency and integrity, undertaking due diligence on the companies we invest in. In doing this, we can ensure that we understand the fundamentals of their business and that there are management teams in place whose interests are aligned with our investors. In addition, our Investment Advisory Committee provides independent oversight on individual investments. We believe these core values set us apart from our peers in the alternative investment market.

THE TEAM

Our investment team has grown to comprise more than 35 executives well placed to find suitable opportunities across a variety of sectors. Our team has extensive expertise and a network of connections in a variety of sectors, including asset-backed, renewables, property finance and quoted investments. This provides us with a competitive advantage in terms of deal flow and allows us to build lasting partnerships with excellent management teams.

Our Service targets a base growth of 4% p.a. (not guaranteed) and our current £180 million portfolio (comprising more than 50 businesses) is generating the returns to achieve this (at 31 March 2016).

To help manage risk, we have arranged an insurance policy which covers the first 20% of any net loss for all our investors up to the age of 90. The policy lasts a minimum of two years from the date the first shares are purchased, up to the point at which IHT relief becomes available. It is included at no extra charge – with no medical questionnaires or exclusions for pre-existing conditions.

INVESTMENT APPROACH

To help us understand the underlying businesses and manage risk, we carry out in-depth due diligence to ensure we invest in the best opportunities available. Potential opportunities are presented to the wider investment team at weekly meetings and if approved at this stage, the due diligence process will begin. Our team will conduct in-depth research and assess:

- The profitability of the company, cash flow yield and secure revenue streams
- Barriers to entry
- Downside protection
- The valuation in comparison to similar businesses
- The growth potential of the company and sector
- The management team, looking for a proven track record and brand.

The Investment Advisory Committee provides challenge on the opportunity. We carry out internal due diligence, external due diligence (as required) and use experienced solicitors and taxation advisers. In respect of asset-backed businesses, we appoint external valuers and commission property surveyors (as required).

This rigorous process ensures that we understand the business, the management team and their growth ambitions, so we can make the best choices for our investors. Following the initial investment, our portfolio team will monitor the companies so that they continue to remain suitable for our investors.

We specialise in the asset-backed and renewable energy sectors. Over the last four years, we have invested £110 million into asset-backed businesses, and invested £300 million into renewables since 2010.

INGENIOUS ESTATE PLANNING SERVICE

INGENIOUS

ABOUT INGENIOUS

Ingenious was launched in 1998 to provide specialist alternative investments to individuals, family offices and institutions. Our philosophy is clear: we help investors find simple solutions to complex problems, while managing their money conservatively. We seek value for our clients by selecting diversified opportunities which aim to preserve wealth while targeting asset growth.

Since inception, clients have trusted us with over £9 billion, which we have deployed across our range of carefully designed investment strategies. Our expertise in the media sector is unparalleled and we are proud to be recognised as one of the largest independent investors in the UK's creative economy. We have also successfully diversified into real estate, where we have completed transactions with a value of over £80 million, and infrastructure, of which the team currently manages assets in excess of £400 million.

Ingenious innovates as the investment landscape evolves. In 2004 we expanded our offering to include business relief investments, therefore offering our clients assets protection against IHT after just two years. To date, we have raised and deployed over £1.1 billion in this area.

Our multi-disciplinary team of over 180 people based in our central London office ensure exceptional execution capability. Alongside our dedicated fund specialists, our network of over 30 client and adviser relationship managers make sure our clients and their advisers are well looked after throughout the investment process. This is underpinned by a robust team of support staff, including accountants, lawyers and compliance professionals.

THE TEAM

In 2014 we launched Ingenious Estate Planning (IEP), a dedicated service offering clients:

- Transparency: in cost, fees, reporting and the underlying investments.
- Choice: investment growth, wealth preservation or legacy planning.
- Care: access to their investment to meet care fees should the need arise in later life.

The range comprises three distinct offerings: IEP Care, IEP Classic and IEP Private. IEP Care is a unique proposition, specifically aimed at those wishing to pre-plan for the likelihood of long-term care costs and IHT simultaneously. Through our exclusive partnership with specialist care advisers Grace Consulting, investors also benefit from free, unlimited access to Grace Consulting's advice service, ensuring they are well supported throughout later life.

Our track record is testament to our considered approach. Performance of both IEP Care and IEP Classic in the quarter end to 31 March 2016 demonstrated annualised growth of 3.9%, exceeding our target return of 3%.

Ingenious recruits talented professionals from a wide range of backgrounds. To that end, Ingenious' media team each have decades of experience spanning commercial television and film production, entertainment law and accountancy. Ingenious Real Estate is led by Head of Real Estate Lending, Tom Brown, who has over 30 years real estate finance experience. Among the Ingenious Infrastructure team's recent successes is the exit of the Ingenious Solar UK EIS, which realised an average total return for investors of £1.25 for every £1 invested, far exceeding the original target.

INVESTMENT APPROACH

At Ingenious, delivering value for clients, while exercising our proven approach to wealth preservation, is our primary objective. We achieve this by identifying, funding and managing compelling investment opportunities which meet these criteria.

When sourcing new opportunities, we look for reliable and reputable partners that we can collaborate with, while at the same time contributing to the wider economy. In order to access the best opportunities, we believe in building strong, long-term relationships across a wide range of industries.

Our portfolios are carefully constructed to encompass a broad basket of opportunities uncorrelated to other assets, with each opportunity having the potential to generate predictable and steady growth.

We pride ourselves on our robust due diligence process, and our dedicated teams of lawyers, compliance and technical specialists work closely with our fund managers to help protect the interests of clients and partners. As a full-scope alternative investment manager under AIFMD (Alternative Investment Fund Manager Directive), our clients also benefit from additional, independent, robust governance procedures, as well as the reassurance that our investment philosophy is recognised as sustainable over the longer term.

Our investment committee, made up of senior professionals across the firm, ensures each investment decision is subject to rigorous prior research, to ensure we are delivering on our philosophy of bringing value to our clients by selecting diversified opportunities which seek to preserve wealth while targeting asset growth.

OCTOPUS INHERITANCE TAX SERVICE

ABOUT OCTOPUS

When Octopus launched in 2000, our ambition was to create an investment company that truly put its customers first. We looked at what didn't work well and were determined to find ways to do things differently.

Today, we have over 400 employees and we manage more than £5.7 billion of assets on behalf of over 50,000 customers (Octopus Investments, 31 March 2016). We've built market-leading positions in tax-efficient investment, smaller company financing, renewable energy and healthcare. But no matter how big we get, we'll keep doing the simple things well and we'll keep looking after each of our customers, day in, day out.

It's an approach that has won us acclaim within the financial adviser community. And it's just one of the reasons why we were awarded the Five Star Investment Provider Award at the Financial Adviser Service Awards in November 2015.

We are also the UK's largest manager of investments that qualify for Business Property Relief (BPR). Using our extensive knowledge and experience of BPR, we've set the standard in supporting advisers in this area.

