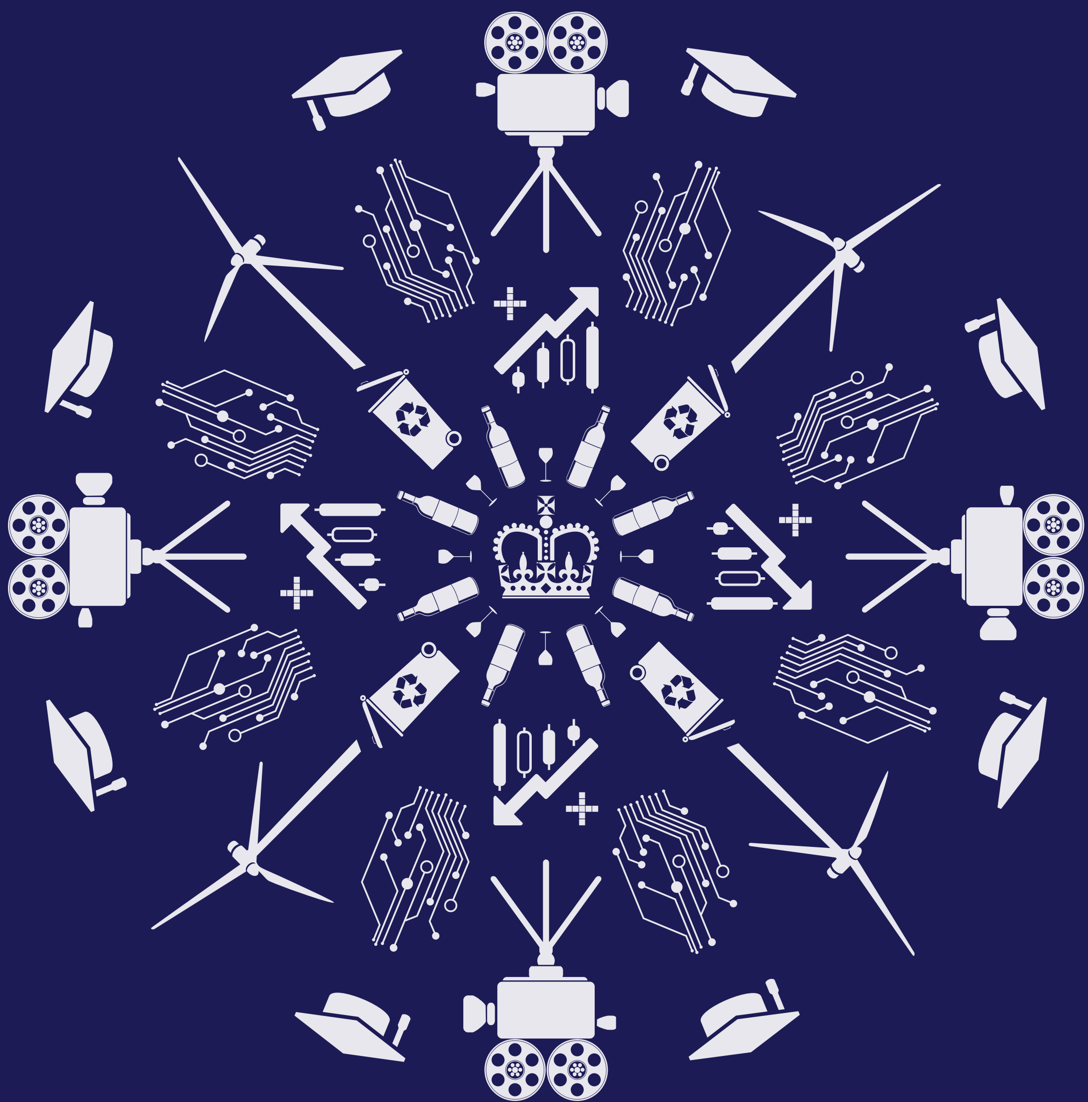
AiR 2019

ALTERNATIVE INVESTMENT REPORT

BUSINESS RELIEF

INDUSTRY REPORT



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FOREWORD

Editorial
Lisa Best

Creative
Mar Alvarez
Estela Alcay

Sub-editing
Lisa Best

Research
Lisa Best
Alan Sheehan
Van Li

Marketing
Michelle Powell
Andy Binkiewicz

Print
Palina Limited

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Welcome to the fifth edition of the annual BR Industry Report

There's no doubt that these are turbulent times. In the last few months, a cocktail of global geopolitical concerns has shaken investor sentiment and stirred markets. But there's still a good case for BR.

The UK government is focused on maximising tax receipts and it sees tax simplification, especially in IHT, as an essential way of closing the tax gap.

Yet, the Office of Tax Simplification has described BR as working in a straightforward way. Unlike the residence nil rate band.

Meanwhile, we're seeing the ongoing introduction of measures aimed at driving growth in UK businesses. That requires funding and we already know that BR has been identified as a meaningful contributor to patient capital.

With IHT forecast to keep on growing, there promises to be a continuing stream of clients for whom BR could save 40% tax while supporting the UK economy.

But there are challenges. AIM reminded us of just how volatile it can be at the end of 2018, steeply cutting valuations and bringing with it negative performance for AIM-focused BR managers. Of course, market volatility is nothing new, but given current conditions, more volatility is expected, at least in the short term, raising questions about recommending an investment option for tax mitigation in uncertain times.

On the flip side, overall medium to long term BR performance remains impressive, diversification is up, undervalued stocks are bringing great opportunities and some sectors remain notably robust and well-placed to take advantage of the circumstances.

I hope that this report gives you a thorough understanding of the current BR landscape, and gives you greater confidence in advising on these investments to your clients.

Our 'Adviser's Guide to Business Relief' is also available as an everyday reference guide to the practicalities involved, including case studies, rules and technical tips.

GUY TOLHURST

Managing Director
Intelligent Partnership

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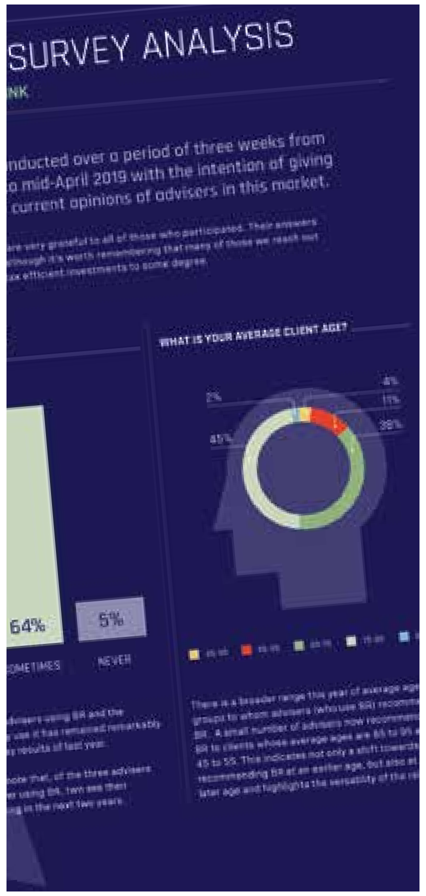


BR SOLUTIONS

CONCLUSIONS

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

Intelligent Partnership is committed to the very highest professional standards as embodied by its accreditation and membership to these industry associations.

FSC is a non-profit international organisation established to promote the responsible management of the world's forests. Products carrying the FSC label are independently certified to ensure consumers that they come from forests that are managed to meet the social, economic and ecological needs of present and future generations, and other controlled sources.

OPENING STATEMENT

FROM SOLLA

Tish Hanifan & Jane Finnerty

Joint Chair of the Society of Later Life Advisers (SOLLA)

Society as a whole continues to age: with 18% aged 65 and over and 2.4% aged 85 and over [ONS 2016].

Whilst this is a cause for celebration it is nevertheless the case that with increased longevity comes the need to balance the requirement for income to fund the kind of retirement the client wants, with their desire to pass on wealth down the generations and to do so in a cost effective and tax efficient way.

However, whilst Estate planning has always been an area important to both older clients and their families, later life advisers often see a major client concern around retirement in the worry that care may be needed in the future. If care needs are high then the option of meeting the cost entirely from income is unlikely to be available and the client will have to resort to using capital, significantly eroding their assets. This worry often leads older people to defer tax mitigation strategies such as estate planning which can have a potentially detrimental impact upon the efficacy of their planning as timely estate planning always achieves the optimum outcome.

Sadly, the government has not yet implemented Part 2 of the Care Act 2014 which would have brought in some of the Dilnot proposals and, in doing so, would have given older people more assurances against the potential for care fee funding to result in catastrophic loss of their assets. The long-awaited government Green Paper on Social Care for Adults has been delayed several times now and there is still no clear timeline for its delivery on the horizon.

The need to balance these different objectives makes it essential that a financial adviser has a good understanding of the range of financial options available when helping clients with later life financial planning.

With longevity a factor, clients still want to see a level of growth in both their capital and their income for a much longer period whilst ensuring they do not completely run down their resources and are able to leave legacies which are as tax efficient as possible.

Clearly, not everyone is achieving this balance between lifetime financial needs and estate planning strategies as official figures show that HMRC collected a 'record amount' of inheritance tax (IHT) in the 2017/18 tax year. What's more, the total number of UK estates liable to IHT has increased every year since 2009/10.

Later life advice needs to integrate all of these conflicting considerations and requires skilled and knowledgeable accredited later life specialist advisers who understand the full range of options available, including those outside of the more traditional gifting and trust methods.

Investments that qualify for Business Relief have shown an increasing popularity in recent years amongst both advisers and investors as they offer greater flexibility and speed than many other conventional solutions. However, the BR market is constantly evolving, with new entrants coming into the market to increase the options available.

It is therefore essential that advisers stay up to date with the market and have a good understanding of the current BR options as well as knowledge of how the current open investment opportunities compare to the past in terms of key investment metrics. This latest report covers these developments in BR and analyses the current market metrics to give a useful overview of fees and charges as well as providing an open discussion about past and future market movements to inform the professional later life adviser.

REPORT OVERVIEW

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 on the market, providing copy, and peer reviewing drafts.

So, a big thanks to: **Andrew Aldridge, Belinda Thomas, Chris Pearce, Desmond FitzGerald, Grant Callaghan, Jane Finnerty, Jerry Price, Kevin Gillibrand, Laurence Callcut, Marcus Maisey, Stephen Daniels, Tish Hanifan and Tom Hewitt. Their input is invaluable, but needless to say, any errors or omissions are down to us.**

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

The report is made possible by our sponsors, who have contributed copy to the report and supported us by helping to meet production and printing costs. So, a big thanks to **Blackfinch Investments, Deepbridge Capital, Downing, TIME Investments and Triple Point.**

Learning objectives for

CPD Accreditation

By the end of the report readers will be able to:

- Understand how BR sits within the current IHT landscape
- Define the recent market impacts on AIM-based BR offers and how providers seek to mitigate them
- Identify trends in BR investment offerings
- Evaluate popular sectors within BR investments, including their robustness in the face of current geopolitical conditions
- Ascertain the current views of advisers on BR including concerns and preferences
- Benchmark current products and providers against each other on key investment criteria

EXECUTIVE SUMMARY

WHAT'S IT ALL ABOUT?

Current economic and political uncertainty in the UK is feeding into the investment landscape. What is certain, is that IHT receipts are continuing to rise even allowing for immediate economic concerns. The latest projections put the government's IHT take at £6.3 billion by 2023/24.

Under these circumstances BR can still be a useful estate planning tool, but there may be some extra considerations.

Key themes that this report focuses on include:

BR SECTOR FOCUS REVEALS DEFENSIVE DRIVERS

This report takes a deeper dive into the sectors that BR managers are currently focused on. We look to understand why, in the current climate, these sectors are popular and at the factors that could drive their performance in the near and medium-term future.

While a wide scope allows managers to assess lots of options and take advantage of the timely and opportune, secured lending and energy generation top the areas of interest.

AIM VOLATILITY FLARES

There's no denying that equity markets have taken a battering in the last six months and AIM is no exception. But we discover how BR manager skill can dampen volatility, the rise in potential value opportunities and how relative liquidity is still high.

With half of revenues for AIM companies coming from overseas, there is some comfort too for those with worries over the UK's upcoming economic capabilities.

FOCUS ON IHT TAX GAP

There was obvious uneasiness about the future of BR when it was included in the Office for Tax Simplification's (OTS) review of IHT last year. But after the publication of the first of two OTS reports, this has dissipated as BR has been found to be 'fairly straightforward.'

The latest HMRC figures show the IHT tax gap is at 11%, almost double the overall average of 5.7%. Since failure to take reasonable care and plain old errors account for almost 30% of uncollected tax, the push to reduce complexity is logical. This appears to be a more substantial influence on the continuing escalation of HMRC IHT investigations than the use of BR, particularly at a time when funding for UK companies is at a premium.

PROOF THAT PENSIONS LIMITS ARE STARTING TO BITE

Government figures and independent research have highlighted that thousands of people have already paid too much into their pensions. The resulting breaches in annual and lifetime pension allowances amount to hundreds of millions of pounds that will attract penalties.

More importantly, over a million more people look set to do the same with what could be billions of pounds. The opportunities for advisers who discuss pensions with their clients are potentially huge and BR could provide ready-made solutions for some of the excess cash looking for a new, tax-efficient home.

KEY FINDINGS

HIGHLIGHTS FROM OUR RESEARCH

77% of BR offers are now GENERALIST

IHT RECEIPTS up to £6.3bn in 2023/24

HMRC investigations in 1 in 4 ESTATES

£600m IHT TAX GAP drives simplification

AIM lost more than 20% VALUE in Q4 2018

ONLY 4% of advisers say Brexit uncertainty has made BR HARDER to recommend

50% of AIM company revenues come from OVERSEAS

1/4+ OF BR PRODUCTS include SECURED LENDING

PROBATE FEES rise by up to 2700%

AIM value opportunities: UK EQUITIES TRADING AT 30% discount to global peers

+1m paying too much into their PENSIONS

AVERAGE DIVERSIFICATION is up to 16 INVESTEE COMPANIES

MARKET UPDATE

IHT STATISTICS

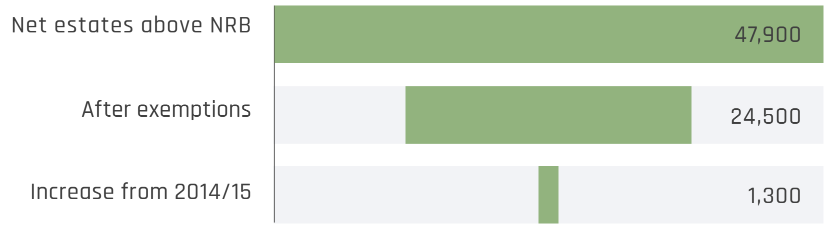
RECEIPTS STILL RISING

The latest HMRC statistics on IHT largely consider 2015/16.

The figures demonstrate continuing upward trends in:

THE NUMBER OF ESTATES CAPTURED: The total number of liable estates has increased every year since 2009-10. In 2015/16 there were 588,000 deaths, of which 24,500 were liable estates, an increase of 1,300 or 5.6% since 2014/15.

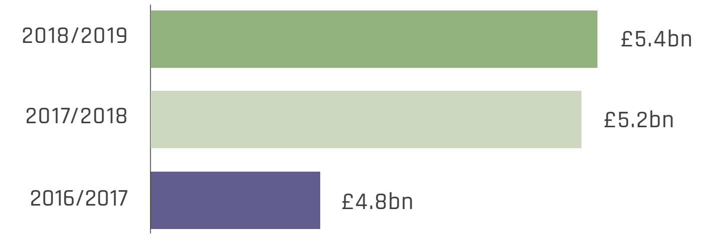
ESTATES LIABLE TO IHT IN 2015/16



SOURCE: INHERITANCE TAX STATISTICS 2015 TO 2016, HMRC, AUG 2018

THE AMOUNT OF IHT COLLECTED: IHT receipts totalled £5.4bn in 2018/19. Up £200 million from the previous year.

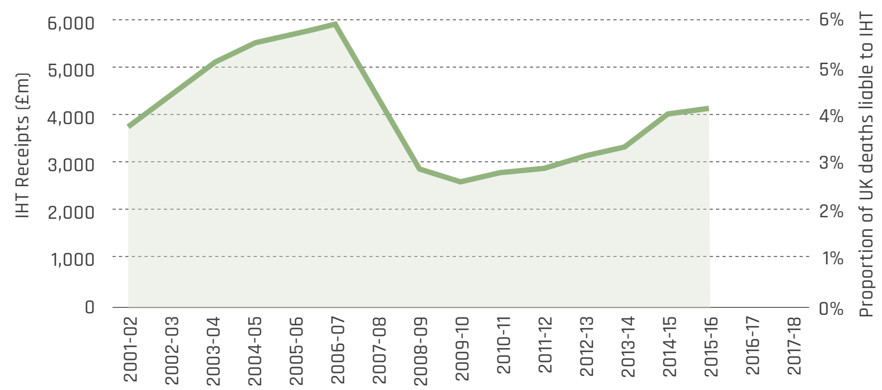
IHT RECEIPTS



SOURCE: INHERITANCE TAX STATISTICS 2015 TO 2016, HMRC, AUG 2018

THE PROPORTION OF UK DEATHS LIABLE TO IHT: In 2015/16, 4.2% of UK deaths were liable to IHT, increasing slightly by 0.3 percentage points since 2014/15. This continues the longer term increase since 2008/09.

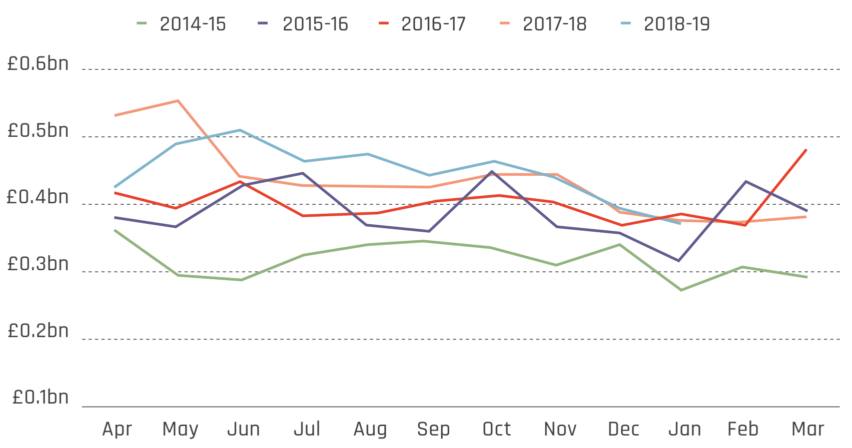
PROPORTION OF UK DEATHS LIABLE TO IHT



SOURCE: INHERITANCE TAX STATISTICS 2015 TO 2016, HMRC, AUG 2018

THE INTERIM FIGURES: IHT receipts for April 2018 to March 2019 were 3.1% higher than the same period in the previous year[1] (driven in part by impending changes to probate fees for larger estates. See page 36 for more details).

MONTHLY AND ANNUAL IHT RECEIPTS

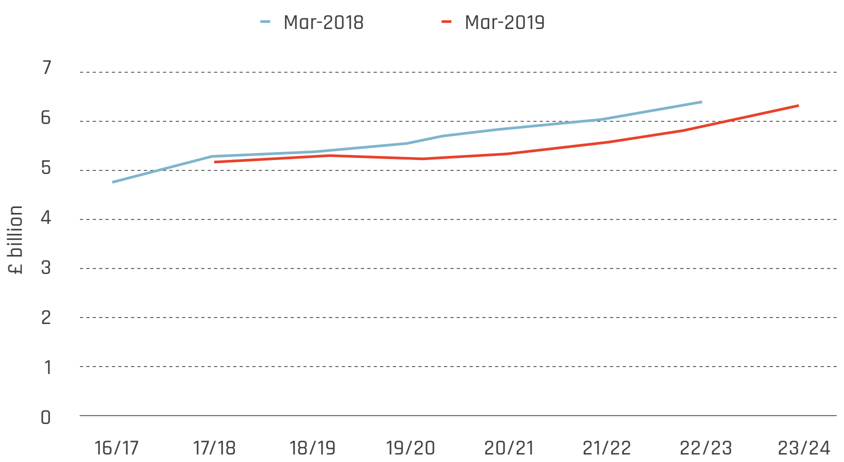


SOURCE: HMRC TAX & NIC RECEIPTS, MONTHLY AND ANNUAL HISTORICAL RECORD, FEBRUARY 2019

The Office for Budget Responsibility (OBR) revised down its IHT projections in March 2019. Previously, IHT receipts were forecast to rise to £6.4 billion in the 2022/23 tax year, but this was dropped to £5.9 billion. The OBR stated that this was to reflect weaker equity and house prices, although the long term trend is still upwards, with the March 2019 projection for 2023/24 set at £6.3 billion.

So, even after taking account of possible Brexit impacts, growth in estate values will continue to fuel growth in IHT contributions to HMRC.

OBR IHT RECEIPTS PROJECTIONS



SOURCE: ECONOMIC AND FISCAL OUTLOOK, OFFICE FOR BUDGET RESPONSIBILITY, MARCH 2019

£6.3 bn

OBR's March 2019 projection for IHT receipts in 2023/24

"HMRC are increasingly challenging the value of estates as investigating IHT returns becomes considerably more lucrative for raking in extra tax."