We work closely with advisers to help them in their conversations with clients, supporting them with the information they need on due diligence and providing useful client planning scenarios, case studies and educational materials. They come to us time and again for our CPD-certified Adviser Academy, estate planning seminars and award-winning business development teams.

TRACK RECORD

Since 2007, the Octopus Inheritance Tax Service has helped thousands of people to plan for the future while investing more than £1.3 billion in sustainable and worthwhile sectors across the UK. So, as well as helping pass on more wealth in years to come, investors know that their money is being put to good use right now.

The diversity of sectors we invest in is a core strength of the service. Where other solutions in the market use lending as the basis for their BPR-qualifying investments, we use a combination of debt and equity which enables us to diversify into other trading activities.

For example, the underlying companies we invest in actually own and operate renewable energy businesses. These generate energy from different sources, including solar, wind, biomass plants and landfill gas. They also invest in companies that address the needs of older people, by building GP surgeries, retirement villages, care homes and hospitals. Our established healthcare team currently manages more than £1 billion across a number of healthcare assets and was named Investor of the Year at the 2015 LaingBuisson Healthcare Awards.

In terms of lending, the companies we invest in through the service have provided more than £900 million of construction finance across healthcare and renewable energy. Dragonfly Property Finance – our award-winning lending business – was named Business Moneyfacts Best Bridging Finance Provider Winner 2011-2015 and Mortgage Strategy Best Short Term/Bridging Lender Winner 2011, 2012 and 2014. It has lent more than £850 million across 950 short-term property loans, with capital losses of less than 0.1%.

INVESTMENT APPROACH

The Octopus Inheritance Tax Service is a discretionary managed portfolio that invests in sectors that are expected to generate predictable returns over the longer term and be consistent with the capital preservation target. But they are also sectors that help the UK to meet its targets for renewable energy production, for example, as well as addressing the housing and care needs of an ageing population through innovative healthcare buildings.

And although the service may be invested in only one or a small number of portfolio companies, it selects companies that employ diverse trading strategies – these include owning and operating renewable energy businesses, as well as short-term property and construction financing.

It's an evolved proposition, with many elements in place that simply take time to establish. For instance, the companies that we invest in are run in accordance with a three-tier committee process that ensures that all investment decisions have been thoroughly evaluated and are in the best interests of the shareholders, and the investment objectives.

As part of the investment process, our team of specialist investment managers will engage external due diligence firms to report on counterparties or business opportunities before making the decision to proceed with the transaction. There's also an additional layer of oversight in that investments are reviewed by the board of directors.

For advisers, building a relationship with Octopus gives the assurance of a professionally managed service with external auditors and an independent board.

OXFORD CAPITAL ESTATE PLANNING SERVICE

OXFORD CAPITAL

ABOUT OXFORD CAPITAL

Oxford Capital is one of the largest and most experienced tax-efficient investment managers in the UK. We have raised and invested more than £300 million. Our approach is all about working in partnership with advisers, helping them to use tax-efficient investments as part of their business model.

Our Infrastructure strategy is focused on investment in assets capable of generating long-term cash flows. We are experts in small-scale power generation, which forms a crucial and growing part of the UK's energy mix. This includes renewable energy projects, such as solar installations and Anaerobic Digestion plants, as well as Reserve Power projects and Combined Heat and Gas assets.

The Oxford Capital Estate Planning Service (EPS) makes our infrastructure investments available to investors seeking IHT shelter. The EPS allows clients to choose whether they would prefer their investment to target capital growth, dividend income, or a combination of the two. Depending on the client's preferred option, target returns range from 3% to 5% p.a., and capital can be accessed within 1-6 months, through the sale of shares. The EPS currently invests primarily in renewable energy assets, but other assets are likely to be added to the portfolio over the coming years.

Separately, we also offer EIS investments in small UK companies from a range of different industries, with a particular focus on technology. Clients can build a portfolio of shares in these companies by investing in the Oxford Capital Growth EIS, our discretionary managed investment service.

THE TEAM

We have an experienced Infrastructure investment team, responsible for sourcing, executing and managing underlying investments for the Oxford Capital Estate Planning Service. The team was recently shortlisted as Investor of the Year at the New Energy Awards, an award which they won in both 2012 and 2013.

Oliver Hughes leads the team. Through previous roles at ING Barings and Devonshire Capital, Oliver has more than 15 years' experience of investment banking and structured finance. He also has considerable operational and development experience in renewable energy.

Investment Director Barney Rhys-Jones has overall responsibility for monitoring and maximising the performance of our portfolio of infrastructure assets. Barney spent seven years with Bain & Company before moving into operational roles within utilities and renewable energy companies. Before joining Oxford Capital, he was COO at Good Energy plc.

Oliver and Barney work with a wider team of professionals, which includes George Krempels and Paul Barker. George has previously worked for Triple Point and FIM, where he oversaw a £130 million renewable energy and commercial timberland fund. Paul joined Oxford Capital from Balfour Beatty Investments, where he was transaction director with responsibility for renewable energy projects.

The core Infrastructure team is further strengthened by a number of Operating Partners – highly experienced industry professionals who consult with us on the legal, commercial and development aspects of individual investment projects.

INVESTMENT APPROACH

The EPS's primary objective is to maintain the value of capital invested. Because of this objective, two core principles are at the heart of our investment strategy. Firstly, we buy real assets. We either purchase assets directly, or we finance companies which themselves directly own and operate infrastructure assets. In this way all our investments are asset-backed. Secondly, we look for returns that are stable and predictable, through investment in assets capable of generating long-term, contracted revenues.

We also have an intensive focus on risk mitigation. We avoid taking on planning or development risk and we aim to reduce uncertainty wherever possible, even if doing so might reduce the maximum achievable return. For example, for our solar investments we aim to take out yield insurance to protect our investors against the risk of significant asset underperformance.

Our Infrastructure team has built strong working relationships with asset suppliers, developers, installers and maintenance companies. Many of the underlying investments for the Oxford Capital Estate Planning Service are sourced through this network. Before investments are made, the investment team creates a detailed proposal for presentation to our Investment Committee. This committee, which includes external members, has responsibility for our final investment decisions.

TIME
BPR SERVICE

TIME INVESTMENTS

ABOUT TIME INVESTMENTS

TIME provides the clients of financial advisers with tax-efficient investment solutions. Our original Inheritance Tax service boasts a 20 year track record of successfully achieving IHT savings for our investors. We pride ourselves on offering real transparency around our products, what we invest in and what the risks are. We have over 50 staff and our nationwide sales team of 20 are on hand to assist you in identifying solutions for your clients, dealing with technical queries and delivering one-to-one support on the phone and in person in your region. TIME has over £550 million of assets under management, of which over £175 million is BPR qualifying.

TIME was founded in 2011 by a group of senior executives from Close Brothers Asset Management Division. The capital preservation Inheritance Tax products, which the team were managing at Close Brothers, were bought by the partners of TIME. They then focused on de-risking them, relaunching them under the new TIME brand. So while the TIME brand is young, our products and track record date all the way back to 1995.