— MARK GIDDENS, UHY HACKER

IHT investigations rise

Recent research revealed that there was a 5% rise in HMRC investigations into estates for underpayment of IHT in 2017/18. The number of estates investigated was 5,400 estates, up from 5,100 in the 2016/17 tax year. That's one in four (24%) of the total estates liable for IHT.

Given that the IHT tax gap (the amount of tax HMRC expects to be paid, in theory, and what is actually paid) is at £600 million a year[2], perhaps this is not surprising. In percentage terms, this is relatively high in comparison with other taxes and not only reflects non-compliance and avoidance, but also errors.

The areas that HMRC are likely to look into when they investigate an IHT return include:

- Whether the figures submitted accurately reflect market value – particularly in respect of residential property;
- Whether any claims for business or agricultural reliefs are valid;
- Whether any assets have been omitted deliberately or due to lack of reasonable care.

While the majority of investigations related to what HMRC judges to be undervaluation of property, it's worth both advisers and their clients keeping a regular check on the ongoing qualification of their BR tax planning. As a retrospective relief, you won't know if your BR planning has succeeded until after your client dies.

QUICK REMINDER:

What could lead to BR claims being rejected after death?

The investee company is:

- not carried on for commercial gain
- subject to a contract for sale or being wound up
- "wholly or mainly" dealing in securities, stocks or shares, land or buildings or in the making or holding of investments
- "wholly or mainly" generating investment income such as residential or commercial property letting, property dealing and running serviced offices
- listed on a recognised exchange (not AIM).

Professional fund managers specialising in BR-qualifying investments generally have an excellent record of selecting and monitoring companies to ensure that BR qualification is achieved. But, it is still a good idea to ask a BR investment manager about any HMRC tax investigations, or refused BR claims it has been subject to.

BR WITHIN THE IHT CONTEXT

FITTING IN AND STANDING OUT

Higher value estates have lower average tax rates thanks to BR

The latest IHT statistics confirm that higher value estates are making better use of Business Relief. HMRC's commentary states:

"the composition of assets changes between the various net estate bands. Where net estate value is less than £2 million, estates are likely to consist mainly of residential property and cash. Above this limit, estates are more likely to consist of securities and other assets, which attract reliefs like Agricultural Property Relief (APR) and Business Property Relief (BPR). This has a tendency to lower the average tax rates."

The analysis identifies two major contributors to the IHT tax liability in 2015/16:

- net estates valued £2 million and over accounting for 40% (£1.76 billion) of the tax liability in 2015/16
- net estates valued at less than £500,000 accounting for 56% of all gross assets (made up of £26.5 billion in residential property and £13.7 billion in cash) and 87% of all probate estates.

Further independent research has also found that:

- Effective inheritance tax rate paid halves from 20% for estates worth £2-3 million to 10% for those over £10 million
- Difference is due to asset composition of larger UK estates being focused on securities rather than residential property[3]

This points to a large subset of smaller estates that could be well-served by estate planning, including Business Relief advice.

Office for Tax Simplification IHT review

The Office for Tax Simplification (OTS) published the first of two IHT reports in November 2018. The IHT tax gap is continuing to grow, rising 50% from £400m in 2012/13. This has been cited as a principal driver in the government's request for the review. The aim is to eradicate underpayment of the tax as a result of the honest mistakes of innocent taxpayers trying to navigate the maze of IHT regulation.

In this context, the first report, which sets out recommendations on administrative issues, is positive about BR:

"the OTS's focus will be on the practical application and complexity of these reliefs rather than major changes to the reliefs themselves. The evidence gathered so far suggests the reliefs are broadly working in a straightforward way."

Issues raised by respondents where there could be simplification, or where clarification of treatment is needed include the usual suspects:

- Furnished Holiday Lettings
- Joint Ventures and Limited Liability Partnerships
- The wholly or mainly test

None of the 8 key recommendations made by the first report specifically references BR.

The second report is due in Spring 2019. It will explore key technical and design issues. It will also consider in more detail suggestions made about the interaction of BR with the wider tax framework, and the potential distortions that may arise in relation to taxpayers' decisions about and the timing of transactions, especially in situations where BR applies.

Residence Nil Rate Band update

In the 2019/20 tax year the residence nil rate band (RNRB) has increased to £150,000 per person. It will reach its maximum of £175,000 during the 2020/2021 tax year, with inflationary increases thereafter.

Last year we speculated about the potential uptake of the RNRB, given the lack of awareness and understanding of the relief. Figures confirm that less than a quarter of the taxpaying estates in the 2017/18 tax year, just 5,420, successfully claimed for the RNRB. The continuing sentiment is that many are still not taking advantage of the tax break, put off by the complicated nature of the rules around both IHT and the RNRB.

That has made the RNRB a target for the OTS review of IHT. In its IHT Review first report, while referring to BR as "broadly straightforward", the OTS reported that the RNRB attracted a lot of comments due to its complexity. It also stated that some, "have suggested that the residence NRB is so complex it would be better to simply to remove it."

Could it be that BR is under less scrutiny than the RNRB?

Even when the RNRB takes full effect, it will not stop the increase in IHT receipts. They are projected to grow to £6.3 billion by 2023/24 - an increase of over 20% on the 2017/18 figure.

Our adviser survey also shows that, in the last year, there has been a slight increase in the impact of the RNRB on amounts that might be considered for BR investment. (See pages 42 to 45 'Adviser Survey' in Section 4).

Value for money in the shadow of Brexit

Recent research suggests that the UK's tax relief bill has grown to £164 billion in 2018/9 - more than the annual NHS budget. With Brexit front of mind, that is bound to focus some attention.

The number one tax relief is reduced rates on things like food and energy, coming in at £53 billion. Next is the CGT exemption for main properties at £27 billion, followed by pensions income tax relief at £26 billion.

The cost of BR to the treasury is relatively small at £710 million in 2018/19[4] - less than 0.5% of the total tax relief bill.

BR CLAIMS VS COSTS 2015/16

COST OF BR[5]	2015/16 £595 million
AMOUNT OF BR CLAIMED[6]	2015/16 £1,600 million

The same research finds that the average individual gain from agricultural or business property reliefs on IHT is around £270,000. This is obviously valuable to claimants, but it's interesting to note that only just over a third of it comes at a real cost.

Compliance Considerations

Tom Hewitt

Partner, Burges Salmon LLP

Last year's BR report looked at two cases where HMRC contested the availability of BR. In the first case HMRC successfully defeated a claim for BR at the tax tribunal (Ross v HMRC) whilst, in the other, the taxpayer was successful (Vigne v HMRC).

Since then, HMRC has appealed the Vigne decision and there has been another important BR case decided by the tax tribunal.

First a recap. For a BR claim to succeed, a business must be wholly or mainly trading. In the world of property, there exists a spectrum of business types, ranging from a fully serviced hotel at one end (which would without question be trading) to long-term property lets with a passive landlord at the other (which would be treated as an investment). Cases therefore often turn on where exactly a particular business falls on that spectrum. The trend in recent years has been for HMRC and the tribunal to require a very high level of additional services over and above simple property letting in order to qualify for BR. It was against that background that the successful BR claim in Vigne last year came as a pleasant (for taxpayers at least) surprise.

VIGNE V HMRC APPEAL, 2018

It was therefore not surprising when in HMRC v Vigne, HMRC appealed against the first decision that the Vigne family horse livery business was trading. HMRC argued that it was mainly an investment business. However, for technical reasons, HMRC were only able to appeal on narrow grounds and they lost the appeal. Interestingly, the appeal tribunal hinted that they were not sure that the original decision was the correct one, but it allowed the appeal nonetheless based on the limited grounds for appeal that it could consider.

GRAHAM V HMRC, 2018

The second case (Graham v HMRC) saw another taxpayer successfully securing BR, but on a very different type of business. This business involved a holiday complex on the Isles of Scilly. There were four flats or cottages, together with a couple of guest bedrooms, and critically, there was a long list of additional services that went well beyond those provided in a simple property let. They included a swimming pool, sauna, BBQ, games area, a laundry, a golf buggy available for hire, a welcome pack, an exceptional garden, and extensive help and guidance from the owners to assist people through their stays.

Because of the exceptionally high level of services offered, the judge concluded that the additional services predominated over the basic letting activity and, as a result, concluded that the business fell just on the right side of the line to qualify as trading for BR.

Both Vigne and Graham are unusual in different ways. In Vigne, the case was argued by the deceased's son, without professional representation in the court. As a result, it is possible that the tribunal was more sympathetic to the case than it might otherwise have been. In Graham, the level of services offered was exceptional, and therefore, unusual but the fact the case was won by the taxpayer confirms that BR for businesses of this sort remains a possibility.

SMCR REMINDER

The new Senior Managers & Certification Regime rules will be implemented in December 2019 and will replace accountability rules for advisers under the FCA's current Approved Persons Regime.

If you haven't started to prepare for the transition, it's worth doing so sooner rather than later.

Key points to consider for advisory firms:

- The rules can be found in Policy Statement 18/14 (which needs to be read with PS18/15). These are not final, but are thought to be largely as they will be at implementation.
- Advisory firms or IFAs who are appointed representatives will fall outside the regime and remain within the current approved persons regime.
- Most directly authorised advisory firms or IFAs will be classified as core firms, but you can check which category of rules applies to you at: https://www.fca.org.uk/decision-tree/firm-checker-tool.
- Firms need to identify which senior managers are responsible for every area/activity/function of the firm.
- Approved senior managers will need to complete (and file with the FCA) a new regulatory form called a Statement of Responsibilities, including a full description of the areas for which they are accountable.
- Senior managers will have a new statutory duty of responsibility in relation to all of their areas of accountability within the firm.
- The FCA is placing much more emphasis on evidencing the reasonable steps taken by each senior manager to discharge their responsibilities. So record-keeping is key.
- All qualified financial advisers in firms will need to be certified by the firm to confirm that they are fit and proper to provide investment advice before they start giving advice and each year thereafter.
- One (ideally) senior manager must be allocated the responsibility for the certification of adviser.

KID update

In last year's BR report we pointed out that KIDs are not generally required for BR products, but some providers may have produced one. Since the inception of KIDs, there have been concerns about the clarity of the regulation, which has led to inconsistencies in the way KIDs are drafted.

In February 2019, a Joint European Supervisory Authorities (ESA) supervisory statement concerning the performance scenarios in the PRIIPs KID was issued. It stated that, "the performance scenarios could, based on the recent economic environment, provide an overly positive outlook for potential future returns if they are taken to be best estimate forecasts".

Consequently, the ESA recommended that providers with PRIIPs regulated products add to the KID, under the heading of "Performance scenarios" within the section "What are the risks and what could I get in return", an additional warning that:

"Market developments in the future cannot be accurately predicted. The scenarios shown are only an indication of some of the possible outcomes based on recent returns. Actual returns could be lower."

"Inheritance tax planning often forms a key component of a financial adviser's proposition and therefore having access to attractive Business Relief qualifying opportunities should be an important part of a diversified approach."

— ANDREW ALDRIDGE, PARTNER, HEAD OF MARKETING, DEEPBRIDGE CAPITAL

SECTOR ANALYSIS

STATISTICAL ANALYSIS OF OPEN BR OFFERS

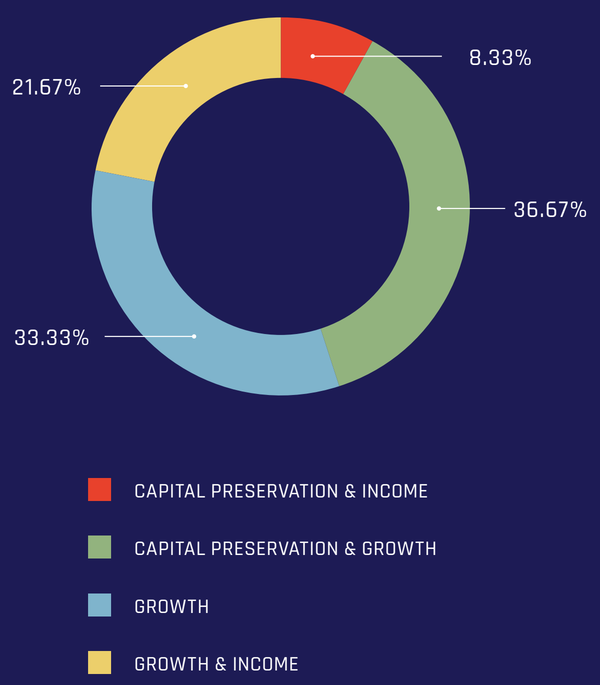
Data provided by MICAP.com

As of 13 March 2019, there were 60 open BR offers. With 62 open offers in March 2018, the market has remained stable. In the year to March 2019, four new BR offers launched.

Capital preservation stands firm and growth grows

The proportion of offers including a capital preservation element remains at 45%, the same as offers open in March 2018. The proportional drop in capital preservation and income offers from 12.9% to 8.33% means that almost 92% of offers (a 5% increase) now have a growth element.

OPEN OFFERS BY INVESTMENT STRATEGY



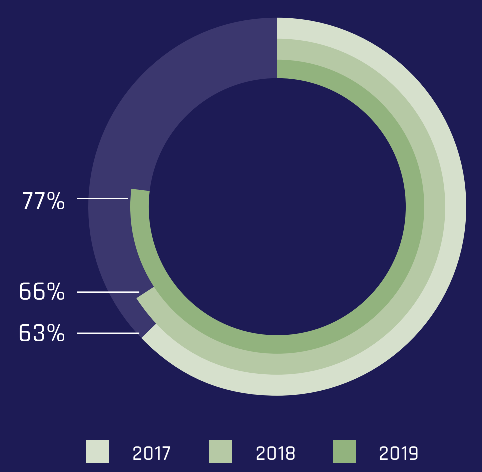
For more analysis of the underlying sectors BR managers are investing in, go to the Sector Focus section of Considerations for investment on page 30.

Generalist growth

The BR market is slowly moving away from specific industry sector focus.

While this can partially be attributed to the growth in AIM-based offers over recent years, this year, the balance between AIM and non-AIM offers (52% AIM and 48% non-AIM) largely mirrors last year. Perhaps having a broad range of investment opportunities reflects the need for diversification in uncertain times.

GENERALIST BR OFFERS AS % OF THE MARKET



Financial services offers remain a strong sector with 16.7% of the market, an increase from 14.5% last year. These companies are mainly involved in making loans, usually with asset-backing. It's possible that, in the current turbulent times with increasingly risk averse banks, this could continue to be an expanding BR sector.

On the other hand, the presence of offers specifically targeting energy generation and industry and infrastructure has dropped, from 6.5% to 3.3% and 11.3% to 1.7% respectively.

"Advisers are rightly questioning the level of underlying holdings that a provider has and how this translates to liquidity should substantial withdrawals be necessary."

— BELINDA THOMAS, HEAD OF SALES AND INVESTOR RELATIONS, TRIPLE POINT

CHARGES

BR fees and charges may not all be immediately obvious and, as well as the level of fees charged, the type of fees themselves varies. This makes it important to consolidate all fees and charges to get a clear picture of overall charges and to achieve like-for-like comparisons. Questions advisers should know the answers to before recommending a particular BR offer to their clients include:

- How much of the subscription amount is going to underlying companies and is available for BR tax relief?
- How much of the subscription amount is going to underlying companies to generate growth and income?
- Are some fees being charged to underlying companies rather than investors?

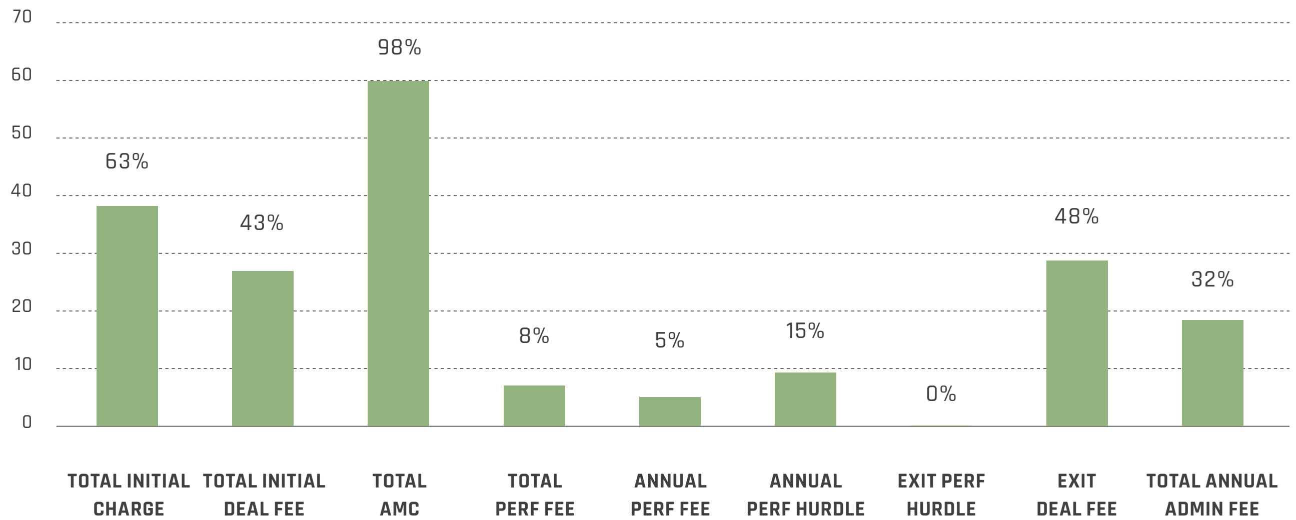
Small shifts in one area compensated by adjustments in another

While the proportion of offers charging each of the different fees has remained similar to last year, where there is a change in one category of fees, it is often offset by a shift in another.

For example, the proportion of offers applying an initial charge has dropped by 3% since last year. But the proportion charging an initial deal fee has increased by 3% in the same period.

A more meaningful change has taken place for exit deal fees. 55% of offers applied these a year ago, whereas only 48% do today. But, the percentage that apply the other potential exit charge - the exit performance fee - is unchanged.

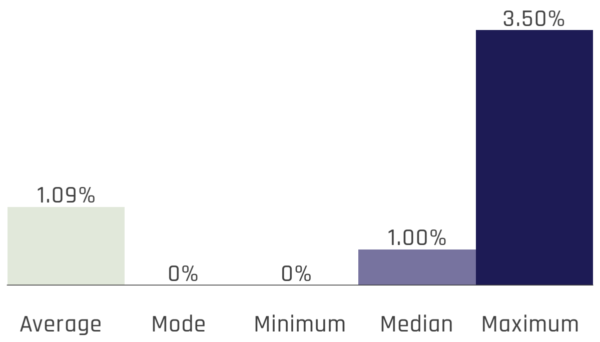
NUMBER OF OFFERS THAT CHARGE EACH FEE



Initial fees much the same

As last year, around two thirds of providers charge an initial fee on their offering, of which only a couple are made to investees rather than investors. The average initial fee has dropped marginally from 1.13% to 1.09%.

INITIAL CHARGE OF OPEN OFFERS CHARGED TO INVESTORS*



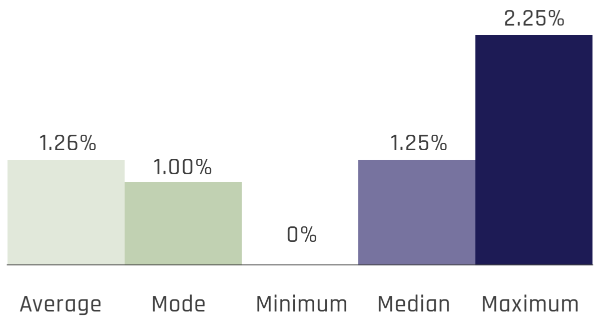
> *"With Business Relief a key component of tax planning, it continues bringing benefits to clients and the economy, supporting tax mitigation aims alongside growing companies."*
>
> *— RICHARD COOK, FOUNDER AND CEO, BLACKFINCH GROUP*

AMC remains most popular charge

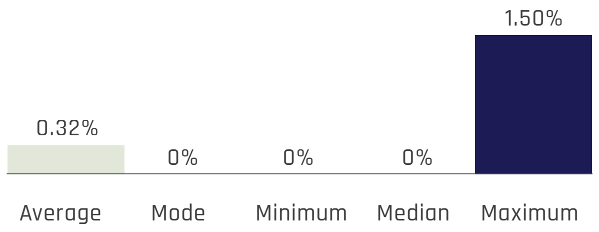
Virtually all managers charge an AMC.

For AMCs payable by investors, there has been almost no change since last year. For those payable by investees, the maximum has dropped by a quarter from 2% to 1.5%. A small minority of offers (less than 10%) charge AMC to both investors and investees.

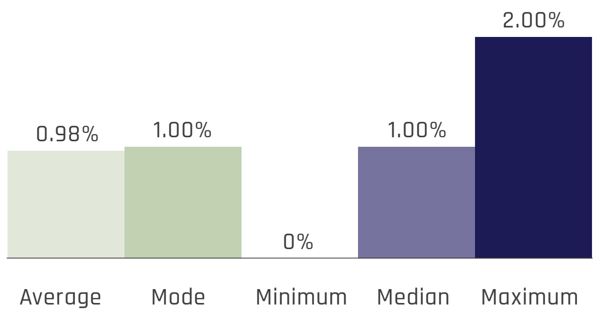
TOTAL AMC OF OPEN OFFERS



AMC OF OPEN OFFERS CHARGED TO INVESTEE*



AMC OF OPEN OFFERS CHARGED TO INVESTOR*

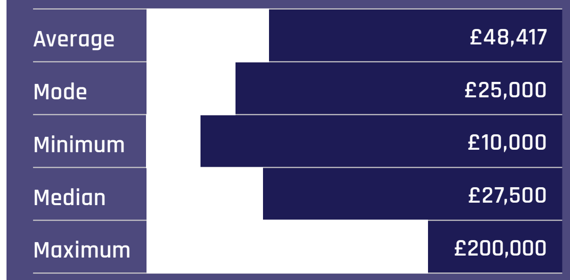


The breadth of the AMC range has closed since last year - with the average dropping from 1.35% to 1.26%, the most commonly charged fee dropping from 1.5% to 1%, and the maximum coming down from 3.5% last year. There is a trend to note here with the 2017 average at 1.42% which equates to a reduction of over 11% in the last two years.

**Excluding adviser fees*

AVERAGE MINIMUM SUBSCRIPTION UP

The mode for minimum subscription amounts is £25,000 - a level that gives access to the many mass affluent, the value of whose property has dragged them into scope of IHT. However, the average minimum subscription has climbed by over 11%, almost £5,000 to £48,417 from £43,468 last year. This halts the downward trend seen since 2017 and perhaps suggests growing confidence among BR managers that there are still significant amounts of money for which their services are appealing.



Target returns strengthen again

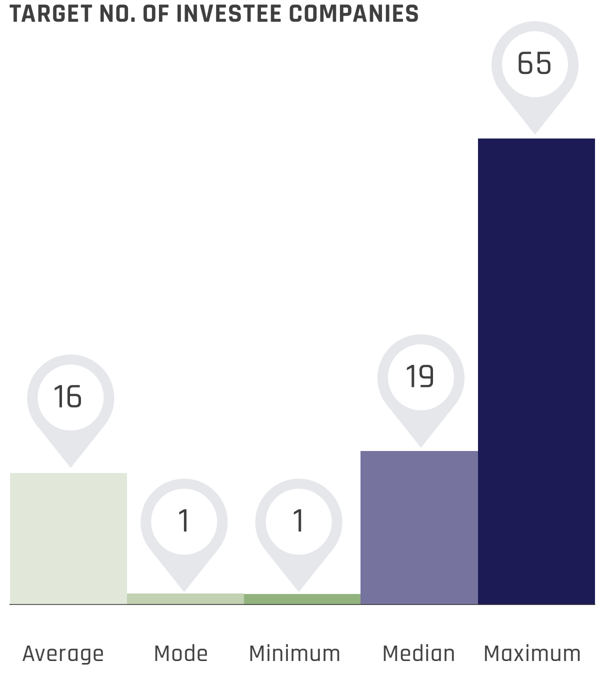
While the most commonly quoted target return stays at 3%, the average has gone up from 4.49% to 4.7%. It is a major jump from the average of 4.06% in 2017 and has no doubt been influenced by the average target return of offers launched between March 2018 and February 2019 being at 5.88%.

This upward trend is another pointer to more confidence among managers, but also poses questions about possible changes to the risk and reward profile of some BR offers.

Diversification levels increasing

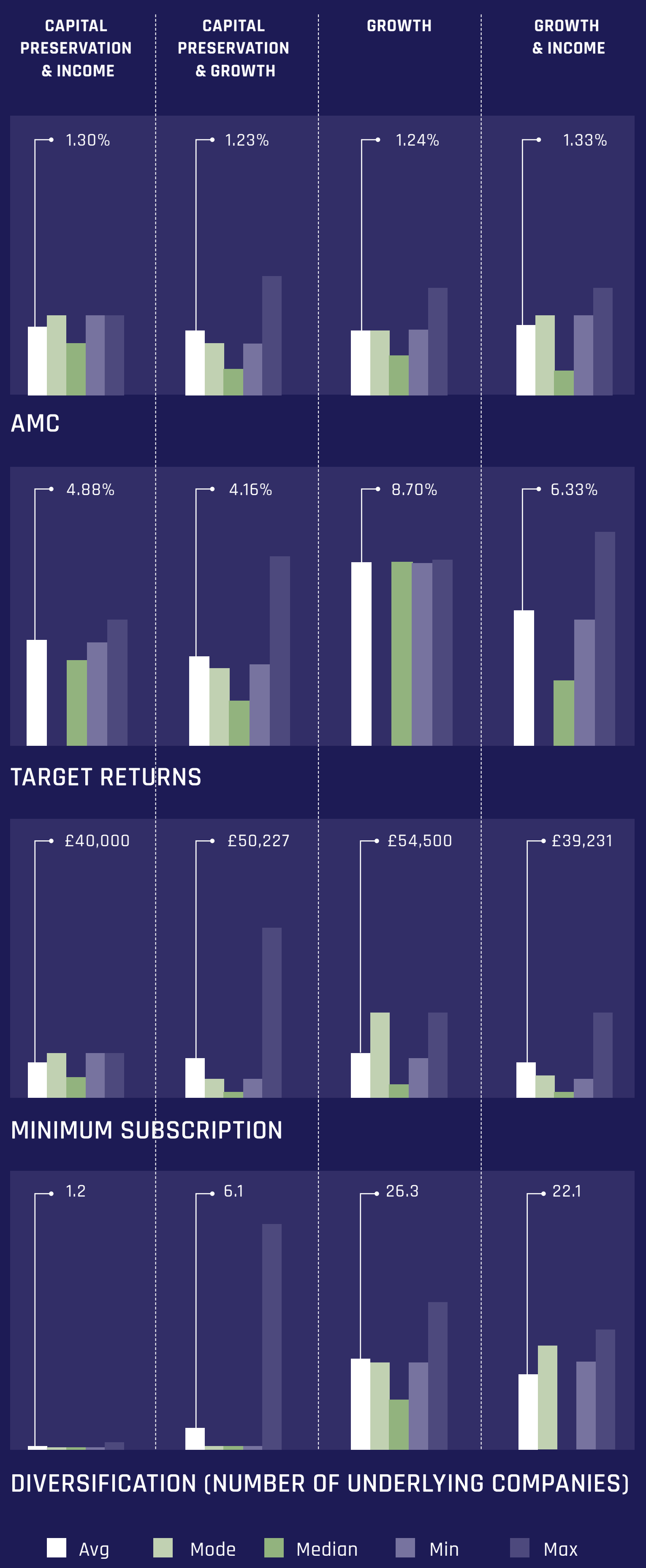
Perhaps unsurprisingly given the context of current uncertainties, the number of investee companies targeted by an offering is increasing, up to 16 from 14 last year and 13 in 2017. The average for AIM offerings is 27 investees - up by one from last year.

TARGET NO. OF INVESTEE COMPANIES



The mode and median figures may be misleading as they highlight offers which use a single underlying company controlled by the manager to make investments into multiple BR-qualifying companies.

OPEN OFFERS BY INVESTMENT STRATEGY



Income producing strategies charging higher AMCs

The gap between Capital preservation and income AMC, averaging 1.3% this year, and Capital preservation and growth AMC, averaging 1.23% this year, has narrowed. Last year the averages were 1.72% and 1.31% respectively, so both are dropping. It's still interesting to note that where an element of income is required, the AMC is generally slightly higher.

Notable jump in Growth target returns

All strategies have seen an increase in their target returns this year, with the exception of Growth and income for which the average has dropped from 7.25% last year. Average target returns for pure Growth offers have almost doubled from 4.4% in 2018 to 8.7% in 2019.

However, of the 20 pure Growth offers, which are all AIM focused, only one has provided a target return. While AIM has been relatively strong in the medium term, the downward pressure on prices experienced at the end of 2018 and the predicted volatility for 2019 make these average target returns seem challenging in the short term. This is why most AIM focused offers do not tend to give target returns. In fact, of all the AIM focused offers, only two give a target return figure.

Growth strategies retain highest entry levels

All minimum subscription levels have risen except for those applied to Growth and income strategies. Growth and Capital preservation and growth remain the highest, with the latter having grown from £40,250 last year. This points to managers looking for greater capital to access growth strategies.

CONSIDERATIONS FOR INVESTMENT

AIM

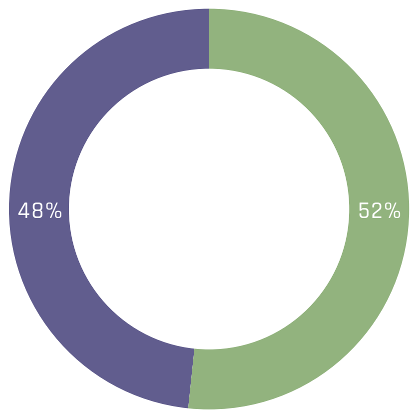
VOLATILITY AND VALUE

There are some major drivers for tax efficient IHT planning with an ageing population looking not only to retain access to their funds, but also to leave more to their larger families which could now comprise three or even four generations in addition to their own. This is brought sharply into focus not only by the demographic statistics, but also by the amount of money at stake: £5.5 trillion will pass between generations in the UK within the next 30 years[7].

When it comes to BR one of the big considerations is whether to invest in AIM listed companies.

The market is fairly evenly split between AIM and non-AIM offers.

OPEN OFFERS BY INVESTEE COMPANY TYPE



ASSET-BACKED   AIM LISTED

SOURCE: MICAP, MARCH 2019

There are certainly pros and cons and in this section we take a look at AIM focused BR offers in the context of the last year and the immediate future.

Key metrics

Two thirds of AIM focused BR offers have a pure growth strategy and there is virtually no capital preservation. Nine out of ten non-AIM BR offers involve an element of capital preservation.

This points to greater risk within AIM focused BR offers, hence the higher levels of diversification by investee companies, although managers of these offers rarely nail their colours to the mast by stating target returns.

What AIM can offer

Wrapping AIM shares within the tax-free environment of an ISA is an attractive option. But an ISA is not IHT-free, unless the shares in it qualify for BR.

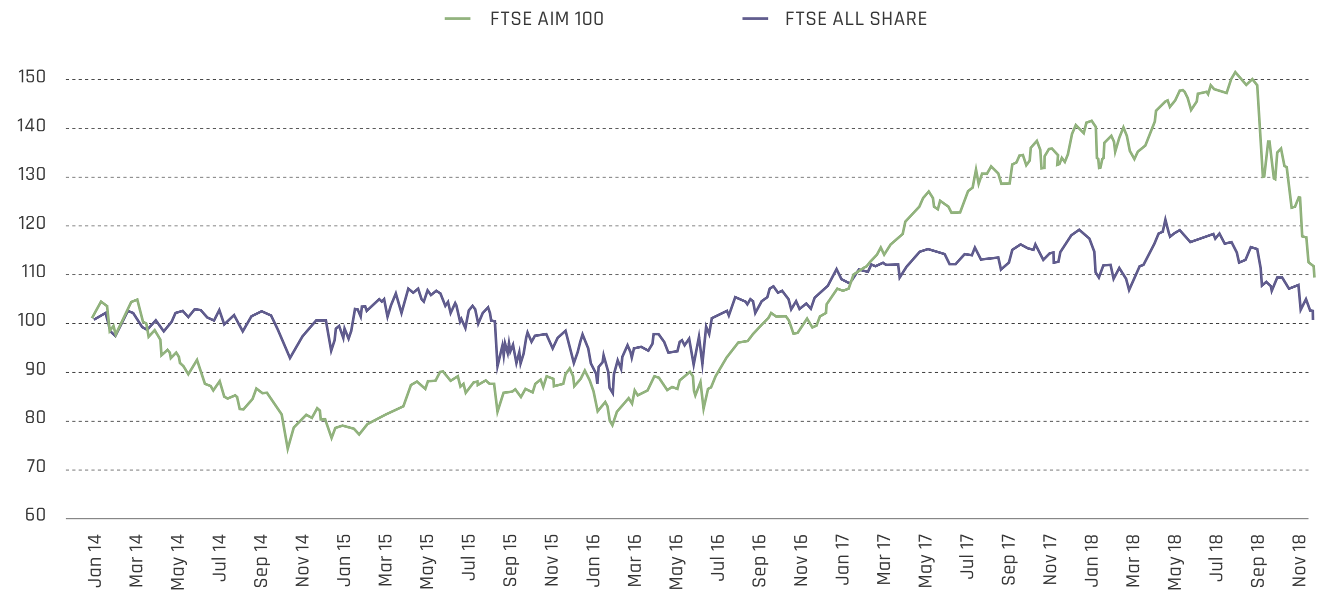
AIM is a diverse index. It consists of around 900 companies with values ranging from less than £300,000 to over £4 billion. Around two thirds of the stocks listed on AIM typically qualify for BR, but the list constantly changes.

This gives BR managers a broad range of potential investees, although, in the search for resilience and growth, there is a tendency to focus on established, larger, mature businesses with good levels of liquidity. Most AIM IHT managers are looking for companies that have low P/E ratios, which is why they tend to avoid the AIM companies with high market caps and newer entrants.

Since AIM is under-researched, BR managers in this space also have the opportunity to analyse AIM stocks and discover less well-known stocks trading on discounts to their larger peers.

While volatility is a watch word in this growth market, those with a medium to long-term outlook could find AIM lucrative. Over the five year period to December 2018, the AIM 100 registered an overall increase of 11.7% compared to 2.2% for the FTSE All Share[8].

STOCK MARKET INDICES - 5 YEARS (REBASED)



SOURCE: BDO AIM INSIGHTS H2, 2018

Recent market conditions

The steeper drop of the AIM 100 versus the FTSE All Share at the end of 2018 shows the greater sensitivity of AIM to volatility. In fact the sell off in the last quarter of 2018 saw the index lose over 20%.

Dave Hughes, senior business development manager at TIME Investments, recently said that AIM IHT portfolios are "not suitable for people in their 80s". He said that investors need to be able to ride the peaks and troughs of AIM, and that this wouldn't be a suitable route if the investor was of a certain age. Perhaps one reason is that the market drops in the last quarter of 2018 were dangerous for those with a weak heart!

Market performance was impacted by geopolitical concerns, including fears over the US - China trade war, rising US interest rates and increasing uncertainty around Brexit. Anxiety about potential changes to inheritance tax and BR in the budget of October 2018 also heightened the reaction[9].

UK stock picker James Baker, manager of the Chelverton UK Equity Growth fund said in October 2018, "so far, the sell-off has been fairly indiscriminate with AIM stocks in general being perceived as high risk even if they have strong balance sheets and high levels of revenue visibility and whatever their sector, with economically less correlated stocks being under the cosh just as much as more economically sensitive ones."

But there are still positive signs:

"Although AIM clearly had a difficult second half of the year in 2018, it has not performed as badly as the cocktail of risks it faced might have suggested. Market values are still relatively high compared to historical levels and 2018 as a whole still saw a steady stream of new joiners. In our view, AIM is still a very viable market for well run companies with good business models and strong investment stories in the right sectors[10]." BDO, January 2019

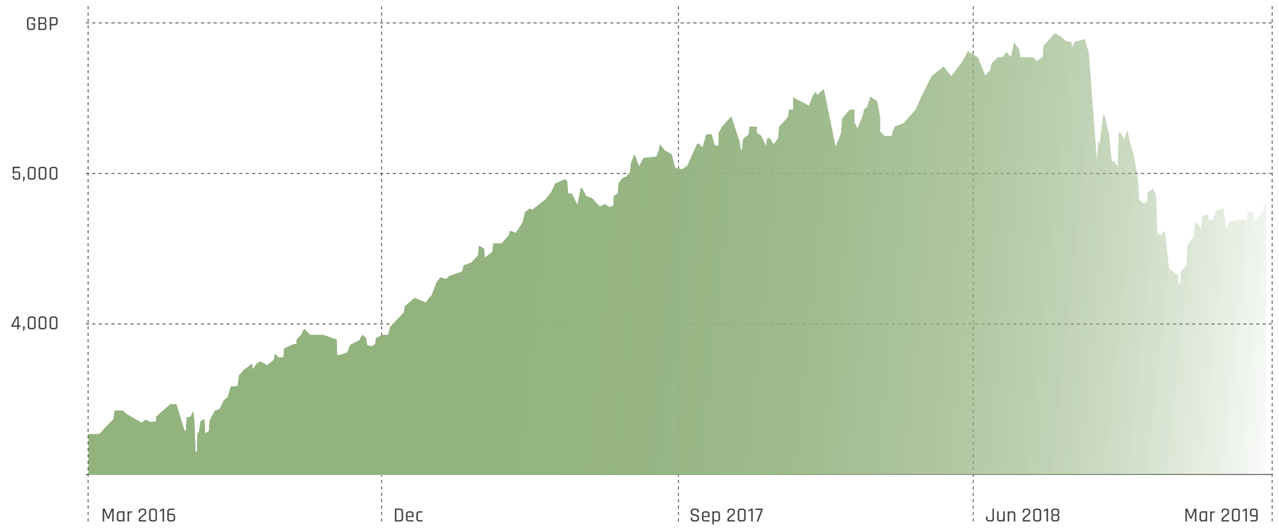
And there has been recovery:

"Markets have now risen in almost a straight line for two months; the snapback has been almost as vicious as the sell-off." Jacob de Tusch-Lec, Artemis, March 2019[11].

But there is still clearly reason to be cautious, with uncertainty continuing. Ian Heslop, head of global equities at Merian expects volatility to continue to rise, and for there to be bouts of extreme volatility in the short term and said:

"It may simply be that the sell-off in December was overdone and the rally is strong because of that. But the big driver of equity valuations is monetary conditions and they have not changed that much[12]."

FTSE AIM 100: PERFORMANCE, 19 MARCH 2019



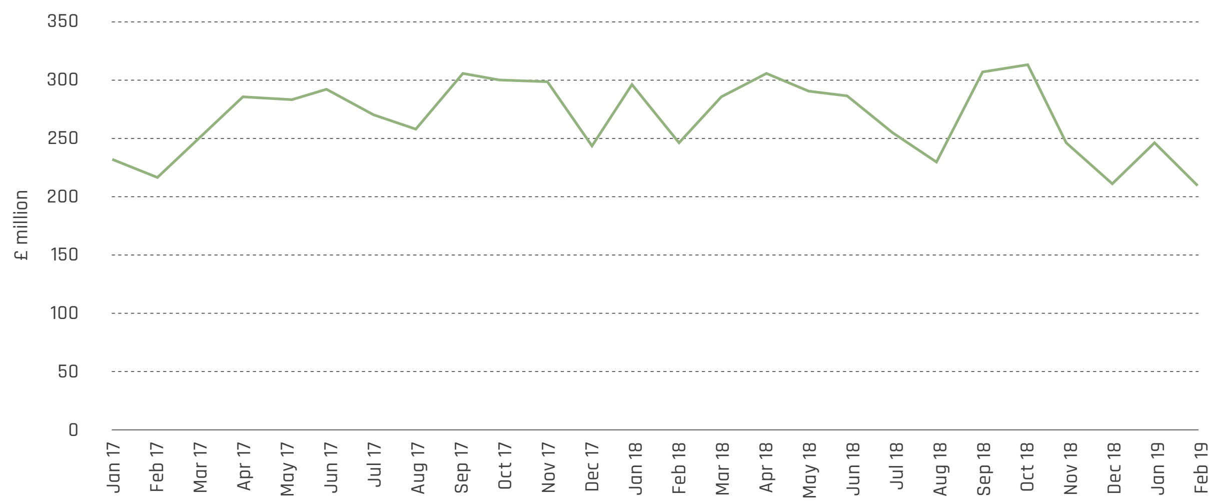
SOURCE: HARGREAVES LANSDOWN FTSE AIM 100: PERFORMANCE, 19 MARCH 2019

Liquidity

Unless portfolios are very large it should be possible to liquidate a well-diversified AIM portfolio very quickly, perhaps within a week, assuming normal market conditions. But, in crisis conditions, AIM can be vulnerable to investors reining in their risk appetite and selling off perceived smaller/riskier companies. Once that sell off happens liquidity can dry up[13].

Yet AIM trading has remained relatively strong; the average daily value of shares traded per company quoted on AIM dipped in December 2018 to £208.6 million. But, to put this in context, the daily average in 2016 was just £129.3 million[14].

AVERAGE DAILY VALUE OF SHARES TRADED ON AIM



SOURCE: LONDON STOCK EXCHANGE

Providers' performance

Contrary to popular belief, AIM focused BR managers do have differing strategies, selection criteria and underlying investees. While there is some overlap of target shares, plenty of managers look beyond the top 30 or 50 and the average market capitalisation.

So, it's interesting to note that when we looked at the Q4 2018 performance or a random selection of AIM BR managers, we found a range of results. While still negative, the best outperformed the benchmarks by 10%+. At the other end of the range, another reported a 25% loss.

While like-for-like comparisons are not easy, and there may be some popular companies among BR managers, varying weightings of sectors within portfolios and timings of acquisitions and disposals certainly impact returns.

Another key takeaway is that, overall, longer term returns look very attractive. One of the BR offerings we looked at shows returns of almost 400% since its inception in 2002.

So, it's not surprising that managers have expressed positivity about the outlook over the longer term:

"Allied to the 40% relief from IHT available on qualifying assets, we continue to believe that a well diversified portfolio of businesses that are able to grow earnings over the medium to longer term whilst withstanding shorter term turbulence is an attractive proposition for suitable investors." Investec Wealth and Investment AIM Portfolio IHT Plan, Q2 2018 Factsheet.