At TIME, our mission is to create capital preservation focused investment opportunities that bring long lasting peace of mind to investors and their financial advisers by seeking stable performance and reliable liquidity – a value that we believe differentiates TIME from its competitors. We don't take any unnecessary risks, including the use of gearing, and are recognised for excellent customer service. We are highly rated by all independent BPR commentators.

THE TEAM

At over 20 years, TIME has the longest track record of any BPR provider. TIME was named Best BPR Manager at the Growth Investor Awards 2015. Since 1995, TIME's BPR services have raised over £300 million and committed over £500 million to BPR qualifying projects. TIME has a 100% success rate in achieving BPR for over 1,000 investors.

TIME's current BPR services cater for both individual and corporate investors with a focus on capital preservation. TIME:CTC is a corporate BPR service that provides IHT mitigation to business owners, potentially immediately, whilst its sister service TIME:Advance is for individuals. Both services target at least 3.5% by investing in asset-backed businesses with a lower risk profile including secured property lending, infrastructure (including renewable energy) and self-storage. Investors receive this priority return before TIME receives its AMC, the payment of which is deferred until withdrawal and is only taken from the excess over 3.5%. Both services facilitate adviser charging, and investors retain access to their capital with the ability to make withdrawals within 2-6 weeks.

The five partners of TIME have worked together for an average of eight years. We have a highly experienced fund management team of 16 with low staff turnover. Unlike most other BPR services, in the event that an investor passes away within two years of investing, TIME will waive some of its fees.

TIME also operates EIS investments and runs two open ended property funds, one of which Trustnet has called "the best fund in the universe".

INVESTMENT APPROACH

The specialist investment team at TIME focuses on capital preservation and targets an annual return of at least 3.5% for investors by investing in UK based asset-backed businesses, with no borrowings. TIME seeks safe, single digit project level returns exposing investors to less risk than strategies that target riskier double digit returns, whilst delivering similar net investor returns.

TIME aims to provide diversification by investing across a range of complementary trading sectors all of which are asset-backed, have demonstrated predictable income returns, low levels of volatility and high level of liquidity. TIME's solar energy exposure is well hedged by its wind energy trade, while secured property lending provides further uncorrelated diversification and regular cash liquidity from maturing loans.

The team focuses on strong risk management disciplines, including a rigorous analysis process for all potential investments by internal specialist teams totalling 16. A review and signoff is provided by an investment committee and independent Non Executives. In total, the team look at over £250 million of potential opportunities each year across our specialist sectors.

We have a panel of heavyweight Non Executives for the BPR services who provide additional industry sector advice and insight on individual opportunities. Members are handpicked for their strong knowledge of, and track records in, sectors in which we participate and are fully independent of TIME.

We do not use gearing at any level within the service, nor do we invest in overseas based businesses, thus reducing the risk of HMRC challenges, currency risk and legal risk.

TRIPLE POINT ESTATE PLANNING SERVICE

TriplePoint

ABOUT TRIPLE POINT

Triple Point is a leading, private investment partnership founded in 2004. As a specialist investment business, we make more than just money for our clients, we create value. This value extends to the partnerships we build and the integrity with which we conduct our business. Our innate curiosity means we explore possibilities and find unique combinations, benefiting clients in the design of our products and the deals we originate.

We invest in the UK and Europe, creating longstanding relationships with both private and public institutions requiring capital. To date, Triple Point has invested close to £1 billion across a diverse range of investment sectors, including over £550 million of funding into small and medium sized businesses.

With over 10 years' experience and a proven track record, we create value by understanding the investment needs of our clients. Many of our precision-built products incorporate tax planning benefits, including Venture Capital Trusts, Enterprise Investment Schemes, Social Investment Tax Relief and Estate Planning Solutions. We have a reputation for returning capital to our investors promptly and predictably, to allow them to securely manage liquidity and optimise their portfolio returns. Triple Point's specialisation is reflected in the management of the largest privately owned leasing business in the UK.

Triple Point is a Partnership led by James Cranmer and Ben Beaton. James joined Triple Point in 2007 to develop Triple Point's leasing and asset finance operations and has over 20 years' experience in structured, asset and vendor finance. Ben, who also joined in 2007, has facilitated the sourcing and negotiating of a broad spectrum of investments including over £80 million in cinema digitisation and over £26 million in hydroelectric power.

THE TEAM

James and Ben are supported by the wider Triple Point team which includes individuals with extensive experience in leasing, asset finance and funding small businesses. The team comprises 27 corporate finance and investment management, 10 sales and relationship management and 16 operations staff. Our BPR products are managed by a team of leasing and lending specialists led by Neil Richards, who has over 25 years' experience in the sector and founded Virtual Lease Services in 1999.

The Triple Point Estate Planning Service has been designed to meet investors' requirements for an inheritance tax solution that is clear and straightforward, allowing them to remain in control of their assets. The Service gives investors access to our two established strategies, Navigator and Generations.

Navigator targets UK small and medium sized businesses, targeting a return to investors of 4% to 6% p.a. after all fees and charges. Since its inception in 2013 over £100 million of funding has been provided to over 40,000 customers.

Generations targets institutions like public sector organisations and good quality companies, targeting a return to investors of 1.5% to 2.5% p.a., after all fees and charges. Since its inception in 2006 over £180 million of funding has been provided to over 150 customers.

Both strategies have achieved returns consistently at the higher end of their target ranges.

INVESTMENT APPROACH

At Triple Point our investment philosophy is simple; we target opportunities which offer our investors capital security, liquidity and predictable returns.

This approach has evolved over many years and is designed to create value for our investors and deliver sustainable growth for the businesses which we fund.

Triple Point has extensive experience in arranging funding and lending to a wide range of businesses and organisations. We typically adopt a cautious approach designed to identify businesses which are straightforward and let our investors preserve and grow the value of their investments. The Triple Point Estate Planning Service gives investors the opportunity to blend our two established strategies, Navigator and Generations, through being allotted shares in one or two companies depending on each investor's allocation to each strategy.

To provide growth for investors Navigator focuses on the SME market-place, providing business critical lending for acquiring assets such as credit card terminals, property bridging finance, short-term working capital and corporate trade finance. Generations focuses on capital preservation through leasing, lending and infrastructure financing.

Each company has an independent director on the board and every transaction is subject to Triple Point's rigorous risk management procedures. A significant proportion of the Generations strategy and the leasing and secured funding elements of the Navigator strategy are asset-backed. Risk is further mitigated in the Generations strategy by the quality of its counterparties and in the Navigator strategy by the level of portfolio diversification.

BPR MANAGER DIRECTORY

COMPARISON TABLE

		BLACKFINCH IHT PORTFOLIOS	DEEPBRIDGE IHT SERVICE
	DESCRIPTION OF OFFER	The Blackfinch IHT Portfolios are discretionary managed portfolio services targeting asset-backed lending in property development finance and solar energy generation. Blackfinch only earns an annual management fee once it has achieved an initial investor return of 4% p.a. in respect of its Capital Preservation Portfolio and 6% p.a. (net of fees) on its Growth Portfolio. This annual management fee is deferred until the investment is realised, transferred into trust, or the investor dies. Blackfinch is also launching Blackfinch AIM portfolios.	The Deepbridge IHT Service is designed to deliver a degree of wealth preservation from a portfolio of Business Relief qualifying renewable energy companies that look to have a high degree of asset-backing, and a business model based on the Renewables Obligation, the UK Government subsidies for the generation of renewable energy. With capital preservation as a priority, our aim is to invest in assets we believe will help protect your investment and deliver a modest annual return. The Deepbridge IHT Service has a target priority return of 6% per annum.
PROVIDER DETAILS	YEAR FOUNDED	1992	2010
PROVIDER DETAILS	ASSETS UNDER MANAGEMENT	Total £500m, £33m BPR	£48m, £5m BPR
INVESTMENT DETAILS	LAUNCH DATE	Jul 2013	Nov-15
INVESTMENT DETAILS	SECTOR / SUBSECTOR	Asset-backed lending, property development finance and renewable energy generation	Renewable energy (solar and wind), secured lending & self storage
INVESTMENT DETAILS	INVESTMENT OBJECTIVE	Capital Preservation & Growth	Capital Preservation & Growth
INVESTMENT DETAILS	NO. INVESTEE COMPANIES[1]	◆ ◆ ◆ ◆	◆
INVESTMENT DETAILS	MIN.INVESTMENT/ MIN. INCREMENT	£25,000 / £10,000	£25,000 / £10,000
INVESTMENT DETAILS	TARGET ANNUAL RETURN (NET)[2]	Capital Preservation 4%, Growth 6% net of fees	6%, after the second year
INVESTMENT DETAILS	ANNUAL RETURN SINCE INCEPTION[3]	Capital Preservation - 4.68%, Growth - 6.17%	N/A
INVESTMENT DETAILS	INCOME AVAILABLE	✓	✓
INVESTMENT DETAILS	TARGET LIQUIDITY	2-4 weeks	28 days, after the second year
INVESTMENT DETAILS	NO. OF DIRECTORS[5]	Varies	
INVESTMENT DETAILS	LEGAL STRUCTURE[6]	Discretionary Portfolio Service	Discretionary Portfolio Service
FEES & CHARGES[7]	INITIAL	2%	2.5% - paid by the investee company
FEES & CHARGES[7]	AMC	0.5% - deferred until exit and only if target return has been achieved	2% - paid by the investee company
FEES & CHARGES[7]	EXIT DEAL FEE	1%	-
FEES & CHARGES[7]	PERFORMANCE FEE	N/A	N/A

BLACKFINCH | Deepbridge CAPITAL | Downing | INGENIOUS

DOWNING ESTATE PLANNING SERVICE	INGENIOUS ESTATE PLANNING SERVICE
Downing Estate Planning Service focuses on renewable energy and businesses trading from freehold premises. It targets base growth of 4% p.a. over the medium term. The service offers capital growth or distribution options (paid six-monthly at a level set by the investor), with monthly access to capital. An insurance policy covering the first 20% of any net loss (for investors aged under 90 at the date of death), for a minimum of two years from the date the shares are purchased at no additional cost is also included.	Ingenious Estate Planning is a suite of discretionary managed portfolio services that aims to protect an investment from IHT by investing in companies qualifying for business relief. An investor in one of the services becomes a shareholder in these companies and the value of the investment should become exempt from IHT after two years, or sooner if the investment is replacement business property. There are three strategies to choose from: Ingenious IEP Classic, IEP Care (specifically designed to help plan for potential care costs) and IEP Private (bespoke investment service with flexibility to tailor the asset allocation to suit a client's personal needs).
1986	1998
Total £888m, £219m BPR	Total £752m, £175m BPR
Feb 2013	Jun 2014
Asset-backed investments & renewable energy	Infrastructure assets, including solar energy, PFI, smart metering
Capital Preservation & Growth	Capital Preservation & Growth
◆ ◆	◆
£50,000	Classic - £50,000 / £10,000, Care - £50,000 / £10,000, Private - £250,000 / £10,000
4%	Classic - 3%-5%, Care - 3%-5%, Private - 1.5%-8%
Asset-backed - 4.8%, Renewables - 3.9%	3.9% (average)
✓	✓
Monthly	1 to 6 months
Varies	
Discretionary Portfolio Service	Discretionary Portfolio Service
2%	Classic - 1.5%, Care - 2%, Private - 2.5%
2%	Classic - 1.25%, Care - 1.25%, Private - 1.25%. Classic and Care only taken if target return has been achieved
-	1%
20% with 4% annual performance hurdle	-

BPR MANAGER DIRECTORY

COMPARISON TABLE

		OCTOPUS INHERITANCE TAX SERVICE	OXFORD CAPITAL ESTATE PLANNING SERVICE
	DESCRIPTION OF OFFER	With more than £1.3 billion in assets under management, the Octopus Inheritance Tax Service is the company's flagship estate planning investment proposition. Launched in 2007, it has an eight year track record on its 3% annual return target, and has helped over 9,000 investors with their estate planning. To the best of Octopus' knowledge, it has never faced a challenge from HMRC on the inheritance tax-free status of an investment made into the Octopus Inheritance Tax Service. All withdrawal requests to date have been met within three weeks.	The Oxford Capital Estate Planning Service allows clients to specify their preference for capital growth, dividend income, or a combination of the two. Target returns vary from 3% to 5% p.a. over the medium to long term, depending on the option selected. Investors acquire shares in unquoted holding companies. Managed by Oxford Capital's Infrastructure team, these companies will make equity investments in, and loans to, companies that own and operate revenue generating assets, such as renewable energy installations. Should circumstances change, investors can access part or all of their capital, by asking Oxford Capital to sell their underlying shares.
PROVIDER DETAILS	YEAR FOUNDED	2000	1999
	ASSETS UNDER MANAGEMENT	Total £5.7bn, £1.5bn BPR	Total £300m, £15m BPR
INVESTMENT DETAILS	LAUNCH DATE	Jul 2007	Apr 2014
	SECTOR / SUBSECTOR	Secured lending & renewable energy	Asset-backed investments: current focus is renewable energy and power generation
	INVESTMENT OBJECTIVE	Capital Preservation	Capital Preservation & Growth
	NO. INVESTEE COMPANIES[1]	200+	◆ ◆ ◆
	MIN.INVESTMENT/ MIN. INCREMENT	£25,000 / £10,000	£50,000 / £25,000
	TARGET ANNUAL RETURN (NET)[2]	3%	Growth: Balanced - 4% Growth: With Access - 3% Growth: With Return - 5% Income - 4% Income & growth - 4%
	ANNUAL RETURN SINCE INCEPTION[3]	3%	4%-6.4%
	INCOME AVAILABLE	✓	✓
	TARGET LIQUIDITY	10 days	1 to 6 months
	NO. OF DIRECTORS[5]	3 (2 independent)	2 (1 independent)
	LEGAL STRUCTURE[6]	Discretionary Portfolio Service	Discretionary Portfolio Service
FEES & CHARGES[7]	INITIAL	2%	2.50%
	AMC	1% deferred until exit and only if target return has been achieved	1.50%
	EXIT DEAL FEE	1%	0.35%
	PERFORMANCE FEE	-	20% with annual performance hurdle set at target return. Performance fee limited by a decency cap