COMMON BENCHMARKS FOR Q4 2018 PERFORMANCE

AIM Index	-21.8%
Numis Alternative Markets Index	-20.4%

"We believe the BR market is entering a mature phase - the gold rush is over and some serious mining is now required."

— LAURENCE CALLCUT, HEAD OF SALES, DOWNING

FIVE KEY POSITIVES

AIM BR INVESTMENT

1.

BR USUALLY EQUATES TO A LONGER TERM HOLD:

Investors need to be holding BR-qualifying shares at death in order to benefit from the relief. So, while two years is the minimum holding period to qualify, the reality is that it's likely to be a much longer investment horizon. For those holding AIM shares for the mid to long-term, valuations may be less important until actual disposal. Even after the death of an investor, inheritors may receive the IHT relief without selling the shares they have inherited. In essence, they may be in a position to wait for the market. However, the timing of death can never be predicted and it's the valuation at the time of death which determines the amount of BR available.

2.

OPPORTUNITIES FOR VALUE:

Fundhouse managing director Rory Maguire when asked about opportunities from Brexit said, "There could be many, but it seems likely that asset classes linked to the UK economy could sell off in an overly emotional way. Examples could be UK smaller company equities, higher-yield sterling debt and property, for example. There could be buying opportunities in these asset classes if the market overreacts in the short term[15]." And in March 2019, the Association of Investment Companies (AIC) stated that UK equities are trading at a 30% valuation discount to global peers - close to a 30 year low[16]. BR managers are well-placed to take advantage.

3.

VOLATILITY DOESN'T WRITE OFF A COMPANY:

Just because a share price has been volatile it doesn't necessarily mean the underlying company is not sound - e.g cash generative and able to continue trading towards better market conditions. Many AIM quoted BR-qualifying companies are large and well-established with robust operating structures in place. Take the example of Watkin Jones PLC, a BR qualifying AIM quoted company. Established in 1791, in the last twenty years it has become a key player and leader in UK purpose-built student accommodation, having delivered over 38,000 student beds at over 117 sites to date. On 3 December 2018 its shares were trading at £2.10 each. Within less than a week its shares had lost almost 10% of their value at £1.92. But by 3 January 2019, they were back up to £2.09[17].

4.

AIM OFFERS GREAT DIVERSIFICATION, INCLUDING NON-UK EXPOSURE:

The range of activities undertaken by AIM quoted companies is very broad. It has been criticised for being UK-centric but, while the stocks may be quoted in the UK, around half of revenues generated by AIM companies are from overseas. This is slightly higher than the FTSE 250. AIM quoted premium mixer company Fever-Tree, for example, generated c.50% of its revenues from overseas last year and this is expected to expand as the group builds out its operations in the US[18]. Because of the increasingly global nature of AIM, some investment managers are confident that Brexit's effect on the overall market will be limited.

5.

DON'T FORGET THE TAX RELIEF AND MANAGER CAPABILITIES:

Overall market figures don't take into account manager skill, or factor in tax relief to the return. That said, investors who are interested in investing in AIM for IHT mitigation, must be happy with the level of volatility and risk that is present.

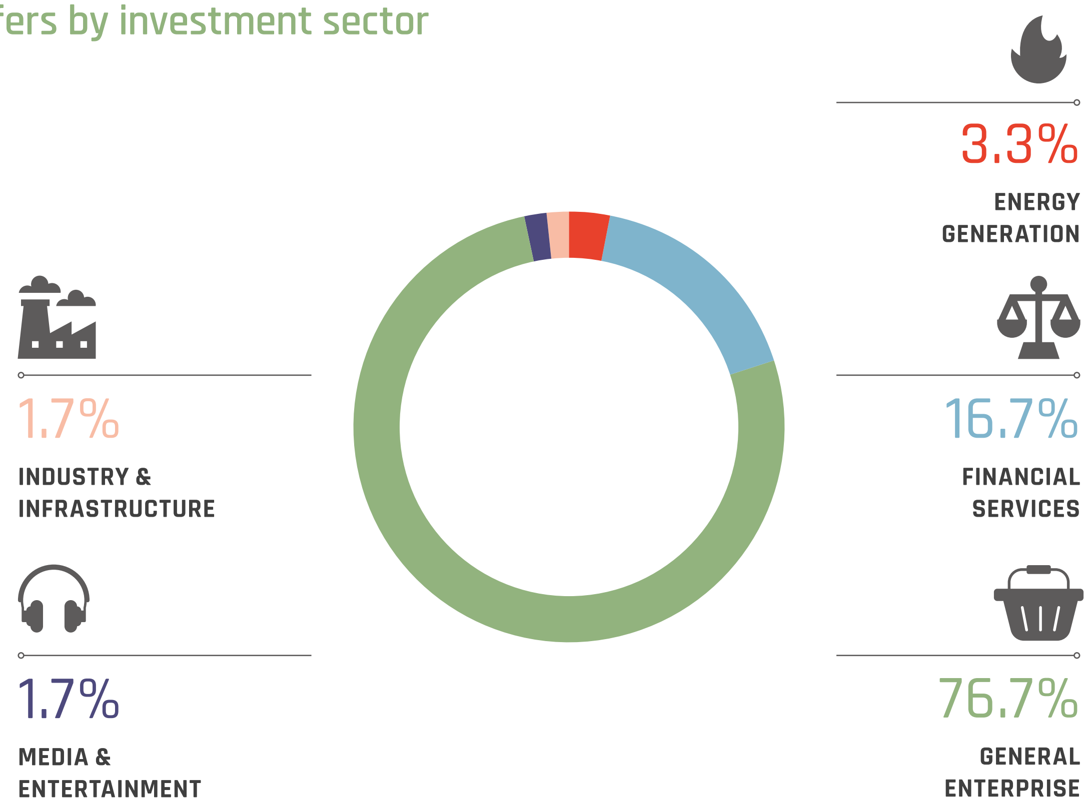
Finally, remember, the transparency of AIM makes it easier to view performance and valuation figures. So it's not unfair to assume that some private company BR investments are experiencing some negative impacts from geo-political uncertainty. For example, Oxford Capital recently withdrew and then closed its BR focused estate planning service as a result of issues with valuations of its non-AIM BR companies.

"The economy is doing very well. What is more, this economic reality takes into consideration that our exit may be on no-deal/ WTO terms. It is not a given that markets and economies march in lock-step, but the two are connected. And rarely have sentiment and fundamentals been such poles apart – investors may not be offered a better opportunity for a long time." – ***JOHN BARON***

SECTOR FOCUS

THE WHERE AND WHY

Market composition of open offers by investment sector



Given the uncertainties we've already discussed, the dynamics of the sectors selected for underlying BR investments are worth taking a look at.

MICAP analysis

The individual focuses of the four BR services that have opened in the last year are energy generation, media and entertainment, financial services and general enterprise.

Overall, open offers are dominated by General enterprise, which comprises all AIM-focused offers (31 of 47). With only around 600 companies making up the field of potential investees, it is entirely logical for these offers to keep all options open.

But of the other 16 (non-AIM) offers in this sector, the majority do give some indication of areas in which they may look for investments.

A deeper dive reveals seven of these General enterprise offers mention secured lending.

All of the ten offers that identify themselves as specifically **financial services** oriented undertake secured lending, meaning 28% of all open BR offers work in this sector. It's also worth noting that, even non secured lending sub sectors will normally require security for funds invested (usually by way of loans).

13 offers reference **energy generation** (for the most part renewable energy generation) as a potential investment sector. Added to the 3.3% of managers with a specific focus on energy generation, that equates to 15 of the 60 open offers overall or 25%.

Ten of the offers mention **property development** and **real estate,** 17% of all BR offers currently open.

Infrastructure and PFI (a way of creating "public–private partnerships" where private firms are contracted to complete and manage public projects, usually infrastructure based) is pinpointed by 4 of these offers. Added to the 1.7% of managers with a specific focus on infrastructure, that equates to 5 of the 60 open offers overall or 8%.

With 3 of the General enterprise offers interested in Media and entertainment investment, this makes a total of 4 of all open offers, or 7%.

Other sectors targeted include forestry, farming, hotels, self storage and energy efficiency.

Backing themes that are more likely to weather "short-term noise" is an important factor for BR, which generally has a medium to long term investment horizon. So why are these sectors the ones favoured by BR managers?

STRENGTHS AND WEAKNESSES

FINANCIAL SERVICES

The world economic crisis of 2008 and legislation that followed left a void in the lending sector as banks pulled back from making riskier loans to smaller borrowers for smaller amounts. This has left a space for specialist lenders, something that many BR managers are now experienced in.

One advantage of secured lenders is that they may have more liquidity than those holding and exploiting assets as there is typically a constant stream of maturing loans throughout the year.

The asset-backing strategy of BR managers in this sector is of course sensible, particularly at such an unpredictable time. But the sensitivity of current conditions makes it more important than ever that valuations are realistic (and preferably independently sourced) and that LTVs (loan-to-value) are conservative.

Underwriting loans as we move nearer to the end of a financial cycle is no easy task. While the increased risk may be accompanied by increased returns, capital preservation strategies engaging in these activities need to give comfort to investors regarding their expertise to do so.

"The economic uncertainty and market volatility over the past year has been well documented, but after a little wobble at the start of the year it is promising to see businesses are still prepared to take advantage of this (asset-based) borrowing." — ***AARON HUGHES, MANAGING DIRECTOR, EQUINITI RISKFACTOR***

ENERGY GENERATION

Energy is a commodity that we just can't do without and the UK currently imports over a third of its energy needs[19]. Leaving the EU could remove the UK from the Internal Energy Market, potentially changing the basis on which we import energy from the EU, reducing the efficiency of the system and ultimately leading to higher prices.

This is likely to put UK energy providers in a stronger position to make up the UK's energy shortfall. Any devaluation of the Pound would increase the cost of imported equipment and services, meaning that UK suppliers would be at an additional advantage. You only have to consider offshore wind projects to understand the possible impact this could have: more than 50% of expenditure associated with planning, building and running these UK-based projects is attributed to companies located outside of the UK[20].

According to Vivid Economics' paper, 'The impact of Brexit on the UK energy sector':

"Investment needs in the UK's electricity sector will be higher over the next decade than over the last two decades, due to both capital stock upgrades and the UK's decarbonisation plans. Coal generation built during the 1960s is reaching the end of its life, with closure accelerated by EU air quality directives, and most of the UK's fleet of nuclear plant are due to close over the next decade. The low carbon transition is also pushing up investment requirements, as both nuclear and renewable energy are more capital intensive than the fossil fuel plant they replace".

In essence, the government has no choice but to press ahead even in the likely scenario where higher returns are required to compensate investors for the risk of less favourable post-Brexit arrangements.

But shifting political priorities make it essential that managers have a detailed understanding of potential legislative changes and how they might affect the UK energy market and energy investments.

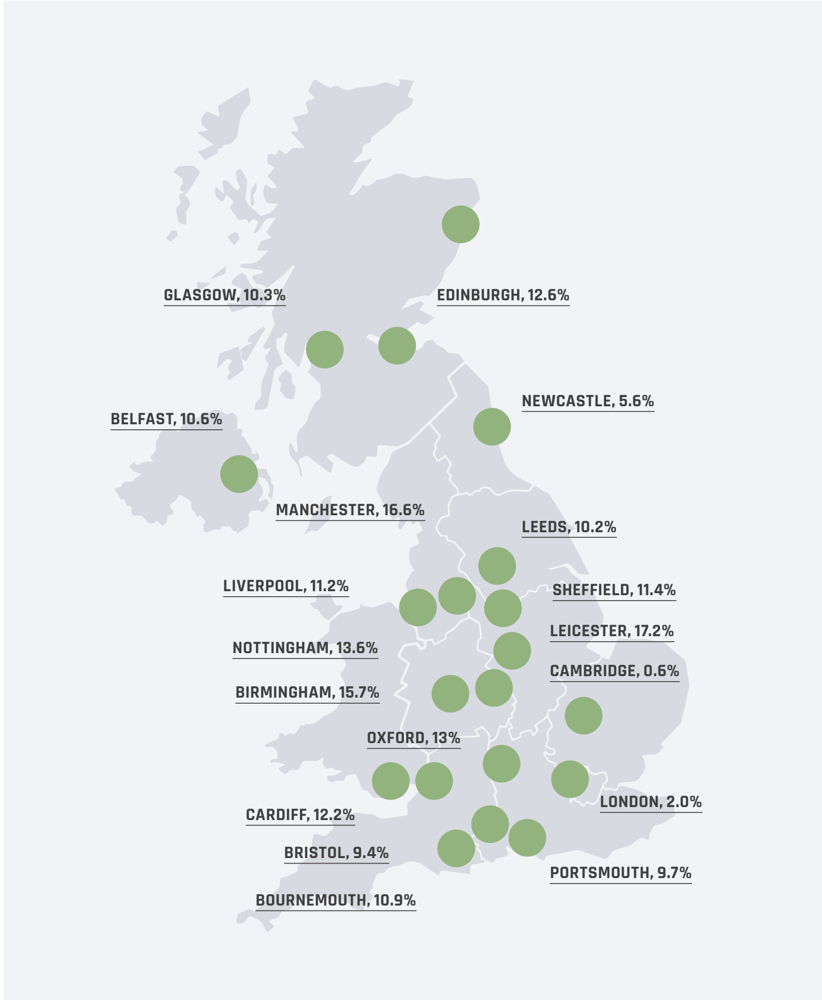
PROPERTY DEVELOPMENT / REAL ESTATE

House building is one of the most sensitive sectors given the impact economic uncertainty has had on house prices and the consumer appetite to spend the money it takes to buy a property[21].

This has impacted building rates, an unwelcome consequence for the UK housing crisis: Government figures show just over 222,000 new homes were delivered in 2017/18, up just 2% on the previous year and well below the government's promised target of 300,000. The rate of growth for residential construction meanwhile has halved, from 11.9% in 2016/17 to 6.4% in 2017/18[22].

However, while more expensive properties, particularly in the capital, have lost value, there continues to be a consistent undersupply of more affordable homes. There are still areas of opportunity in the regions, with pockets around the country, that have seen a surprising rise in values since June 2016.

PROPERTY VALUE MOVEMENTS SINCE JUNE 2016 BREXIT VOTE



SOURCE: ZOOPLA, MARCH 2019

Areas notable for strong house price growth in the last two years include Leicester, Birmingham, Nottingham, Oxford, Manchester, Edinburgh and Cardiff.

Larger home builders have not been pulling their weight in terms of meeting targets with the big three of Persimmon, Barratt and Taylor Wimpey each building fewer homes than ten years ago[23].

Research by the Home Builders Federation suggests that, if small builders were given greater support, they could make a big difference to the numbers: returning to the number of home builders operational in 2007 could help boost housing supply by 25,000 homes per year.

One of the major issues has been financing. The experiences of lenders in the global financial crash resulted in a drastic change in borrowing available to small builders for funding construction costs. In turn, in just the period 2007-2009, one-third of small companies ceased building homes. But the current demand and the security builders can provide, make this an attractive market for alternative lenders[24] including some BR managers.

With interest rates still hovering at very low levels, and overall house price inflation now below annual wage growth[25], buyer affordability is improving. Despite some hesitancy, in the right areas, home purchasers and investors alike remain interested in the long term security of UK residential property.

When it comes to commercial property, underlying sectors are important. High street properties have been under pressure, with the change in consumer buying habits, from trips to the shops to online retailing, needing no help from Brexit chaos to reduce demand.

Meanwhile, an ageing population is creating opportunities in retirement housing and healthcare properties and the office landscape is changing, with the influence of US start-up WeWork and flexible working suggesting shifting tenant needs. Again, trends outside geopolitical concerns are important, although Brexit disquiet is likely to affect central London markets, particularly if large companies move to countries within the EU.

Considerations for investment / Sector focus

"We see the infrastructure funds sector as a potential safe haven for investors, with relatively "risk-free" income from governments." – MACQUARIE[29]

INFRASTRUCTURE

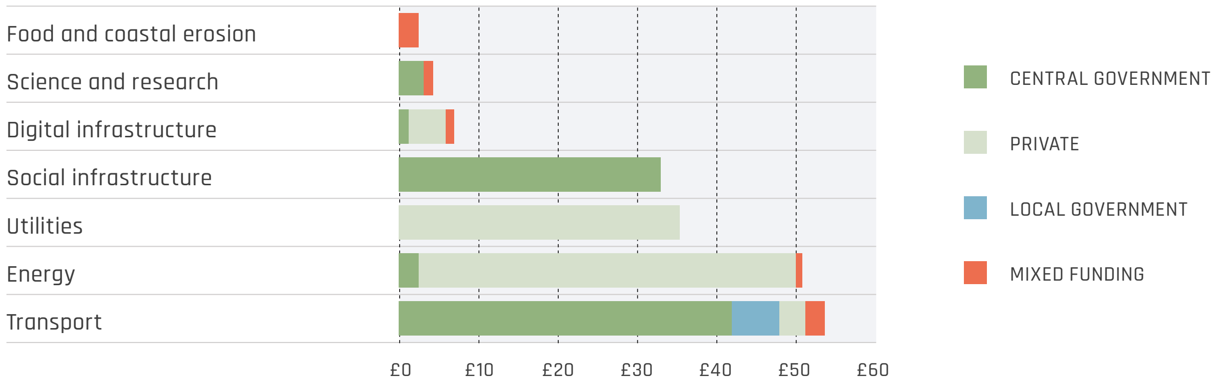
The requirement for infrastructure is consistent. The need for roads, power stations, bridges and the like does not dissipate, no matter what the backdrop. But, any disconnection with the European Investment Bank (a long-term investor in UK infrastructure), an inevitable consequence of Brexit, will leave a funding vacuum.

The role of the private sector is therefore increasingly important and the government hopes to encourage further private investment in infrastructure; of the projected £600 billion infrastructure investment pipeline for the next ten years, half is forecast to come from the private sector[26].

While these are massive numbers, the average project size is £329 million[27], affording the involvement of smaller funding providers. And the mid to long-term figures suggest it could be well worth their while; according to FE data, every single open-ended and closed-ended infrastructure fund with a long-enough track record has outperformed the MSCI AC World index over the last 12 months - a period of markedly high volatility[28]. Marry that with relatively predictable profitability and you have an attractive sector.

Advisers should be mindful though, that infrastructure managers must be experts on regulatory matters and changes that strongly influence what is going on within their projects.

FUNDING MIX OF THE PIPELINE 2019/19 TO 2020/21 BY SECTOR (£BN)



SOURCE: 2018 NATIONAL INFRASTRUCTURE AND CONSTRUCTION PIPELINE, INFRASTRUCTURE AND PROJECTS AUTHORITY, 2018

MEDIA & ENTERTAINMENT

People will continue to watch films and television and play games. With the reputation of UK content for quality and the advantage of the English language making sales to America or other English speaking nations straightforward, UK companies in this sector are well-placed.

Hi-tech solutions have made content production cheaper and there is serious demand for content to meet globally expanding appetites for film, TV, computer games and music through ever-expanding platform options. In fact, more time in the UK is now spent using media and communications than sleeping, proving it has become a vital part of our lives.

In addition, many sectors in Media and entertainment have the potential for very long tails. In other words, whilst there are upfront costs of production, the income stream generated is more than a one-off hit. Instead, downloads, re-releases, associated book and video sales, multiple attendances, additional airings, sales of merchandise and new formats can drive ongoing revenue. This gives content shelf life and takes some of the pressure off initial sales. So, even if it means that investment capital and returns are paid over a longer time frame, they have a greater chance of being paid.

As a market which does not follow standard economic cycles, Media and entertainment is also an impressive diversifier. Take the film industry where box office gross takings rose during five of the last seven economic downturns.

It's still worth considering the potential effects of leaving the EU which might impose restrictions on the easy distribution of UK content in the European single market. This could lead to diminished demand in certain countries for UK content as it will not qualify as EU content for local quota purposes. Any tariffs imposed on UK-distributed content could also impact the competitiveness of pricing and squeeze margins.

However, improving connectivity and the continued growth in smartphone use are likely to drive demand for media content in developing markets, not to mention big increases in the middle classes and the relatively high proportion of young people in their populations.

DIVERSIFICATION, DIVERSIFICATION, DIVERSIFICATION!

So, there are still some great indicators of where future success could lie and careful research and analysis of these areas is key. But, diversification has always been an important element of any investment portfolio. And with a melting pot of international turbulence undermining investor confidence and political stability, it's even more essential to select a range of investment managers and sectors.

BR AND NEW PROBATE FEES

BIG RISES FOR BIG ESTATES

April 2019 was due to see the introduction of the new probate fee structure that the government first mooted in 2017. But, at the time of writing, the changes have not yet been implemented. The delay is a result of pressure on parliamentary time due to Brexit debates and motions, with the draft statutory instrument still awaiting an approval motion in the Commons. Once the motion is approved, the new probate fee regime will come into effect 21 days later.

In England and Wales, probate is the process of applying for the legal right to deal with the deceased's property, money and possessions. Individuals can apply or use a solicitor or another person licensed to provide probate services.

Until these changes take effect, the current fee structure continues to apply with a flat probate fee of £215, or £155 if the application is made by a solicitor and no application fee charged if the estate value is under £5,000.