TIME'S BPR SERVICES	TRIPLE POINT ESTATE PLANNING SERVICE
TIME:Advance and TIME:CTC are capital preservation focused discretionary management services providing IHT mitigation for individuals and business owners after two years. TIME advises that as the service was launched 20 years ago it has the longest track record of any BPR service and a 100% success rate in achieving BPR for over a thousand qualifying investors. The services target an annual return of at least 3.5% by investing in asset-backed businesses and defers any AMC until death, conditional on the target return being exceeded.	Triple Point's Estate Planning Service offers investors additional diversification in their estate with access to two BPR strategies, Generations and Navigator, through one application. The Generations strategy targets returns of 1.5%-2.5% p.a. net of charges through leasing, lending and infrastructure arrangements and has been running for 10 years. It engages with a broad spread of public sector (local authority and NHS) and "good quality companies" to deliver stable, predictable returns. The Navigator strategy seeks returns of 4%-6% p.a. net of charges by bridging the funding gap faced by small and medium enterprises. This funding encompasses SME finance, providing leases and short-term working capital, corporate trade finance and secured funding such as property bridging finance.
2011	2004
Total £554m, £160m BPR	Total £345m, £165m BPR
Advance - Feb 2013, CTC - Oct 1995	Navigator - Jun 2013, Generations - Dec 2013
Renewable energy (solar and wind), secured lending & self storage	Public and private sector leasing, infrastructure & secured lending
Capital Preservation	Navigator - Capital Preservation & Growth, Generations - Capital Preservation
◆◆◆◆	◆◆
Advance - £25,000 / £10,000, CTC - £100,000 / £10,000	Navigator - £50,000, Generations - £50,000
3.5%	Navigator - 4%-6%, Generations - 1.5%-2.5%
Advance - 3.74%, CTC invests in accordance with Advance	Navigator - 5.8%, Generations - 2%
✓	✓
Advance - fortnightly, CTC - six weeks	Within 3 months
CTC - 8 (5 independent), Advance - independent advisory board	Navigator - 3 (1 independent), Generations - 4 (1 independent)
Discretionary Portfolio Service	Discretionary Portfolio Service
Advance - 2.5%, CTC - 3.5%	2.5%
Advance - 0.75%, CTC - 1%	1.5% taken only if base target return has been achieved
1%	1%
-	Generations n/a. Navigator - 20% on a compound return of 5% p.a. Performance fee is limited to returns between 5%-7.5%

BPR MANAGER DIRECTORY

COMPARISON TABLE

NOTES FOR USE

[1] The number of bodies corporate that investors will be directly invested into. These entities may invest into other companies, directly hold assets, engage in secured lending or another trade.

[2] Net of any fees, taxes and charges.

[3] Net of any fees, taxes and charges and as supplied by the fund manager. We have taken a simple average where annual figures have been provided.

[4] Subject to sufficient liquidity being available. The nature of the underlying assets invested in will vary and investors may find that they cannot realise their investment in the timeframes outlined or at a level reflecting its value.

[5] The number of directors appointed to govern each investee company invested in, and whether these directors are independent to the fund manager.

[6] Whether the structure is a single company, discretionary portfolio service or an alternative investment fund, as defined by the fund manager. For a discretionary portfolio service the fund manager must complete a suitability test on each holding.

[7] Fund managers may list their fees inclusive or exclusive of VAT. Investors should refer to the documents supplied by the fund manager to confirm the latest fees.

LEGAL DISCLAIMER

The information has been supplied by the various fund managers but has not been independently verified by MICAP. While the information set out in this table is provided in good faith, it should not be regarded as advice. The table does not comment on the suitability of the offers for an individual's investment objectives. The table is intended as a guide only and investors must review the documents provided by the fund manager, and should also consider any available third party due diligence, prior to considering investment. Investments can fall in value as well as rise and past performance is no guide to future performance.

FINAL CONCLUSIONS

REPORT CONCLUSIONS

KEY TAKE AWAYS

1. BPR is politically secure for the foreseeable future

2. The RNRB effect on the number of estates caught by IHT will be short-lived because of house price inflation

3. The 2016 Budgets mean that, after removing the IHT liability from some households (even if short-lived), government changes create it for others: UK residential property previously exempt from IHT is targeted and new limits to expats' exclusions from IHT liability are to be introduced

4. The abolition of 55% pension death tax (for deaths before the age of 75) means pensions play a bigger role in IHT planning depending on HMRC's view

5. Awareness and use of IHT mitigation strategies by the UK population is very low signalling an urgent need for proactivity to reduce tax waste

6. The continuing low interest rate environment removes the threat of bank deposits to moderate BPR returns

7. The expansion of returns, risk profiles and objectives has created an upfront premium for focus on capital protection: Pure capital preservation products initial charge increased from 3.5% to 4.33% in 2015/16

8. There is a new focus on growth and income in recent BPR products which has raised average target returns to tap potential demand from younger investors who are less risk averse, have longer to re-accumulate any losses, but like the estate planning benefits

9. A regulatory focus is currently on BPR: BPR product advice is included in the FCA review of due diligence and the rising cost of the relief has attracted the attention of the NAO which is concerned with fraudulent use of BPR

LOOKING AHEAD

THE FUTURE OF THE INDUSTRY

GROWING DEMAND

The uptake and cost of BPR has been rising steeply over the last decade, but the RNRB could create a brief hiatus in the increase in the number of individuals caught by IHT. That said, at least some of that will be offset as a result of changes to the treatment of UK resident non-doms, non-resident UK domiciled people and UK residential property; all of which are likely to lead to an IHT liability for parties not previously affected.

Given that deal flow looks secure and the upcoming extension of entrepreneurs relief to shares in unlisted companies will bring BPR CGT benefits, there is good reason to expect demand for BPR investment to continue to develop. This is certainly the opinion of most advisers, although the transformation of pensions into highly efficient IHT vehicles with the abolition of the 55% pension death tax could remove estate planning needs for assets otherwise ripe for BPR investment. It remains to be seen how HMRC reacts to the deliberate use of pensions as an IHT mitigation tool.

Yet, an even bigger question is how much demand could be unearthed with some education and engagement with the UK's ageing population, the overwhelming majority of whom are just not paying attention to IHT planning.

Providers are, of course, confident that there is an ongoing role for BPR investment; some see it as more than just an IHT mitigator, but a potential alternative to annuities and there has certainly been an effort to accommodate different investment needs, with a jump in the growth and income opportunities and products offering returns above the usual moderate level. It seems that this is an effort to attract younger investors who are less concerned with estate planning, more comfortable with risk premium and interested in seeking high levels of return, with a useful IHT mitigation element. This seems like a sound strategy, bearing in mind the advanced age of BPR investors at present – Ingenious reports the average age at inception as 80 – provided that it doesn't bring high profile failures to the sector, which has enjoyed relative success in achieving the measured objectives it has targeted to date and which is highly dependent on investor confidence.