The new fees will apply according to a sliding scale linked to the value of the estate.

NEW PROBATE FEES

Estate Value	New fee
£50,000 or exempt from requiring probate	£0
£50,000 - £300,000	£250
£300,000 - £500,000	£750
£500,000 - £1m	£2,500
£1m - £1.6m	£4,000
£1.6m - £2m	£5,000
Above £2m	£6,000

According to the Ministry of Justice, lifting the fee-free threshold to £50,000 will mean an extra 25,000 estates per year won't pay any fees at all. But for estates valued over £2 million it equates to a 2,700% increase in cost[30] and is expected to raise around £155 million a year.

Some have already labeled it a stealth tax and there is speculation the changes have driven earlier payment of IHT due by larger estates in an effort to avoid the increases.

Although BR can provide 100% IHT mitigation, it does not take assets outside the estate. Therefore any BR-qualifying shares will contribute to the value of the estate for probate fee calculation purposes.

BR does, however, remain a good option for estate planning where speed of IHT mitigation, access to capital and absence of medical underwriting are important. For some estates extra probate fees will only equate to a few hundred pounds and put in the context of how much BR can save in IHT, that seems relatively little. For example, estates worth from £300,000 to £500,000 will be subject to an increase of £535. But if £100,000 of the estate was in BR-qualifying shares, £40,000 of IHT would be mitigated.

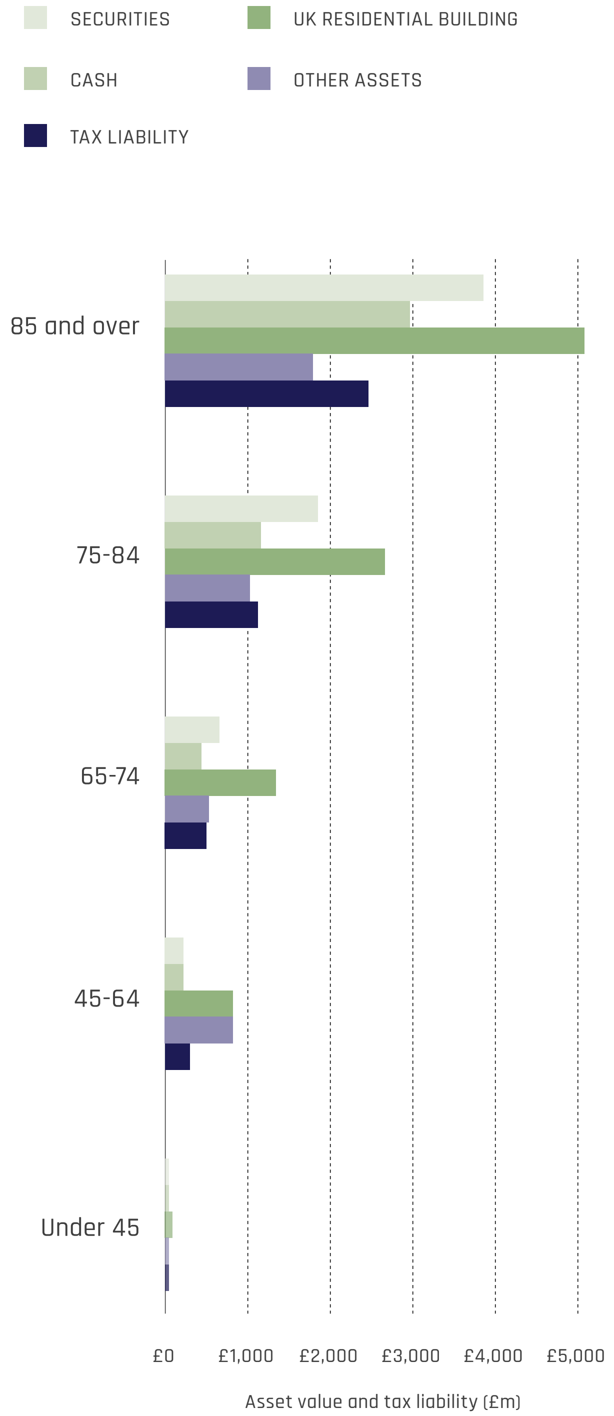
One option to take assets outside of an estate in order to reduce both IHT and probate fees would be to place them in a trust. Shares that qualify for BR reduce the lifetime charge to IHT that applies to assets settled into trust (in excess of the available nil rate band) from 20% to 0%. They are also not liable to periodic or exit charges.

But be careful. Fees for the establishment and management of the trust could be more than any probate fee saving.

LATER LIFE TRENDS

FINANCIAL TENDENCIES AS WE AGE

ASSET VALUE AND TAX LIABILITY BY AGE BANDS (2015-16)



SOURCE: INHERITANCE TAX STATISTICS 2015 TO 2016, HMRC, AUGUST 2018

Stockpiling Cash

The latest IHT statistics clearly demonstrate that, as we age, our assets accumulate along with our tax liability. As you might expect, the value of residential buildings within estates has been increasing. The value of securities also climbs as we gradually convert cash to pensions and annuities and perhaps invest to boost our reserves.

However, when we might expect to see cash decumulation in later life, it jumps up considerably.

One reason given for this by HMRC is, "insurance policies shift to cash as the age of the deceased increases. This is understandable since, at advanced ages, beneficiaries of a life insurance policy upon death of the holder, are more likely to receive this payment, and less likely to take such policies out themselves[31]."

It's also safe to assume that the tendency to stockpile cash is a response to the changing demographic landscape. With increasing life expectancy, greater occurrence of health challenges like dementia and the care costs they bring, as well as ongoing family demands on older members, our immediate financial needs are more unpredictable.

The bad news is that some things don't change. Cash is vulnerable to both inflation and IHT, drastically reducing any left to pass on to future generations.

This could be where BR solutions, with their investment element and access to funds, plus IHT mitigation after two years, could be a solution for the right clients. It's also why keeping in regular contact with clients as they age and as their circumstances change is essential from an IHT planning perspective.

Overfunding pensions signals opportunities

When it comes to pensions lifetime and annual allowances, two things have become crystal clear this year:

- There is a lack of awareness of these pensions changes that is not going away
- As we suspected, the restrictions are leaving individuals with excess funds that they want to safeguard for later life

While pension freedoms introduced in 2015 have made many pensions IHT free (if the pensioner dies under the age of 75), the caps on annual and lifetime contributions come with painful penalties of up to 55% – depending on whether the excess is taken as a pension or a lump sum.

So, on the one hand there is an incentive to pour as much as a client can afford into pensions because of their lifetime and post-death tax benefits. On the other, this has been severely curtailed in recent years, with the LTA slashed to £1,055,000 and the AA down to £40,000 (reducing to £10,000 for those earning £200,000 a year or more).

The statistics now prove that there are hundreds of millions of pounds of excess cash looking for a tax-efficient home annually. In 2016/17 the total value of pension contributions exceeding the AA and to which penalties apply, was £517 million (from a total of 16,590 individuals). This is over three times the previous year's £143 million[32]. Meanwhile, the penalties derived from those breaking the LTA in 2016/17 reached £102m (applicable to 2,120 individuals), up from £66 million in 2015/16.

According to some research, this is just the tip of the iceberg, finding that 290,000 people have already breached the LTA, with a million further workers who are not currently over the LTA likely to breach it unless they take action[33].

You could add significant value to your client relationships by asking them about their pension contributions. This could not only prevent costly penalties, but also identify planning opportunities.

Where clients are keen to build capital for the future, particularly if IHT is a client concern, or if they have left it late to consider estate planning outside of their pension, BR could be a strong option.

In 2016/17 16,590 individuals made a total of £517 million worth of pensions contributions in excess of the pensions lifetime allowance.

"With recent market volatility we've seen advisers focussing on asset-backed portfolios focused on capital preservation. There had been a noticeable increase in advisers looking into the underlying investments in detail. At TIME we recognise the importance of offering full transparency around our research process and investment criteria."

— HENNY DOVLAND, SENIOR BUSINESS DEVELOPMENT MANAGER, TIME INVESTMENTS

Investment management and advice trade association perspectives on using BR

Desmond FitzGerald

Senior Policy Adviser at PIMFA

Business Relief has been available since tax legislation in 1976. Once the qualifying assets have been owned for two years they can be passed on free from inheritance tax on the death of the asset owner.

The assets covered could be farmland, forestry, trading business and certain AIM quoted businesses. Using Business Relief allows assets to benefit from the relief faster than using trusts or gifts and, most importantly, it can be done without the owner losing control over the capital as the transaction is carried out in their name. They retain the benefit of the asset, with the intention of passing it on, but the person receiving the asset after death is not faced with an inheritance bill if the relief conditions are met.

However, this type of tax relief is complex and specialist. There are a range of limits and exemptions and different stages so it is vital that someone thinking of using these reliefs gets proper professional advice. Advisers must encourage clients to make the time to understand their own financial circumstances and engage sufficiently to ensure they can do their job effectively and provide suitable advice.

For an adviser, it is essential to properly understand the circumstances of your client. For example, a client may wish to leave assets to their family and friends or to charity but an adviser must also ensure their client's financial needs in this world are met too and the advice they give should take into account how the client could meet any changes in their future circumstances.

It's not unreasonable that a client may need extra medical care or to adapt their home in the future even if this is not evident at the time of the advice. The adviser should reasonably assess if it is the best option to commit capital in such a way that the decision is difficult to reverse at a later date if they do require the benefit of funds that they had previously planned not to access.

Suitable advice should always take a client's full circumstances into account and try to take a longer-term view, pre-empting some of the needs the client will have in the future. Of course, the adviser can't know in advance what those specific changes in circumstances might be, but they ought reasonably to factor in changes such as if the client were to be unwell or retire differently to how they expect at the time of the advice. Consideration must also be given to whether or not they have other financial resources they can call on separate to the assets being considered for IHT relief purposes.

It's important to bear in mind that IHT relief is a specialist area that is not suitable for everyone, which is where the skills of a qualified and suitable adviser can add value and give peace of mind.

Paraplanners perspectives on the use of BR

Grant Callaghan

Head of Paraplanning, Para-Sols

Most clients in retirement have a central objective of ‘never running out of money’. Business Relief gives a lot of flexibility in balancing future needs against immediate and efficient IHT planning. This is in comparison to the major and mostly irreversible decisions that need to be made when gifting or settlement into trusts are considered.

Factors that would make BR investments suitable

The most important aspect is ability to withstand loss. Any BR investment is naturally going to result in concentrated exposure to UK equities and those that could be relatively illiquid (if not using AIM) or certainly those that are less well capitalised and potentially more volatile (if using AIM).

In theory, investors in these products need to have a total capacity for loss, as the way of achieving full IHT relief is only realised by holding the shares until death. While the ability to access the funds if ever needed is a major planning consideration, the focus should be on never requiring access.

Investors in BR products need to also be comfortable with the range of risks. They are in most instances likely to fall within two camps: those who only have experience of ‘traditional’ investments and those have never invested before.

While there are a number of products that focus really well on minimising volatility through capital preservation, investors need to be aware of the potential impact market downturns might have on their portfolio. Understanding the additional risks and potential implications is crucial to supporting a BR recommendation.

Researching BR

Before you can consider a suitable BR product, you should establish with the client their attitudes and feelings towards:

- Objective of the investment: Is capital preservation key or is a growth strategy with potential for income distributions more appropriate
- Their emotional and practical capacity for loss as well as the impact of volatility: an asset backed unlisted approach is likely to be less volatile compared to a portfolio of AIM holdings
- Anticipated timeframe: this will largely depend on age and if the period is shorter, an asset backed approach with a more defined exit strategy might be more suitable. Likewise, a longer-term horizon could lend more weight to use of AIM assets
- Their knowledge and experience: knowledge of the AIM might make this a more suitable approach.

The potential size of the portfolio will have an impact. We’ve seen a number of wealthy clients make use of a reducing investment threshold by ‘dipping their toe in’ with relatively small approaches to BR investment.

Establishing the above allows you to narrow down your filters. You can then consider the potential providers based on a comparison of key features including, but not limited to, track record, provider experience, charges and transparency and investment approach and mandate.

Conclusion

Investment in BR has increased over recent years. We would expect this trend to continue particularly as spending on care becomes more of a mainstream planning consideration for individuals. For those for whom BR investment is judged as suitable, the benefit of maintaining lifetime ownership and access for purposes of future care funding is likely to make this one of the main IHT planning strategies individuals, and their advisers, consider.

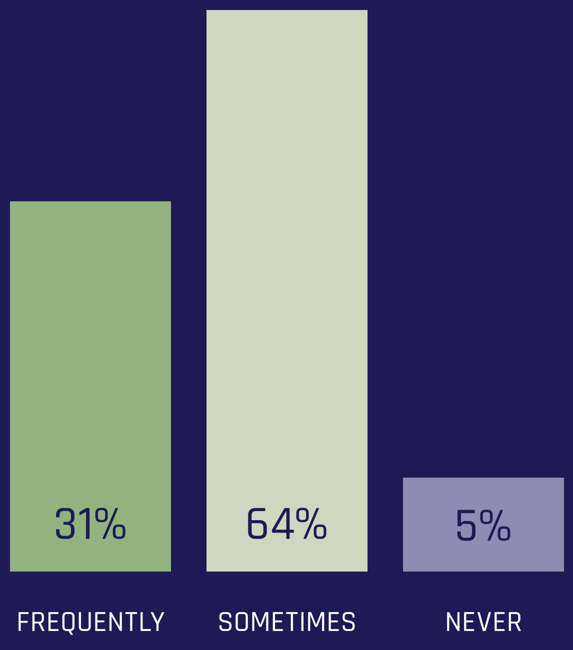
ADVISER SURVEY ANALYSIS

WHAT ADVISERS THINK

This survey was conducted over a period of three weeks from the end of March to mid-April 2019 with the intention of giving a window into the current opinions of advisers in this market.

We had 58 responses and are very grateful to all of those who participated. Their answers provide valuable insights, although it's worth remembering that many of those we reach out to are already involved in tax efficient investments to some degree.

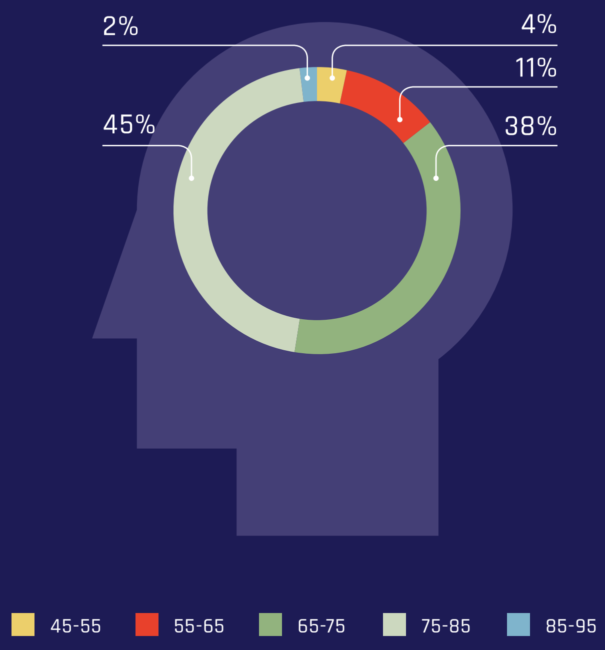
DO YOU RECOMMEND BR TO YOUR CLIENTS



The proportion of advisers using BR and the frequency that they use it has remained remarkably similar to our survey results of last year.

It's interesting to note that, of the three advisers who reported never using BR, two see their use of BR increasing in the next two years.

WHAT IS YOUR AVERAGE CLIENT AGE?



There is a broader range this year of average age groups to whom advisers (who use BR) recommend BR. A small number of advisers now recommend BR to clients whose average ages are 85 to 95 and 45 to 55. This indicates not only a shift towards recommending BR at an earlier age, but also at a later age and highlights the versatility of the relief.

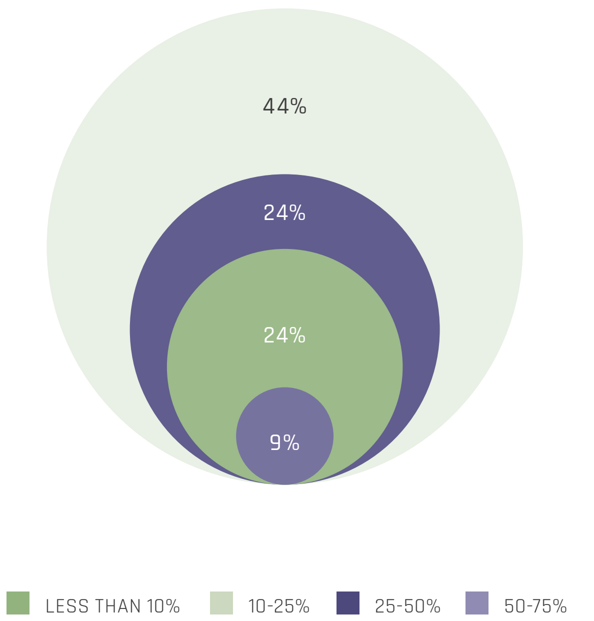
WHAT ARE YOUR TOP 3 CONCERNS WHEN SELECTING A BR INVESTMENT?

LACK OF LIQUIDITY	**56%**
INVESTMENT RISK	**55%**
EXIT RISK	**38%**
LACK OF TRANSPARENCY	35%
NO TRACK RECORD	29%
SUITABILITY	16%
HMRC CHALLENGE	16%
COMPLIANCE AND DUE DILIGENCE	0%
SECTOR REPUTATION	0%

We speculate that current conditions have heavily influenced these results. Last year Compliance and due diligence was the main concern, whereas this year it doesn't register at all. Instead, Lack of liquidity appears in well over half of advisers top three concerns - an 11% increase since 2018. Investment risk has also jumped from just under 43% to almost 55%. Exit risk, which stood in fifth position last year has moved up to third.

The proportion of advisers who place concerns like suitability and HMRC challenge in their top three has almost halved. So tangible, performance related issues are most important for advisers.

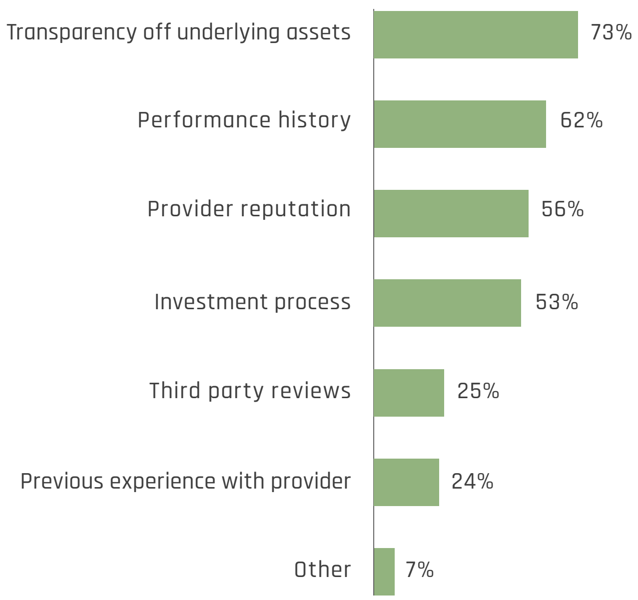
FOR WHAT PERCENTAGE OF YOUR CLIENT BASE IS BR SUITABLE?



Since 2018, the number of respondents who said BR was suitable for 10% - 25% of their client base has climbed from 38% to 43%. This is largely attributable to a drop in the number who said BR was suitable for 25% to 50% of their client base. These two groups make up over two thirds of respondents, an unexpected drop of just over 3% from last year as we would expect to see the percentages increase as the UK population continues to age.

There is, however, a small increase in the percentage stating that BR is suitable for 50% to 75% of their clients.

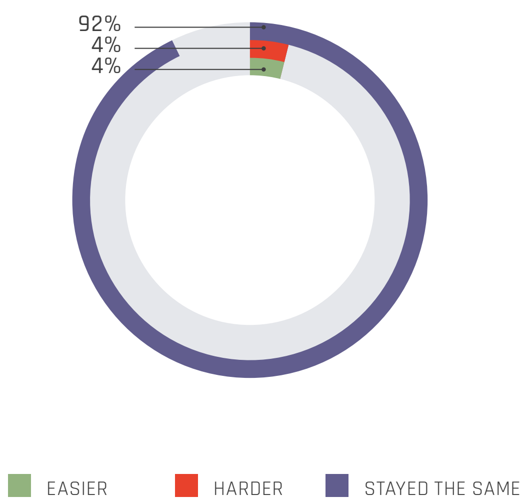
WHAT ARE YOUR TOP 3 CRITERIA WHEN SELECTING A BR INVESTMENT?



There has been no change to the order of importance attached to each of these criteria since last year, although Performance history and Provider reputation have both been identified by more advisers as one of their top three criteria.

The most striking result though, is for Third party reviews. Only a quarter of advisers now place this in their top three criteria, compared to just under 43% last year. Perhaps in the current context of volatility and unpredictability advisers are valuing the experience of BR managers more highly.