POLITICAL THREATS

The current political outlook for both IHT and BPR does not appear to pose any threats to the BPR industry; there is still significant reason for incentivisation of investment into UK small businesses, there is no discernible pressure from other political parties for major reform and the addition of entrepreneurs relief to the canon of BPR tax advantages bodes well.

REGULATION

The FCA is looking again at how advisers assess suitability and due diligence, with a current focus on non-pensions investment advice, pensions accumulation advice and retirement income advice. Advisers recommending BPR investments can therefore expect some attention from the regulator which may be heightened further with the implementation of MiFID II and PRIPS. We can also expect continued scrutiny of the value for money that BPR (among other reliefs) delivers and consequently greater review by HMRC, so providers will need to ensure that they don't push the envelope with underlying assets or contrived structures.

"Overall, the outlook is positive. BPR plays its part in supporting UK SMEs, has a very strong track record in delivering IHT relief and political sentiment views it as a relief to enhance rather than to eradicate."

APPENDIX I

USEFUL ORGANISATIONS

We list a number of useful organisations and service providers below which can be useful to advisers who need business support in areas ranging from compliance to business development in estate planning.

Solicitors for Independent Financial Advice (SIFA)

The core function of SIFA is to provide compliance and business support to financial advisers; from satisfying regulatory obligations and keeping process compliant to providing pre-approved marketing support and adviser tools. The other main service involves the facilitation of building professional connections between financial advisers and solicitors. SIFA operates on a membership basis. Advisers can pay a monthly fee to become a member of either SIFA Support Services or SIFA Professional. The Combined membership allows members to benefit from both services at a discounted price.

www.sifa.co.uk

The Society of Later Life Advisers (SOLLA)

SOLLA was founded in 2008 as a not for profit organisation. It links people and families seeking later life advice to accredited later life advisers with an aim of making them better informed about financial issues. The society focuses advice on equity release, long-term care funding, pensions and annuities, investments and savings and IHT planning. To become a full member of the society one must be fully accredited.

www.societyoflaterlifeadvisers.co.uk

The Society of Trust and Estate Practitioners (STEP)

STEP was founded in 1991 and currently has 20,000 members across 95 countries. STEP is a worldwide professional association for people advising families across generations. The society offers a wide range of certificates and professional qualifications from entry-level to diploma. Members also have the opportunity to connect with other advisers and families globally through the society's large network. Advisers need to pay an annual membership fee to join; the fee varies depending on the country.

www.step.org

"Inheritance tax can cost loved ones hundreds of thousands in the event of your death, yet it's possible to legally avoid huge swathes of it, or possibly pay none at all." - **MoneySavingExpert.com**

APPENDIX II

GLOSSARY OF TERMS

ALTERNATIVE INVESTMENT MARKET (AIM)	A sub-market of the London Stock Exchange, allowing smaller companies to float shares with a more flexible regulatory system than is applicable to the Main Market.
AIM LISTED	A company listed on the Alternative Investment Market of the London Stock Exchange.
BEREAVED MINOR TRUSTS	A bereaved minor is a person under 18 who has lost at least one parent or step-parent. Where a trust is set up for a bereaved minor, there are no Inheritance Tax charges if: 1. the assets in the trust are set aside just for bereaved minor; 2. they become fully entitled to the assets by the age of 18.
BUSINESS PREMISES RENOVATION ALLOWANCE (BPRA)	BPRA lets business investors claim tax allowance for 100% of the amount they invest when they convert or renovate empty business premises.
BUSINESS PROPERTY RELIEF (BPR)	The more common term for Business Relief, BPR can remove qualifying assets from the estate of the deceased, for inheritance tax purposes.
CAPITAL PRESERVATION	Investments that are exploiting an asset; either a physical asset or the rights to an intangible asset.
CAPITAL PRESERVATION & GROWTH	Investment into asset-backed trading companies.
CAPITAL PRESERVATION & INCOME	Investments that are exploiting an asset typically with contractual income streams that will allow it to pay an income to investors.
CIVIL PARTNERS	A civil partnership is a legal relationship which can be registered by two people. If you are in a same-sex relationship, registering a civil partnership will give your relationship legal recognition.
COUNTERPARTY CREDIT RISK	Counterparty risk is the risk to each party of a contract that the counterparty will not live up to its contractual obligations.
CONSUMER PRICE INDEX (CPI)	The Consumer Price Index (CPI) is the official measure of inflation of consumer prices of the United Kingdom.
DERIVATIVES	A security with a price that is dependent upon or derived from one or more underlying assets.
DISCOUNTED GIFT TRUST	Type of trust arrangement usually set up in connection with an investment in either an onshore or offshore investment bond (insurance bond).
DISCRETIONARY PORTFOLIO SEVICE	Investors contract with an investment manager who will invest their funds on their behalf.
EARLY STAGE	A post revenue company that is yet to become profitable or has only been profitable for less than two years.
EARLY / LATER STAGE	A mixture of Early and Later stage companies.
ENTERPRISE INVESTMENT SCHEME (EIS)	A series of UK tax reliefs launched in 1994 to succeed the Business Expansion Scheme, EIS is designed to encourage investments in small unquoted companies carrying on a qualifying trade in the UK.
FINANCIAL CONDUCT AUTHORITY (FCA)	Financial regulatory body in the United Kingdom, but operates independently of the UK government, and is financed by charging fees to members of the financial services industry.
FEED-IN TARIFFS	A feed-in tariff (FIT, standard offer contract), advanced renewable tariff or renewable energy payment is a policy mechanism designed to accelerate investment in renewable energy technologies.
FINANCIAL ADVICE MARKET REVIEW (FAMR)	Launched in August 2015 to examine how financial advice could work better for consumers.

GLOSSARY OF TERMS

FINANCIAL OMBUDSMAN SERVICE (FOS)	An independent official body, established by Parliament, for settling disputes between UK-based financial companies and their customers.
FINANCIAL SERVICES	Lending to creditworthy, usually asset-backed, borrowers.
FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)	FSCS is the compensation scheme for customers of UK authorised financial services firms. It compensates customers if a firm has stopped trading or does not have enough assets to pay claims made against it.
GEARING	Gearing is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus shareholders.
GENERAL ENTERPRISE	Providing general products and services, or an investment with no sector bias.
GIFTS	A gift can be: 1. anything that has a value, e.g. money, property, possessions; 2. a loss in value when something's transferred, e.g. if a parent sells a house to a child for less than it's worth, the difference in value counts as a gift.
GROWTH	Investment into trading companies for long-term capital growth.
GROWTH & INCOME	Investment into trading companies for long-term capital growth and income.
HER MAJESTY'S COURTS & TRIBUNALS SERVICE (HMCTS)	A non-ministerial department of the UK Government responsible for the collection of taxes, the payment of some forms of the state support, and the administration of other regulatory regimes including the national minimum wage.
HISTORICAL OFFERS	BPR investment products with a launch date prior to 06/04/2015 (UK tax year 2015).
ICAP SECURITIES AND DERIVATIVES EXCHANGE (ISDX)	A listing and trading venue for equities and debt instruments, facilitating access to capital and providing a liquid secondary market service.
INCOME	Investments that only produce an income and are not made with the intention of producing significant income and not expected to experience capital growth.
INDUSTRY & INFRASTRUCTURE	Operating in the diversified manufacturing, cars, heavy equipment, aerospace, roads and business services areas.
INHERITANCE TAX (IHT)	Inheritance Tax is paid if a person's estate (their property, money and possessions) is worth more than £325,000 when they die.
INTEREST IN POSSESSION TRUSTS	These are trusts where the beneficiary is entitled to trust income as it's produced; this is called their 'interest in possession'.
INVESTMENT COMPANY	Investors purchase shares in a company that invests in assets, including shares, debt securities, properties, commodities.
LATER STAGE	A company that has been profitable for at least two years.
LIQUIDITY RISK	The risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss.
LIFETIME ISA (LISA)	LISAs allow anyone aged between 18 and 40 to save towards their first home or their retirement; the Government will add a 25% bonus to all savings, capped at an annual limit of £4,000.
LASTING POWER OF ATTORNEY (LPA)	Legal document that lets you (the 'donor') choose trusted people ('attorneys') to make decisions on your behalf.
MULTISECTOR	Investment across two or more sectors.
NATIONAL AUDIT OFFICE (NAO)	Independent Parliamentary body in the United Kingdom which is responsible for auditing central government departments, government agencies and non-departmental public bodies.

NON-DOM	UK resident whose permanent home, or domicile, is outside of the UK.
OFFICE FOR BUDGET RESPONSIBILITY (OBR)	An advisory non-departmental public body established by the UK Government to provide independent economic forecasts and independent analysis of the public finances as background to the preparation of the UK budget.
OPEN-ENDED INVESTMENT COMPANY (OEIC)	Type of company or fund in the UK that is structured to invest in other companies with the ability to constantly adjust its investment criteria and fund size.
OPEN OFFERS	BPR investment products that are open to new investments at the time of writing.
POTENTIALLY EXEMPT TRANSFERS	Gifts to individuals or to a bare trust are called potentially exempt transfers (PETs) and will be outside of the estate after seven years. Making lifetime gifts can be an effective way to avoid IHT.
PROFESSIONAL INDEMNITY	A form of liability insurance that helps protect professional advice and service, preventing individuals and companies from bearing the full cost of defending against a negligence claim made by a client, and damages awarded in such a civil lawsuit.
PROJECT BASED	A company set up for a specific project, e.g. solar farm, hotel.
PROJECT RELATED SPV(S)	An SPV set up specifically for a project.
RENEWABLE ENERGY	Generating energy from renewable sources, including wind, solar, tidal and biomass.
RENEWABLE OBLIGATION CERTIFICATES (ROC)	A ROC is the green certificate issued for eligible renewable electricity generated within the United Kingdom and supplied to customers in the United Kingdom by a licensed supplier.
RESIDENCE NIL RATE BAND (RNRB)	A new additional residence nil rate band for Inheritance Tax when a home is passed on death to direct descendants of the deceased on or after 6 April 2017. The maximum amount of the band will increase in stages up to £175,000 in 2020/21.
SEED/EARLY/LATER STAGE	A mixture of all types of investee company excluding project based.
SEED ENTERPRISE INVESTMENT SCHEME (SEIS)	The SEIS offers generous tax-efficient benefits to investors in return for investment in small and early stage start-up businesses in the UK.
SINCE INCEPTION OFFERS	All BPR investment products recorded in our register.
SMALL AND MEDIUM-SIZED ENTERPRISES (SMES)	Businesses with fewer than 250 employees and less than £15 million in net assets.
SPECIAL PURPOSE VEHICLE (SPV)	A corporate structure (typically a limited company) established specifically to allow multiple investors to invest in a specific asset(s).
TAX EXEMPT SAVINGS PLAN (TESP)	TESPs are stock market based investments that must be held for a period of at least 10 years. Up to £25 a month can be put into a plan to eventually provide a tax-free lump sum.
UK DOMICILED	An individual's domicile and country of residence. The domicile determines which of their income and gains are subject to tax in the UK.
UNIT TRUSTS	An unincorporated mutual fund structure that allows funds to hold assets and pass profits through to the individual owners, rather than reinvesting them back into the fund.
VENTURE CAPITAL TRUST (VCT)	A quoted company established to invest at least 70% of investors’ funds in VCT qualifying assets (typically unlisted and smaller AIM quoted companies). Investors in a VCT can claim tax relief on their investment and receive tax free dividends.

APPENDIX III

FURTHER READING

Financial Solutions for Estate Planning

DAVE ROBINSON, 2015 EDITION

This book discusses various "packaged product" solutions which have been developed by the financial services industry to assist clients plan their estates and mitigate potential inheritance tax liabilities. It also covers to some extent the income tax and capital gains tax implications of entering into certain arrangements.

BOOK

The SIFA Handbook of Trustee Investment

IAN MUIRHEAD, GERRY BROWN AND GRAEME ROBB. SIXTH EDITION, 2015

This book first illustrates the requirements of the Trustee Act and common law, then the tax treatment of the main types of trust. It then addresses the tax treatment of alternative investment vehicles and then relates the tax treatment of investment vehicles to the tax treatment of the two main categories of trust.

BOOK

Financial Advice Market Review

FCA, MARCH 2016

This report details a series of measures aimed at stimulating the development of a market that provides affordable and accessible financial advice and guidance for everyone, at all stages of their lives. It also contains proposals designed to increase consumer engagement with financial advice.

REPORT

Economic and Fiscal Outlook

OFFICE FOR BUDGET RESPONSIBILITY, MARCH 2016

This report provides forecasts for the economy and the public finances, and an assessment of whether the Government is likely to achieve its fiscal mandate and supplementary target.

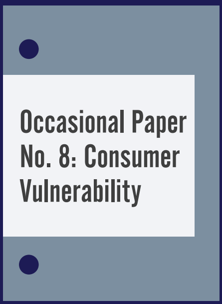
REPORT

Spreading Your Wings

ALAN HIND, JANUARY 2015

This article explains how chartered accountants can make the most of opportunities from pension reforms by working with specialist financial advisers and obtaining a designated professional body licence (DPB).

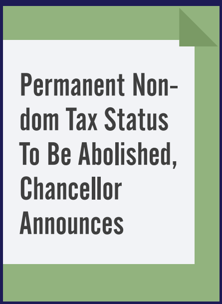
REPORT



FEBRUARY 2015

This paper discusses issues around vulnerability and provides examples of good practice in interacting with vulnerable consumers.

PAPER



THE GUARDIAN, JULY 2015

This article explains the implications of abolishing the permanent non-dom tax status that was announced in the 2015 Budget.