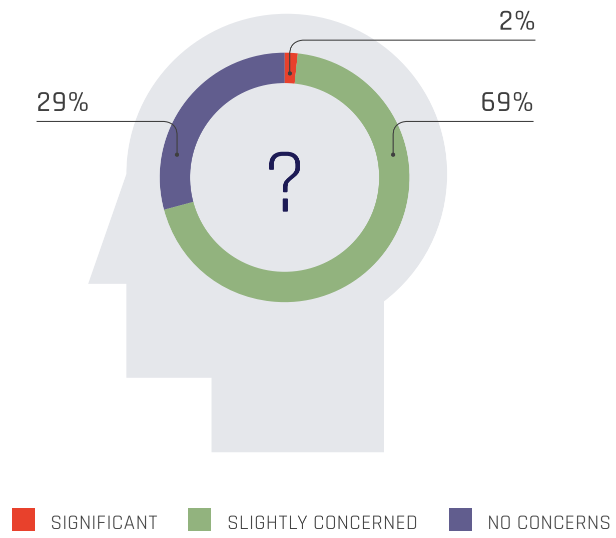
WITH THE UNCERTAINITY OF BREXIT AND ITS POTENTIAL IMPACT ON INVESTMENT PERFORMANCE, HAS THIS MADE BR EASIER OR HARDER TO RECOMMEND?



Even though the current political and economic backdrops appear to have significantly affected what advisers are concerned about within BR, in March/April 2019, a period of repeated parliamentary deadlock about how to proceed, less than 4% of advisers (who recommend BR), viewed it as harder to recommend as a result.

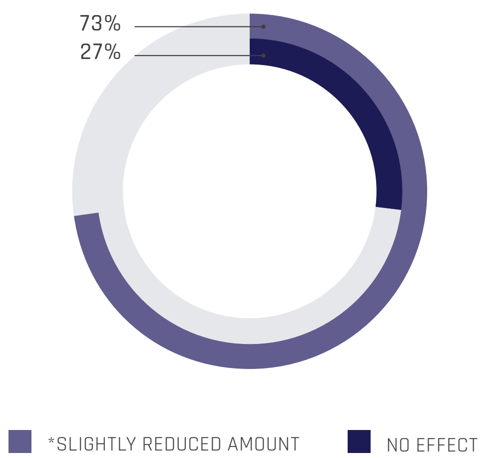
This speaks to the strength of BR as an estate planning tool no matter what the wider context.

DO YOU HAVE ANY CONCERNS ABOUT POTENTIAL RULE CHANGES TO BR AS A RESULT OF THE OTS IHT REVIEW?



Advisers are also confident in the legislative structure of BR, with minimal concerns over rule changes after the OTS IHT review.

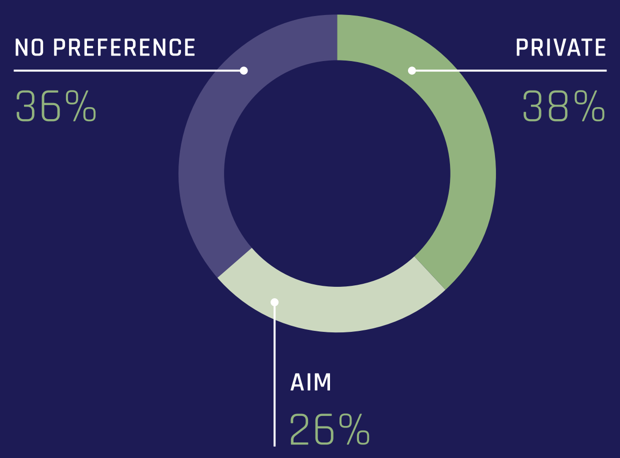
HOW HAS THE RESIDENCE NIL RATE BAND AFFECTED THE ESTATE PLANNING YOU HAVE UNDERTAKEN WITH CLIENTS IN THE LAST YEAR?



No advisers reported a significant impact of the RNRB on amounts that might be considered for BR investment*. But the proportion noting no effect has dropped slightly from 30% last year, while just under 73%, a 5% increase on 2018, reported a slight reduction in the amount of funds liable for IHT and for which BR might be considered. This indicates a very gradually increasing impact on BR by the RNRB.

As we noted last year and, as other sections of this report suggest, it also suggests high usage of BR by estates that are too large to be able to use the RNRB and where it has therefore had little effect.

DO YOU PREFER EXPOSURE TO AIM OR PRIVATE COMPANIES FOR BR INVESTING?



There has been a dramatic drop in the percentage of advisers who express no preference between AIM and private companies. Last year it was just under two thirds, this year it is just over a third. Two thirds of the shift has moved to private companies and bearing in mind recent AIM volatility, that is understandable.

However, with a shift also to AIM, there is a question over whether advisers are becoming keener on focusing on just one of the binary options. Could it be that they are becoming more comfortable building knowledge and experience in one or the other and specialising mainly in that?

WHY PRIVATE COMPANIES?

Interestingly in view of recent AIM volatility, there is greater focus on the importance of capital preservation this year than last when it accounted for 78% of advisers' reason for preferring private companies.

While all current AIM BR offers target growth, many private company offerings target capital preservation as part or all of their strategy. BR managers tend to have greater control in private companies where there are fewer shareholders and there is more opportunity to influence board decisions.

GREATER FOCUS ON CAPITAL	90%
LESS VOLATILITY	10%

WHY AIM?

Liquidity was the top reason last year, with 50% of advisers selecting it as their top reason for preferring AIM. This year, 'greater transparency' is over three times more important than last year (in 2018 just 12.5% of advisers cited it as one of their top three reasons), while 'easier to measure volatility and performance' has remained fairly static. So, the opportunity that AIM gives for advisers to see what is happening and to track performance in real time has become a much bigger driver for advisers who prefer AIM.

GREATER TRANSPARENCY	43%
EASIER TO MEASURE VOLATILITY AND PERFORMANCE	36%
GREATER LIQUIDITY	21%

DO YOU SEE YOUR USE OF BR INCREASING OR DECREASING OVER THE NEXT TWO YEARS?

As with last year, no advisers saw their use of BR decreasing in the next two years. There has been a slight shift with just over 2% more expecting it to stay the same, but the positivity remains very high with over three quarters predicting an increase.

ADVISER ROUNDTABLE

BR AND TODAY'S CONTEXT

Moderator:
Lisa Best, Intelligent Partnership

ATTENDEES

KEVIN GILLIBRAND
FRASER WEALTH MANAGEMENT

CHRIS PEARCE
PEARCE WEALTH MANAGEMENT

MARCUS MAISEY
KDW FINANCIAL PLANNING

How has the uncertainty of Brexit and its potential impact on investment performance affected your use of BR, if at all?

KG: I think it will have far more impact on AIM portfolios, where there is much more volatility than private company investments in BR. If we entered an economic slow-down, clearly some sectors could be affected, but there are some such as renewables that I don't see being significantly affected. Energy generation is non-stock market correlated and I think it should remain a strong sector.

CP: Brexit hasn't made it harder for me to recommend BR, it is just part of the overall risk profile. But it is essential that advisers identify those risks and communicate them clearly to clients and, crucially, to their beneficiaries. It's impossible for us to identify the real impact of Brexit on assets, taking into account currency, different indices, political instability and the possibility of a change of government and whether or not that changes the rules relating to BR. This doesn't stop us from doing BR business, as there have always been inherent risks. Our goal is to try to mitigate those risks as much as possible, by looking at the amount we're comfortable to invest in AIM or private equity, the integrity of NAVs, whether there is an active secondary market, how linked (or preferably not linked) it is to government activity and the remainder of the due diligence suite.

MM: I think Brexit is having more of an impact on AIM BR portfolios as the AIM market has suffered quite badly over the last twelve months or so. Although, if you managed to buy into AIM recently, you'll have done very well as there has been quite an attractive bounce in values since the beginning of the year. The private company, asset-backed BR products are likely to be impacted less as they are not directly correlated to general market conditions. In terms of long term planning, BR certainly still has a place, but our BR strategy at the moment is skewed in portfolio terms with 25% AIM and 75% private company, asset-backed just to reduce the current risk.

How do you feel about AIM-based BR solutions at the moment, given the volatility that geopolitical uncertainty, including Brexit, has brought?

MM: As I mentioned, we are still investing in AIM BR solutions, but obviously we look at everything on a case by case basis. So for clients in their 50s - 60s, we might have a preference for AIM equities if we are looking for greater growth along with IHT planning capabilities, whereas, for older clients, if we are simply using BR as an IHT planning tool, we might look at asset-backed private company BR investments with more capital preservation elements.

CP: From my perspective, whether or not I put AIM forward as a solution would very much depend on whether the client already had something of a similar risk profile in their portfolio. If not, it would be very unlikely I'd put that in a BR solution for them. And because the assets on AIM don't trade as dynamically as they do in blue chips, for example, the way their volatility is measured can understate the true level of risk. Having said that, risk can be a good thing, as long as you badge it correctly, but you do need to take into account manager experience and I think that only a few of the current AIM BR managers have experience of the last financial crisis.

KG: AIM is more of a judgement call for us than private company BR investments at the moment. It's at the volatile end of the UK stock market, so is far more sensitive to market timing. But if it was a £20,000 ISA in a large portfolio, I probably wouldn't be unduly worried. If it was a significant investment, I'd be looking for a timing play. I'd be saying to a client that I'm happy this is a good long-term strategy, but I'd want to be careful about the timing of the implementation and probably not invest right now. But for clients that are already invested in AIM who seem healthy, I don't have any major concerns because of the medium to long-term performance record we've seen.

Do you think there is an unfair focus on AIM-based performance/valuation issues as private company valuations simply aren't freely available?

KG: The transparency of valuations for private company BR investing is certainly challenging and so is due diligence in this sector which doesn't benefit from the same level of information as is available in more mainstream sectors. But, because private company valuations are usually quarterly or six monthly, it feels like valuations are more stable. The situation at Oxford Capital, where they've suspended trading in their private BR companies has been a shock. I've been in BR for a number of years and in that time BR investments have always done what they said they would, so it's important that they resolve whatever the issues are so that advisers and investors don't lose confidence.

MM: There are clearly differences between AIM and private company, asset-backed BR portfolios. AIM portfolios are higher risk than more blue chip, standard equity portfolios, but there are some big, well-established AIM companies that BR managers focus on. One advantage of an AIM portfolio is that you can put it in an ISA. But clients remember downsides more than upsides and we are obviously in a volatile period. That said, as Chris says, as long as you explain the risks to the client and the fact that it is a long term investment and the right blend is achieved for the client in terms of risk profile, I think there is a place for both AIM and private company, asset-backed BR portfolios.

CP: I think with private company BR investments, you must take a very proactive stance in how you speak to the managers, collecting as much information as you can to get the clarity you need. It's not just about net asset values, but the manager's particular approach to net asset values, and how conservative they are. Will they also allow you to see all of the investee companies underneath the holding company? My approach is to get down to the highest level of detail on the investee companies and then to monitor them closely. That takes a lot of time and work. Sometimes managers won't provide that detail and if that's the case, I won't use them for a solution.

"Brexit hasn't made it harder for me to recommend BR, it is just part of the overall risk profile. But it is essential that advisers identify those risks and communicate them clearly to clients and, crucially, to their beneficiaries."

— CHRIS PEARCE, PEARCE WEALTH MANAGEMENT

Moderator:
Lisa Best, Intelligent Partnership

Does the OTS review of IHT make you nervous about changes to BR, or BR's future?

CP: One of the best things you can do for due diligence is to meet with the investment managers - those who are actually making the investment decisions. They have different approaches - some don't want to get the attention of HMRC by trying to do something outside the norm, while others are less concerned. For example this year, one provider issued a rights issue allowing investors to add to their BR position at their original investment date. So if they had been invested for two years or more already, they would immediately qualify for BR on their additional shares. Whether or not this will attract a challenge from HMRC is unclear as these things are subjective. So, as I've said, we just have to identify and communicate the risks.

KG: I agree. I can't influence what the Treasury is going to say or do and until anything happens, I just have to advise based on the current legislation. I'm quite relaxed about it and it will be what it will be and we will react to it as we need to.

MM: You can only work on what is current in terms of legislation, otherwise we would never do anything. And tax legislation is rarely retrospective so we keep an eye on reports and news but just make sure we are working to the latest rules.

Have you noticed any increase in the impact of the residence nil rate band on estate planning and your use of BR in the last year?

MM: If we have clients with an estate worth over £2 million, we may use BR to make an investment exempt from inheritance tax and then roll it into a trust after two years. Reducing the estate to under £2 million lets the investor then reclaim their RNRB. On the other side of the coin, the RNRB has reduced the need for some planning in estates under the value of £1 million where there is a married couple with children, due to the increased allowance brought by the RNRB. So while there has been an increase in usage of BR in some cases, there has also been a reduction in others.

KG: A lot of our clients are so wealthy that they don't get any benefit from the RNRB as they're well above the £2 million threshold. So we're still looking for the financial planning techniques to mitigate their IHT liabilities.

CP: Because our due diligence company is relatively new, it's hard for me to say what the impact has been as I don't have enough years to compare the last couple against. But there must be some element of an impact, particularly in the south with the higher asset prices there.

Are there any particular sectors you favour for BR investments at the moment? If so, why?

KG: I usually go for capital preservation BR products because I prefer a capital gains tax focus, rather than a dividend or income tax mitigation play as it's more tax efficient. Then I'm usually looking at renewables and asset-backed lending.

MM: We don't have particular preferences, but we do mix and match providers so that we have a good spread of underlying assets.

CP: I look at the underlying investments in as much detail as I can when putting together complementary schemes. But, because most schemes have such a narrow focus, despite what they say on the tin, any new investment sector is welcome as we don't have enough as it is.

"I can't influence what the Treasury is going to say or do and until anything happens I just have to advise based on the current legislation. I'm quite relaxed about it and it will be what it will be and we will react to it as we need to."

— KEVIN GILLIBRAND, FRASER WEALTH MANAGEMENT

What are your views on diversification across BR providers?

CP: I always provide very heavily researched portfolio solutions (typically across 5 different offerings) when working with BR, if the investment amount allows. But you need to do more than pick large schemes which might have largely the same underlying assets. To really diversify you need to consider those schemes with complementary investments, including some of the mid-sized schemes and weight them accordingly. The important factor to consider here is liquidity. If redemption requests necessitate the forced sale of assets, there are a multitude of things to consider such as the use of conservative NAVs, leverage and liquidity provisions.

KG: For me it depends on how much I'm looking to invest. If it's £50,000 or below, I'd just stick with one BR manager. But if I'm building a larger portfolio, I'll probably do it in £50,000 chunks. Don't forget, this is going to be part of a client's overall wealth management strategy and I've usually already built a very diversified portfolio for a client. The BR investment is often an additional diversifier within that structure.

MM: Like Kevin, if we had a BR portfolio of £200,000, we would probably look to use four providers with a £50,000 investment going to each one. If you choose the right providers who offer diversification across sectors within their own products and overall, this is sufficient. The other thing, as Chris mentioned, is that you need to take liquidity into account; if you need to redeem the money, it's easier to redeem smaller chunks because smaller amounts are likely to be available more quickly from several individual providers than if you have a large amount with one provider.

"If we have clients with an estate worth over £2 million, we may use BR to make an investment exempt from inheritance tax and then roll it into a trust after two years. Reducing the estate to under £2 million lets the investor then reclaim their RNRB. On the other side of the coin, the RNRB has reduced the need for some planning in estates under the value of £1 million, where there is a married couple with children, due to the increased allowance brought by the RNRB. So while there has been an increase in usage of BR in some cases, there has also been a reduction in others."

— MARCUS MAISEY, KDW FINANCIAL PLANNING

INDUSTRY DEBATE

THE CURRENT LANDSCAPE

Moderator:
Lisa Best, Intelligent Partnership

ATTENDEES

ANDREW ALDRIDGE
DEEPBRIDGE

JERRY PRICE
BLACKFINCH

LAURENCE CALLCUT
DOWNING

STEPHEN DANIELS
TIME

BELINDA THOMAS
TRIPLE POINT

What are your strategies to select and protect your BR investments against the impact of Brexit uncertainty and other geopolitical factors that may be bringing us closer to the end of the current economic cycle?

AA: The Deepbridge IHT Service focuses solely on supporting renewable energy assets, a sector which continues to grow. For installations that are eligible for government subsidies, a large part of the revenue generated is index-linked and assets are also usually insured in order to mitigate against disruption to revenue, thereby offering subscribers a degree of protection from external disruption.

JP: We follow stringent processes, focused on investing in well-run businesses with the ability to weather changes. For AIM-listed business we operate an exclusive partnership with Chelverton AM, drawing on its stock-picking expertise. As an EIS investor, while unlisted firms are less tied to economic shifts, we support them to exit.

BT: Our BR strategies focus on leasing and lending to a wide range of the public sector, corporates and SMEs across the UK and in a broad spectrum of industries. The portfolios of the businesses are well diversified and liquid so could if necessary become more defensive. Our managers have successfully managed BR portfolios through several economic cycles and we believe that even in difficult times there is always a place for good lending to good businesses.

LC: Our BR investments are in unquoted UK businesses and so aren't directly correlated to stock markets or geopolitical factors. This means they tend to react to changes gradually rather than in sudden movements. To protect our investments, we work with experienced management teams, applying a rigorous due diligence process and ensuring there's a market to exit the investment.

SD: We have recently changed the return for TIME:Advance and TIME:CTC from 3.5% p.a. to a range of between 3% and 4.5% p.a. Both services are fundamentally capital preservation focused and this new range will allow us to continue to invest in lower risk/return assets and lower risk lending.

"For installations that are eligible for government subsidies, a large part of the revenue generated is index-linked and assets are also usually insured in order to mitigate against disruption to revenue, thereby offering subscribers a degree of protection from external disruption."

— ANDREW ALDRIDGE, DEEPBRIDGE

Have you noticed any hesitation among investors/ advisers to commit funds to BR in the current climate?

BT: Yes, to an extent. We have fielded an increasing number of questions on the impact of a hard Brexit on our return profile, leading us to reiterate that we are providing funding to UK businesses, wholly in sterling and without the use of gearing.

LC: Not really. Investors in BR funds usually approach it from an inheritance tax planning angle and understand that the services don't behave in the same way as mainstream investments. For extra peace of mind, we offer automatic Downside Protection Insurance which covers any loss at death of up to 20% for investors up to the age of 90.

SD: We've experienced steady inflows of capital and interest for BR investments remains very high. Growth in estate values continues to outpace the increase in the RNRB and other available reliefs. IHT is an ongoing issue and many advisers recognise that there is no benefit to delaying an investment, as this only delays the BR qualification.

JP: We see investors proceeding with caution. It's no surprise that the main issue giving investors concern over making an investment at the moment is Brexit. Furthermore, investors looking to utilise BR via AIM shares saw the FTSE AIM All-Share Index fall, in the last four months of 2018, by around 23%.

AA: The process of the UK leaving the EU has led to investor uncertainty which has undoubtedly led to some investors delaying tax-planning and investment decisions. However, it should be noted that unquoted renewable energy investments are largely uncorrelated to stock markets and, with a reasonable degree of predictability of revenues, so this continues to be an appealing sector. Deepbridge's fundraising continues to grow year on year, across all products, and therefore it is difficult to show any quantitative data around investor hesitation.

"IHT is an ongoing issue and many advisers recognise that there is no benefit to delaying an investment, as this only delays the BR qualification."

— STEPHEN DANIELS, TIME

Have you noticed any impacts from the tightening of rules in EIS/VCT - e.g availability of deals that would previously have been taken by capital preservation EIS/VCT managers?

LC: The tightening of rules has unfortunately meant that some important businesses we've previously invested in, such as children's nurseries and pubs, are no longer likely to be approved for EIS. However, they may still be viable areas for BR investment in which we have significant experience and potential deal flow.

BT: No not really. Our focus remains on leasing and providing funding to the public sector, corporates and SMEs, areas which do not typically attract the VCT/ EIS tax reliefs, consequently the tightening of the rules have not impacted our deal flow. What we are seeing is demand for funding from businesses which is not being met adequately by the banks and hence a strong pipeline of opportunities for us to support UK growth.

AA: With the Deepbridge IHT Service's sole focus being on renewable energy assets, we have seen a positive impact on the availability of opportunities. A number of historic renewable energy EIS funds are seeking to sell assets in order to provide EIS investors with an exit. Therefore, there is a choice of energised

Moderator:
Lisa Best, Intelligent Partnership

assets, often with a number of years of index-linked government subsidies remaining, from which our trading companies may select the best-performing assets which are projected to exceed our 6% target return per annum.

SD: Our core sectors of lending and energy infrastructure have been excluded from EIS/VCT for a number of years. We have recently acquired a storage development project, which would have historically received EIS/VCT funding. EIS/VCT projects usually carry a higher level of risk that would ordinarily be unacceptable to an IHT investor.

JP: The space in which we operate BR is very different even to the previous capital preservation EIS space and so the tightening of these rules has not had a positive or negative effect on our deal flow. However, there will be companies out there looking for alternative funding which may be possible through our lending activity and we could see more demand in the future.

"What we are seeing is demand for funding from businesses which is not being met adequately by the banks and hence a strong pipeline of opportunities for us to support UK growth."

— BELINDA THOMAS, TRIPLE POINT

The AIM market has suffered volatility and downward pressure on valuations in the last six months. How do you see the outlook for AIM-focused BR products?

SD: We have seen continued investor interest, predominately due to ISA availability. AIM companies are UK-based and therefore have high exposure to the UK economy and Brexit uncertainty. Our portfolio focuses on mitigating volatility using our innovative smart passive approach.