ARTICLE

2015 REVISION

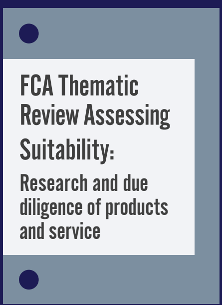
This report provides an overview of the world population, including population estimates and projections.

REPORT

THE BRITISH BUSINESS BANK, 2015/2016

This report outlines the evidence on the ways in which finance markets support small businesses.

REPORT



FEBRUARY 2016

This paper summarises the amount of research and due diligence processes carried out by advisory firms on the products and services they recommend to retail clients.

PAPER

Readers may also find useful contents from the following articles and institutions:

- House of Commons Library
- Home Builders Federation
- The Lancet
- Department for Business Innovation and Skills
- Inheritance tax to be scrapped on homes worth up to £1m (July 2015, BBC)
- Summer Budget 2015: Inheritance tax threshold to rise to £1m on properties (July 2015, MoneySavingExpert)
- Summer Budget: £1m inheritance tax allowance confirmed (July 2015, ft.com)
- Summer Budget 2015: IHT threshold upped to £1m for couples (July 2015, Moneywise)
- Legal Services Act (2007)

CPD AND FEEDBACK

NEXT STEPS AFTER READING

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Intelligent Partnership has achieved accredited status for AiR from the CISI, CII and PFS.

Members of these professional organisations represent the majority of the insurance, investment and financial services industry.

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The review process included an assessment of the technical accuracy and quality of the material against CPD Accreditation standards. Achieving the recognised industry standard afforded by these organisations for this report, and our training, demonstrates our commitment to delivering only balanced, informative and high quality content to the financial services and investment community.

In order to obtain CPD and meet accreditation standards, readers must complete a short questionnaire and provide feedback on the report. This includes 12 multiple choice questions to demonstrate learning and a feedback form to assist in the compilation and improvement of future reports.

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Intelligent Partnership actively welcomes feedback, thoughts and comments to help shape the development of this industry report, with a particular interest in the topics readers would like to be covered in more detail in interim and future annual reports.

This report is produced on an annual basis and is compiled through the conducting of research and surveys with providers, promoters and practitioners within the alternative investment industry. Greater participation, transparency and fuller disclosure from industry participants should help foster best practice and drive out poor practice.

Feedback can be given on the website or via email:

Intelligent-partnership.com/feedback

Reports@intelligent-partnership.com

Participation and feedback are gratefully received.

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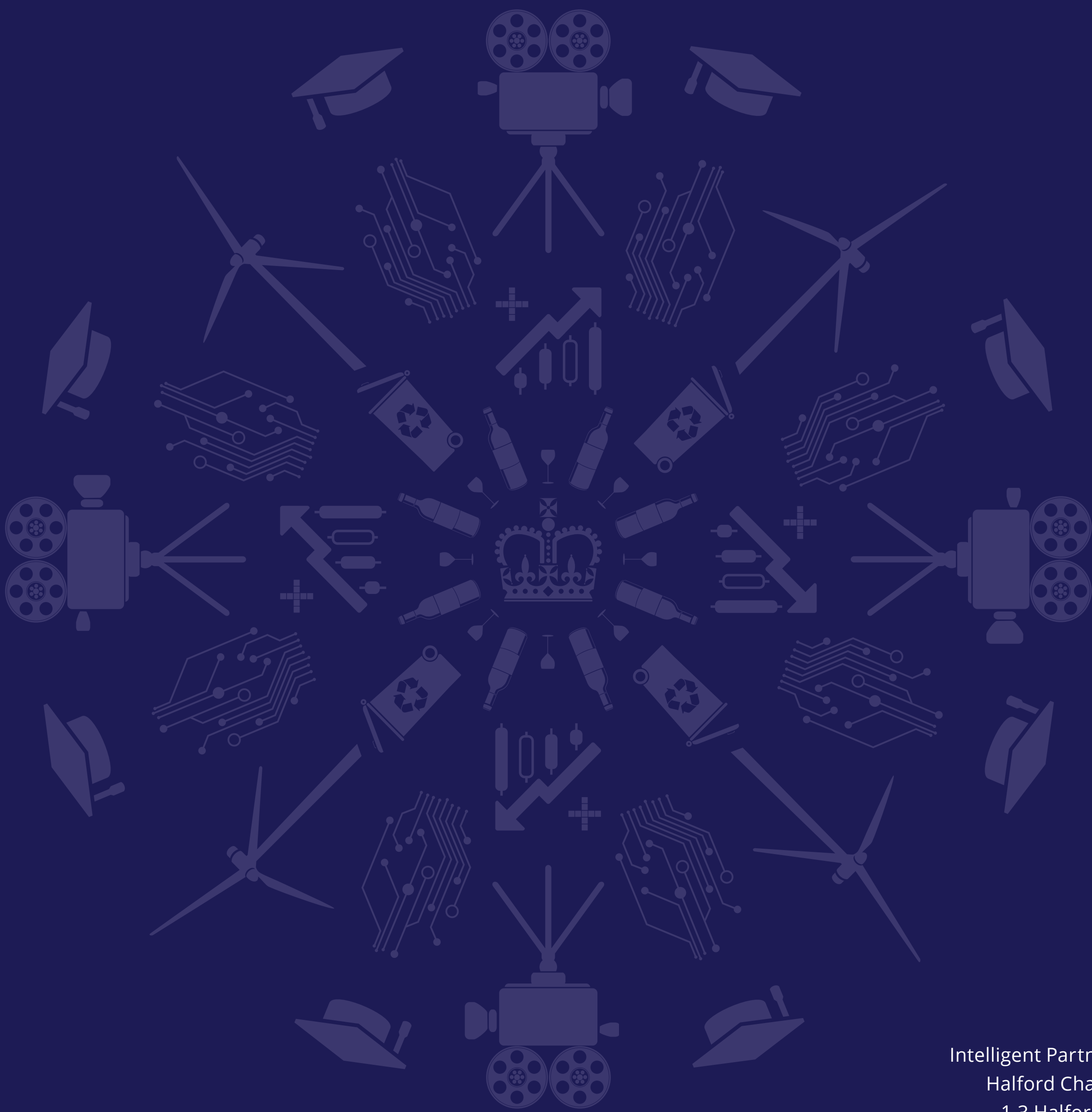
PUBLICATION

The information has been compiled from credible sources believed to be reliable, however it has not been verified and its accuracy and completeness are not guaranteed.

The opinions expressed are those of Intelligent Partnership at the date of publication and are subject to change without notice.

"HM Revenue & Customs collected a record £4.6 billion in inheritance tax during the last tax year. And the amount collected from estates is expected to increase to £5.6 billion in five years' time. There's never been a greater need for estate planning, and advisers should be considering all of the available options, including BPR qualifying investments."

- Guy Tolhurst, Director, Intelligent Partnership



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Intelligent Partnership
Halford Chambers
1-3 Halford Road
Richmond
TW10 6AW
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