LC: To avoid overstretched valuations, we invest in AIM BR-qualifying businesses that generally have a smaller market cap than the more popular AIM BR holdings. However, the fund isn't entirely immune and will still be impacted by movement in the AIM market.

We offer Downside Protection Insurance that covers any loss at death of up to 20% for investors up to the age of 90, giving AIM investors extra peace of mind.

JP: Despite market upheavals, we remain broadly positive on the outlook. However, regardless of IHT planning, and in line with our risk warnings, any AIM portfolio should be viewed as a medium to long-term investment. Ensuring good value and diversification in the portfolio is key, while avoiding overpriced larger cap stocks.

BT: We do not offer an AIM product.

AA: Neither do we.

"To avoid overstretched valuations, we invest in AIM BR-qualifying businesses that generally have a smaller market cap than the more popular AIM BR holdings."

— LAURENCE CALLCUT, DOWNING

Are there any trends that you have noticed in the BR market in the last year that have concerned or excited you and what do you see in the next year for BR?

JP: We have noticed an increase in professional connections such as solicitors and accountants seeing the value and flexibility of IHT planning using BR. In addition, in launching Blackfinch Wealth, which provides an investment solution within the mainstream space, we have identified an increase in advisers new to tax planning.

BT: Advisers are becoming increasingly knowledgeable about the underlying holdings within products and how they work together. We believe that this should be favourable for services that invest in well run, transparent businesses such as NTL and TP Leasing Ltd.

LC: There's a proliferation of new providers looking to get a share of the same market. These tend to be small funds, which causes concern around diversification. If a fund is small, an investment or small number of investments failing could have a significant impact.

We believe the market is entering a mature phase - the gold rush is over and some serious mining is now required.

SD: The level of due diligence conducted by advisers to research product providers has increased over the year, aided by independent reviewers that have helped improve the transparency of the BR industry. This is positive news and it's important that advisers get the support they need from providers to fully review the BR solutions available. The need for transparency in BR has never been greater; for example the increased use of gearing across the BR market is concerning and not well understood. This is something to watch this year.

AA: We have anecdotally noticed that advisers are increasingly interested in the renewable energy sector as an asset-backed, often index-linked, opportunity targeting not-insignificant growth potential. For those advisers who have historically invested in renewable energy projects via EIS then it is an asset class they are comfortable with and appreciate how it can be appealing.

"We have noticed an increase in professional connections such as solicitors and accountants seeing the value and flexibility of IHT planning using BR."

— JERRY PRICE, BLACKFINCH

MARKET RESEARCH CONCLUSIONS

SUMMARY OF OUR FINDINGS

1.

BR IS INCREASINGLY VERSATILE

The range of ages for which BR is being used is increasing. The average ages of some advisers BR-suitable clients now include the 45 to 55 and 85 to 95 age bands. The relief also remains suitable for a substantial minority of advisers' client bases.

2.

ADVISER CONCERNS RE-FOCUSED TO PERFORMANCE

Recent issues, particularly the chaotic and unresolved Brexit position, have re-focused advisers' concerns on those directly linked to performance.

3.

SOME MANAGERS NOTE SOME UNDERSTANDABLE INVESTOR CAUTION

Some investors have been delaying tax-planning and investment decisions. But managers point out that the defensive and diversified nature of BR investments, along with a good measure of separation from listed businesses offer subscribers a degree of protection from external disruption.

4.

AIM BR OUTLOOK

AIM BR managers look to avoid overstretched valuations, are realistic but, despite market upheavals, remain broadly positive on the outlook.

5.

BR IS STILL A VIABLE OPTION

Both our adviser survey and round table make it clear that the vast majority of advisers don't view BR as more difficult to recommend in turbulent times, as long as the risks are clearly explained to clients.

BR SOLUTIONS

DISCLAIMER

Some of the managers have included some performance information in the following pages. As always, past performance is not a reliable indicator of future performance.

This document is for professional advisers only, and it is not to be relied upon by retail investors. The value of an investment, and any income from it, can fall as well as rise, so investors may not get back the full amount they invest. Tax treatment depends on individual circumstances and may change in the future. Tax reliefs depend on the portfolio companies maintaining their qualifying status. The shares of the smaller companies could fall or rise in value more than shares listed on the main market of the London Stock Exchange. They may also be harder to sell. These products are not suitable for everyone. Any recommendation should be based on a holistic review of your client's financial situation, objectives and needs. Neither Intelligent Partnership nor the managers offer investment or tax advice. We recommend investors seek professional advice before deciding to invest.

BLACKFINCH

BLACKFINCH ADAPT IHT PORTFOLIOS

BLACKFINCH INVESTMENTS

ABOUT THE PROVIDER

Blackfinch Investments is part of Blackfinch Group, an award-winning investment specialist with a heritage dating back 25 years. Bringing significant experience and expertise with a transparent approach, Blackfinch is entrusted with over £200 million in assets under management and administration. Blackfinch holds its values as core, constantly adapting to and evolving with market change.

Blackfinch Investments offers tax-efficient solutions to meet customers' needs, reflecting legislative developments and evolving client requirements. Our popular Inheritance Tax (IHT) range draws on Business Relief for a more efficient route to IHT mitigation. It includes the Adapt IHT Portfolios and Adapt AIM Portfolios for individuals, and the Thrive Corporate Management Service for businesses.

We are focused on safeguarding clients' investments, from targeting qualifying businesses, to charging lower fees, to working to deliver a fair and transparent return. For more information, please visit blackfinch.com.

OUR BR OFFER

The Adapt IHT Portfolios allow investors to mitigate IHT and preserve wealth, with return potential. They can enable IHT exemption after just two years, and if investments are held at death. They also offer investors flexibility, with control over and access to capital.

Investors have the choice of two portfolios, one focused on capital preservation and one for investors seeking growth, alongside capital preservation. Similarly, investee firms have a focus on security. Blackfinch's specialist team brings access to opportunities in property lending, renewables and asset-backed lending, with underlying security over assets and reliable revenue streams.

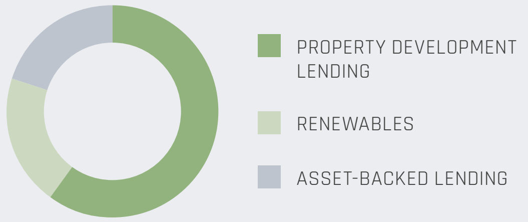
Launched in 2013, the portfolios are well established in the market. This is reflected in the outstanding review the service received in February 2019 from MJ Hudson Allenbridge. The review included a score of 85 and praise for higher returns, lower charges and robust processes.

INVESTMENT CASE STUDY

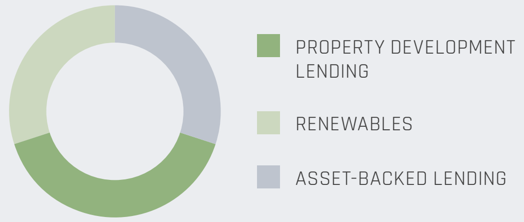
The Adapt IHT Portfolios have provided a development loan of circa £2.4 million for the development of a two-storey hotel on the outskirts of Liverpool. The hotel is a Grade II-listed period property with large, modern extensions built in the 1960s and also includes a 17-acre site. The development will be used to transform the building into a four-star hotel with associated food and beverage operations, and spa facilities that also functions as a wedding venue.

Location	Liverpool
Finance arranged	Circa £2.4m
Finance Period	11 months
Security	First Charge
Loan to Value	31%
Status	Active

GROWTH PORTFOLIO TYPICAL ASSET ALLOCATION



CAPITAL PRESERVATION PORTFOLIO TYPICAL ASSET ALLOCATION



DEEPBRIDGE

DEEPBIRDGE IHT SERVICE

Deepbridge

ABOUT THE PROVIDER

Deepbridge was founded with the aim of building an investment team that could redefine tax-incentivised risk capital. Our purpose is to provide reassurance to investors by enabling them to invest alongside our team of passionate and experienced domain specialists. A genuine blend of skillsets from a cohesive team that know what it is like to run a business and who have a balanced approach between strong management, practical experience, and demonstrable governance.

Deepbridge encourages investors to understand the underlying investee companies within any portfolio and the Deepbridge IHT Service aims to allow subscribers to invest in physical renewable energy assets which qualify for Business Relief.

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

OUR BUSSINES RELIEF INVESTMENT APPROACH

The Deepbridge IHT Service is designed to deliver 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 UK Government subsidies for the generation of renewable energy. The Deepbridge IHT Service has a target return of 6% per annum.

Potential subsidies: The UK Government offers subsidies to the renewable energy sector, including Renewable Obligation Certificates, Feed In-Tariffs and contracts for differences.

Seeks to avoid planning risk: Investments will be made in projects with all the necessary permissions in place, providing a known cost base for the investment.

Proven technology: The use of proven renewable energy technologies that allow levels of energy production to be forecast with a good level of accuracy.

INVESTMENT CASE STUDY

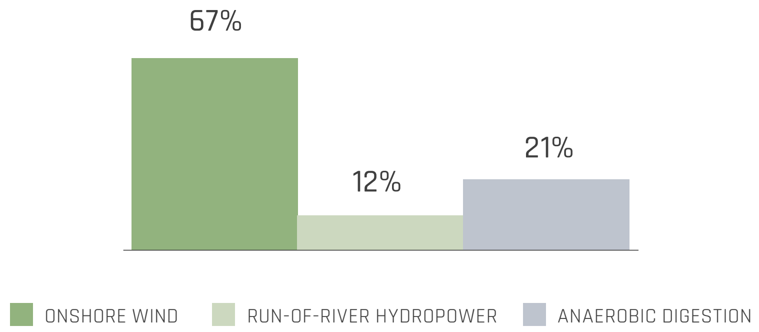
Easton Renewable Energy Ltd is the current trading company within the Deepbridge IHT Service. Following inception, the company's trading activities initially focused on the development of a number of on-shore wind turbines sited in Northern Ireland, benefitting from Renewable Obligation Certificate subsidies.

Now that such subsidies have closed to new developments, the company is focused upon acquiring and operating other established renewable installations, which may include:

- Larger-scale wind turbines across the UK (which are considerably less reliant on subsidies);
- Small-scale run-of-river hydropower installations;
- Anaerobic digestion (by which the power is derived from biogas);
- Biomass (the production of energy from burning wood and other organic matter).

The trading objective of the company remains agnostic to the nature of the renewable energy revenue generation, as long as the aggregate revenue projections for the operating assets support the company's objective of a target return of 6% per annum.

DEEPBRIDGE IHT SERVICE ASSET SPLIT (31 DEC 2018)



DOWNING

DOWNING ESTATE PLANNING SERVICE

ABOUT THE PROVIDER

Downing LLP is a London-based investment management firm. We aim to help UK businesses grow by investing via our range of enterprise investment scheme (EIS), venture capital trust (VCT), inheritance tax (IHT), individual savings account (ISA) and open-ended investment company (OIEC) products. In addition, in March 2016, we established our own crowdfunding platform.

So far, over 35,000 investors have been a part of what we do, and we are proud to have raised over £1.7 billion into businesses looking to make a difference, including energy, care homes, health clubs, pubs, and children's nurseries. We currently have over £1 billion of funds under management (as at 31 December 2018).

OUR OFFERING

The Downing Estate Planning Service enables investors to obtain full IHT relief on their subscriptions after only two years (provided the shares are held at death). As at December 2018, the Service has around £380 million of net assets. The Service has a portfolio of more than 70 businesses and focuses on energy companies and asset-backed businesses. It provides monthly opportunities to exit (subject to liquidity and 10 days' notice), with no exit penalties or charges, and investors can opt to receive regular distributions.

We also provide Downside Protection Cover on death under the age of 90, covering a loss in value of up to 20% on the net initial investment – no medical questionnaires or exclusions for pre-existing conditions, and no extra cost. Please note, there is no guarantee that the policy will remain in place after the first two years.

Capital is at risk. Prospective investors should be aware that the value of their investment may go down as well as up. There is no guarantee that the valuation of shares will fully reflect their underlying net asset value, or that investors will be able to buy and sell at that valuation or at all. Please refer to the relevant product literature and terms and conditions.

INVESTMENT CASE STUDY

Life Cover is designed for those under 85 to mitigate the effect of IHT from the date shares are acquired; the policy covers 40% of the original gross investment on death in the first two years.

The illustration below shows the IHT liability with and without Life Cover, if the client dies 18 months after investing in DEPS.

This in an example only; no forecast is implied. Capital is at risk. Life Cover is subject to conditions (set out in the DEPS product literature) and will not pay out if they are not met in full. The example assumes no growth or loss, that the investor utilises the nil rate band elsewhere and that they pay an adviser charge of 2%.

After two years, Life Cover will expire and automatically switch to Downside Protection Cover (provided it is available at that time), designed to reduce the impact of a loss in value of up to 20% of the net initial investment for those aged up to 90 years.

	WITHOUT LIFE COVER	WITH LIFE COVER
Investment in DEPS	£250,000	£250,000
Adviser charge at 2%	(£5,000)	(£5,000)
Downing initial charge at 2%	(£4,900)	(£4,900)
Net assets	£240,100	£240,100
Cost of Life Cover (included within Downing annual management charges of 3.5% plus VAT*)	£0	£9,119
IHT at 40% (on death within two years)	£100,000	£100,000
Life Cover payout on gross subscription	£0	£100,000
Net estate	£140,100	£230,981

TIME INVESTMENTS

TIME:ADVANCE

ABOUT THE PROVIDER

TIME is an award winning investment manager specialising in tax-efficient investment solutions. Our original IHT service holds a 23-year track record and was one of the first to utilise Business Relief (BR) to offer IHT mitigation for investors. Over 3,000 investors have invested in our IHT services to date and we hold a 100% track record of successfully achieving BR.

We have over £500m in BR assets under management and, with a nationwide team of 30 planning experts, we are dedicated to supporting the adviser community and professional connections.

Our mission is to create transparent investment opportunities that bring long lasting peace of mind to investors and their advisers by seeking stable performance and consistent liquidity. To do this we have established a culture that revolves around our clients.

TIME:ADVANCE

Launched in 2013, TIME:Advance is our flagship IHT service for individuals and to date we have raised over £450m from more than 3,000 investors. The service has received consistent awards recognition, most recently being crowned Best BR Investment Manager non-AIM at the 2018 Growth Investor Awards.

The service targets a return of between 3% and 4.5% p.a. by investing in a diversified portfolio of asset backed businesses with a lower risk profile, including secured property lending, renewable energy, commercial forestry and self-storage. The underlying asset-backed businesses of TIME:Advance target a low gross return (c. 6%), which is lower than many other offerings, while still delivering a similar net return.

Additional points of differentiation include:

- our deferred AMC, which is only taken on exit, from the excess performance over a return of 3.5% p.a.;
- the independent oversight provided by our Advisory Committee, comprised of relevant industry experts;
- our commitment to rebate some of our fees if early death occurs within the first two years of investment.

INVESTMENT CASE STUDY: STORAGE PORTFOLIO

Our services own and operate a portfolio of self-storage businesses.

These facilities are run on a day-to-day basis by two of the UK's largest storage management companies, Lok'nStore and Storage King.

The income of a storage facility is derived from the management and service fees paid by customers for the secure storage of their goods and belongings in the facility. Additional income is earned through the sale of insurance, merchandise and ancillary services, such as home moving and packing. The operating costs of a storage facility are largely fixed, as are occupancy levels, making revenues relatively predictable.

In creating this portfolio, we selected storage facilities with stable levels of occupancy and a strong operating history. The employment of high quality self-storage management allows the portfolio's facilities to benefit from the nationwide advertising and the operator's web presence.

TIME:ADVANCE 12 MONTHLY PERFORMANCE (TO 31 MARCH 2019)

2014	2015	2016	2017	2018	2019
3.55%	3.62%	3.74%	3.83%	4.08%	3.53%

TRIPLE POINT

TRIPLE POINT ESTATE PLANNING SERVICE

ABOUT THE PROVIDER

At Triple Point we create a wealth of opportunities for our investors, the businesses we partner and the entrepreneurs that lead them. Founded in 2004, we manage over £1.4 billion of private, institutional and public capital. Our specialist teams invest across four themes – real estate, debt, infrastructure and venture capital.

We look across industries and society to unlock value in uncommon combinations. Through our curiosity and experience, we originate differentiated investments that have consistently delivered, irrespective of market timing. Triple Point exists to build enduring partnerships and exceptional investments that perform in the long term.

Our investment products include Business Relief solutions for individuals, trusts and corporates; the Venture Fund VCT; the Impact EIS Service and the Income Service.

OUR BR SOLUTIONS

The award winning Triple Point Estate Planning Service ("TPEPS") can provide individual investors and trusts with 100% relief from inheritance tax after two years without surrendering control or access to their capital (provided it is held at death).

Open all year round, it provides access to two highly successful businesses, each managed by a specialist team which has contributed to the achievement of steady, on-target, returns since inception.

TP leasing Limited (following the Generations strategy) is a leasing, lending and infrastructure finance business. It focuses on providing a small number of high value leases and loans to public sector organisations, such as the NHS, local Authorities, and Corporates.

Navigator Trading Limited (following the Navigator strategy) is a fast growing lender to the SME sector that competes with traditional banks. It provides business and service critical loan and asset finance to a wide range of SMEs.

TPEPS uniquely helps to diversify an investor's estate by being the only BR provider offering access to public sector leasing.

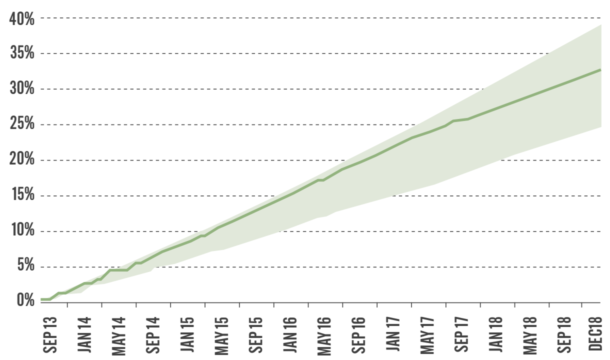
INVESTMENT CASE STUDY

Navigator Trading Ltd, through its investment in an SME leasing business, provides funding for credit card terminals to thousands of UK high street businesses. The support provided by investors since 2014 has helped this business build strong partnerships with terminal and service providers in an area which was previously dominated by high street banks.

The business has supported over 100,000 UK SME customers, diversified across a wide range of UK businesses in multiple sectors. To date, NTL has provided over £71m funds for credit terminals and currently has over 51,000 terminal agreements.

NAVIGATOR TRADING LIMITED

Performance since inception: 32.5%

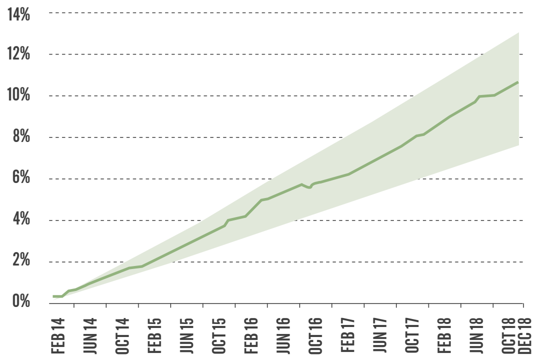


RANGE OF TARGET RETURNS 4% TO 6% PER ANNUM

Net of annual fees, charges and corporation tax

TP LEASING LIMITED

Performance since inception: 10.7%



RANGE OF TARGET RETURNS 1.5% TO 2.5% PER ANNUM

Net of annual fees, charges and corporation tax

BR SOLUTIONS COMPARISON

	BLACKFINCH ADAPT IHT PORTFOLIOS	DEEPBRIDGE IHT SERVICE
MANAGER NAME	Blackfinch Investments	Deepbridge Capital
OFFER DESCRIPTION	The Adapt IHT Portfolios are discretionary managed portfolio services targeting asset-backed lending, property development finance and renewable energy generation. Blackfinch only takes its annual management fee of 0.5% plus VAT after achieving a minimum target return of 4% p.a. or 6% p.a., depending on which of the two model portfolios an investor has selected.	A portfolio of renewable energy assets within a Business Relief qualifying trading company.
YEAR FOUNDED	1992	2010
PROVIDER ASSETS UNDER MANAGEMENT	£300m	£125m
PRODUCT ASSETS UNDER MANAGEMENT	Capital Preservation £41m; Growth £48m	£22M
SECTOR	Asset-backed lending, property development finance and renewable energy generation	Renewable energy
LAUNCH DATE (OF SERVICE)	July 2013	April 2016
NO. OF INVESTMENTS IN UNDERLYING COMPANIES	3 underlying companies invested in a total of 67 underlying projects between them	1 underlying company invested in 15 to 20 underlying projects at any one time
ANNUAL RETURN SINCE INCEPTION	Refer to factsheet for latest annual performance and performance since inception	7.50%
TARGET ANNUAL RETURN AND/OR TARGET YIELD (WHERE STATED)	Capital Preservation 4%, Growth 6% net of fees	6%
MINIMUM INVESTMENT	£25,000	£50,000
INCOME AVAILABLE?	Yes	No
NUMBER OF DIRECTORS	2	3
LEGAL STRUCTURE	Discretionary Portfolio Service	Limited company
INITIAL FEES	2%	No initial fee charged to the investor. 2.5% charged to underlying trading company
AMC	0.5% + VAT deferred until exit and only if target return has been achieved	No AMC charged to the investor. 2%pa charged to underlying trading company
PERFORMANCE FEE	AMF above subject to performance hurdles below	N/A
PERFORMANCE HURDLE	Capital Preservation 4%; Growth 6%	N/A
TARGET LIQUIDITY	2-4 weeks	It is anticipated withdrawal requests may be fulfilled within 28 days. See Information Memorandum for full details of liquidity targets

BR SOLUTIONS COMPARISON

	DOWNING ESTATE PLANNING SERVICE	TIME:AIM
MANAGER NAME	Downing LLP	TIME Investments
OFFER DESCRIPTION	Downing Estate Planning Service focuses on energy and asset-backed businesses. We provide monthly opportunities to exit (subject to liquidity and 10 days' notice), with no exit penalties or charges, and investors can opt to receive regular distributions.	TIME:AIM uses our innovative 'smart passive' approach, designed to reduce the volatility of returns and remove stock picker bias. TIME:AIM only targets AIM listed companies that qualify for BR, offering the potential for growth and IHT mitigation. TIME:AIM can be held within an ISA or non-ISA wrapper.
YEAR FOUNDED	1986	2011
PROVIDER ASSETS UNDER MANAGEMENT	Over £1 billion (as at 31 Dec 2018)	£3bn
PRODUCT ASSETS UNDER MANAGEMENT	£443.2 million (including AIM IHT products)	£38m
SECTOR	General Enterprise	AIM listed companies
LAUNCH DATE (OF SERVICE)	February 2013	September 2016
NO. OF INVESTMENTS IN UNDERLYING COMPANIES	More than 70	1 company invested in 30 AIM quoted companies
ANNUAL RETURN SINCE INCEPTION	3.50%	12.65% (Nov 2017 - Dec 2018)
TARGET ANNUAL RETURN AND/OR TARGET YIELD (WHERE STATED)	4% p.a. over the medium term	N/A
MINIMUM INVESTMENT	£25,000	£15,000
INCOME AVAILABLE?	Yes, the service has been designed to provide distributions on a quarterly, six-monthly or annual basis (subject to liquidity and Downing's discretion)	No
NUMBER OF DIRECTORS	4	0
LEGAL STRUCTURE	Discretionary Portfolio Service	Discretionary Portfolio Service
INITIAL FEES	2.0% (payable by the IHT Companies)	1% + VAT
AMC	*Standard option or Life Cover option	0.8% + VAT
PERFORMANCE FEE	Payable on exit and only if the cash proceeds received throughout the lifetime of your investment exceed your initial subscription plus a compound return of 4.0% p.a. We will then receive 20% of the excess (inclusive of VAT).	N/A
PERFORMANCE HURDLE	4.0% p.a. compound return	N/A
TARGET LIQUIDITY	Monthly (subject to liquidity and 10 days' notice)	Monthly

**1) Standard option: 0.5% p.a. of the net assets of the IHT Companies (inclusive of Downside Protection Cover).*

2) Life Cover option: 2.0% p.a. of original gross investment (inclusive of Life Cover), reducing to 0.5% p.a. of the net assets of the IHT Companies after two years. Under both options, the standard element of the annual management charge (of 0.5% p.a.) will only be payable at the end of each financial period and is subject to each IHT Company having generated at least 4% growth over the financial period (after all charges to the underlying businesses). If the performance is not sufficient for the charge to be paid, in full or in part, in a particular period, it will be lost and never recouped. Service costs: Downing provides administration, accounting, secretarial and other services to the IHT Companies for a fee of 1.5% p.a. of the net assets of the IHT Companies.

	TIME:ADVANCE	TIME:CTC
MANAGER NAME	TIME Investments	
OFFER DESCRIPTION	TIME:Advance is a discretionary management service that allows investors to access BR to mitigate their IHT liabilities. The service targets a net return of between 3% and 4.5% p.a. with a capital preservation focus achieved through investing in asset-backed businesses. The service has received consistent awards recognition, with wins at both Investment Week's Tax Efficiency Awards and the Growth Investor Awards in 2018.	TIME:CTC (Corporate Trading Companies) is an IHT solution designed to help businesses utilise or reinstate existing BR, allowing them to mitigate their IHT liabilities, potentially immediately. The service holds a 23 year track record and allows business owners to maintain control of their assets, avoiding the need for trusts or to gift assets to obtain relief. The service targets a net return of between 3% and 4.5% p.a., investing into asset backed businesses with a focus on capital preservation.
YEAR FOUNDED	2011	2011
PROVIDER ASSETS UNDER MANAGEMENT	£1.4bn	£1.4bn
PRODUCT ASSETS UNDER MANAGEMENT	£400m	£84m
SECTOR	Secured property lending, renewable energy (hydro, wind, solar & biomass), self-storage and commercial forestry	Primarily secured property lending, with some potential exposure to renewable energy (hydro, wind, solar & biomass), self-storage and commercial forestry
LAUNCH DATE (OF SERVICE)	February 2013	October 1995
NO. OF INVESTMENTS IN UNDERLYING COMPANIES	1 company invested in 105 underlying projects	1 company invested in 79 underlying projects
ANNUAL RETURN SINCE INCEPTION	4.10%	N/A
TARGET ANNUAL RETURN AND/ OR TARGET YIELD (WHERE STATED)	3-4.5%	3-4.5%
MINIMUM INVESTMENT	£25,000 (£10,000 top up)	£100,000 (£25,000 top up)
INCOME AVAILABLE?	Yes, by regular withdrawal option (no dividends paid)	Yes, on request only and subject to the company having sufficient retained earnings
NUMBER OF DIRECTORS	4 directors & independent advisory panel of 6	2 directors & 2 non-executive directors appointed to each CTC company
LEGAL STRUCTURE	Discretionary Portfolio Service	Bespoke IHT Service
INITIAL FEES	2.5% + VAT	3.5% + VAT
AMC	0.5% (inclusive of VAT) and deferred until exit and only payable from the excess over a return of 3.5% p.a.	0.5% (inclusive of VAT) and deferred until exit and only payable from the excess over a return of 3.5% p.a.
PERFORMANCE FEE	N/A	N/A
PERFORMANCE HURDLE	N/A	N/A
TARGET LIQUIDITY	2 weeks	Target 4-6 weeks

BR SOLUTIONS COMPARISON

	TRIPLE POINT ESTATE PLANNING SERVICE: NAVIGATOR	TRIPLE POINT ESTATE PLANNING SERVICE: GENERATIONS
MANAGER NAME	Triple Point Investment Management LLP	
OFFER DESCRIPTION	Triple Point's Estate Planning Service is a discretionary fund management service, offering investors' access to Navigator Trading Limited; a fast growing non bank lender to the SME sector. NTL provides business-critical loan and asset finance to a wider range of SMEs, targeting average returns of 4.0% to 6.0% per annum (net of annual fees). The Service enables investors to blend NTL with TPLL should they wish through one simple application form.	Triple Point's Estate Planning Service is a discretionary fund management service, offering investors' access to TP Leasing Limited ('TPLL'); a leasing, lending and infrastructure finance business. TPLL focuses on providing a small number of high value leases and loans to public sector organisations, such as the NHS and Local Authorities, and to Corporates. It targets returns of 1.5% to 2.5% per annum (net of annual fees). The Service enables investors to blend NTL with TPLL should they wish through one simple application form.
YEAR FOUNDED	2004	2004
PROVIDER ASSETS UNDER MANAGEMENT	£1.4bn (28/02/2019)	£1.4bn (28/02/2019)
PRODUCT ASSETS UNDER MANAGEMENT	£116m; £395m total in BR products (28/02/2019)	£148m; £395m total in BR products (28/02/2019)
SECTOR	Leasing, secured lending and funding to SMEs	Public and private sector leasing, infrastructure finance and secured lending
LAUNCH DATE (OF SERVICE)	June 2013	December 2013
NO. OF INVESTMENTS IN UNDERLYING COMPANIES	1 (Navigator Trading Ltd) invested in over 70,000 underlying companies	1 (TP Leasing Ltd) invested in 399 underlying companies
ANNUAL RETURN SINCE INCEPTION	5.2%	2.1%
TARGET ANNUAL RETURN AND/ OR TARGET YIELD (WHERE STATED)	4-6%	1.5 - 2.5%
MINIMUM INVESTMENT	£50,000	£50,000
INCOME AVAILABLE?	Yes	Yes
NUMBER OF DIRECTORS	4 (1 independent)	5 (1 independent)
LEGAL STRUCTURE	Discretionary Fund Management Service	Discretionary Fund Management Service
INITIAL FEES	2.50%	2.50%
AMC	1.5% per annum- only taken if base target return (4.0%) has been achieved	1.5% per annum- only taken if base target return (1.5%) has been achieved
PERFORMANCE FEE	20% on a compound return of 5% pa, limited to returns between 5.0% - 7.5%	N/A
PERFORMANCE HURDLE	Compound return of 5.0% pa	N/A
TARGET LIQUIDITY	Within 3 months. Regular withdrawals can be set up on annual/semi annual basis.	Within 3 months. Regular withdrawals can be set up on annual/semi annual basis.

PROVIDER DIRECTORY

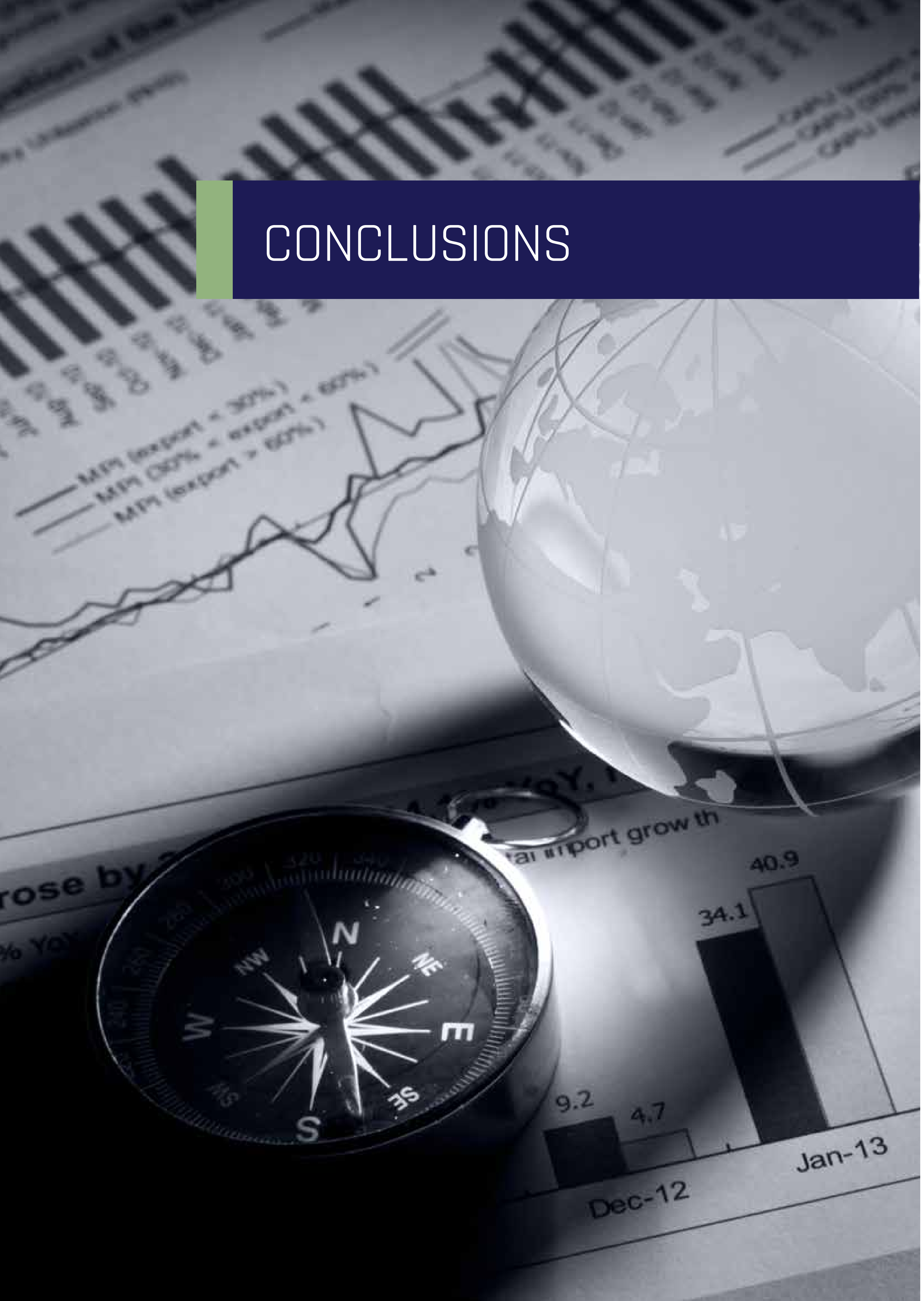
BLACKFINCH INVESTMENTS
www.blackfinch.com
01452 717070
enquiries@blackfinch.com

DEEPBRIDGE
www.deepbridgecapital.com
01244 746000
enquiries@deepbridgecapital.com

DOWNING
www.downing.co.uk
07946 117 770
bill@downing.co.uk

TIME INVESTMENTS
www.time-investments.com
020 7391 4747
questions@time-investments.com

TRIPLE POINT
www.triplepoint.co.uk
020 7201 8990
contact@triplepoint.co.uk



CONCLUSIONS

REPORT CONCLUSIONS

OUR FINDINGS

Certainty and Uncertainty

You might be getting fed up with the number of times this report mentions 'uncertainty'. But there's no escaping it. And its impact on the investments universe can't be ignored.

In Q4 2018, market volatility, including AIM, was heightened and BR managers focused on AIM investments took a hit. But some BR managers showcased their skills and significantly outperformed the benchmarks, while liquidity remained relatively strong and diversification grew. Not to mention a rebound in prices.

But, for the time being, the chances of more turbulence look high, bringing with them opportunities for undervalued acquisitions and future growth for the longer term investors who generally invest in BR.

That said, the chances of 40% IHT in the absence of estate planning for estates valued above the nil rate band, are 100%.

Confidence high among BR managers along with IHT receipts

The prospect of the OTS report on IHT made for an extended period of nerviness for BR stakeholders. In the absence of the report itself, there were concerns about how IHT and BR might be affected.

The publication of the first report has soothed those in the 'you never know' camp, with positivity about the way BR is working. While a second report is still due, the spotlight of complexity looks set to focus more heavily on the residence nil rate band.

The increase in minimum subscription amounts, reduction in AMCs and higher returns targeted in more recent offers signals growing confidence among BR managers. And with post-Brexit economic forecasts and an intensifying government concentration on IHT collection, it's hard to foresee any dilution of IHT in its current format any time soon.

Advisers confidence in BR also remains strong, with our survey results showing that less than 4% of advisers surveyed in March/April 2019, a period of repeated parliamentary deadlock about how to proceed with Brexit, view it as harder to recommend in this context

BR Managers are accustomed to defensive strategies

This is a market in which a client's funds, often built up during a lifetime of work, are put at risk. So, make no mistake, even growth focused AIM BR managers pay substantial attention to keeping capital safe.

Our research shows that, even though BR managers are keen to keep their investment options open, the increase in generalist offerings masks some well-established sector preferences. And those sectors have some strong drivers that benefit from a degree of separation from economic conditions.

Expertise is key

Given the current conditions, this is not a time to go it alone. But, while there may be increased scrutiny of all estate planning, there is certainly plenty of scope for new opportunities.

Despite a half a billion pound downgrade of IHT receipts projected for 2022/23, just under £6 billion is expected to fill up the government's IHT coffers.

Both independent and HMRC analyses identify the greater use made of BR by higher value estates as an influence on the lower tax rates paid by them. Despite, or perhaps because of the differing concentration of assets within higher value estates, the possible BR benefits for smaller estates are clearly worth exploring.

Then, in the right circumstances, there is a case for the utility of BR alongside pensions. While certainly not a pension substitute, there is growing evidence of the need for tax-efficient vehicles for the funds now being excluded from pensions by allowance limits.

SWOT ANALYSIS

OVERVIEW OF BR

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
Continuing access to renewables and energy generation assets	AIM volatility highlighted recently	Can provide solution to some difficult later life planning requirements - e.g. LPAs, tendency to be cash-heavy and exposed to IHT, pension contributions overflow	Potential economic downturn threatens confidence in tax planning through an investment
OTS called BR 'straightforward'	Performance subject to the same downward pressures as other UK investments in the face of Brexit and geopolitical issues	Can be used in conjunction with trusts to take assets outside of an estate with no fees	FCA is increasing IHT investigations, so proper monitoring and expertise is required
Longer term hold, so underlying valuations mean nothing until eventual realisation and have potential to ride out the storm	Liquidity may not be readily available	FCA is increasing IHT investigations, so the need for IFA expertise is amplified	Some sectors of underlying investments vulnerable to short term economic shocks
BR contributes to investment into UK business at a crucial time	Diversification concerns - how much is enough?	Possibility for good value acquisitions in current climate	Potential for changes to BR/IHT driven by government desire to close tax gap and offset Brexit losses
S	W	O	T

APPENDIX

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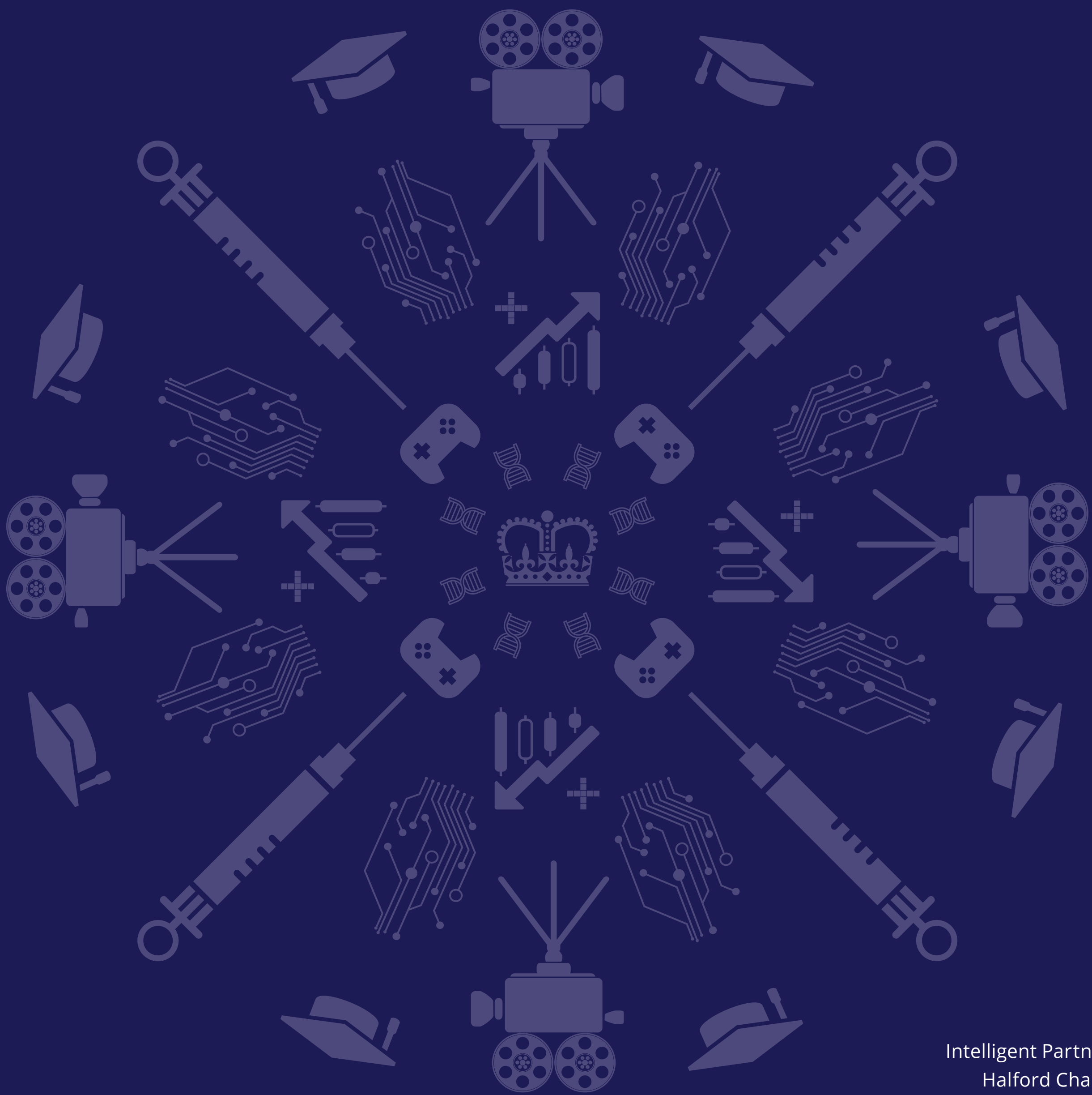
"Brexit may be chaos, but BR managers, blessed with the long term investment horizons of their investors and armed with the dual weapons of diversification and sector analysis, still provide a valuable service. IHT receipts continue to rise and, according to the OTS, BR, "broadly works in a straightforward way."

– Guy Tolhurst, Managing Director, Intelligent Partnership



Intelligent Partnership
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1-3 Halford Road
Richmond
TW10 6AW
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