QUILTER CHEVIOT

Your inheritance tax solution

AIM Strategy

For investment professionals only

SPECIALISTS IN INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited, 12 February 2025

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QUILTER CHEVIOT

Our AIM Strategy, an IHT solution

We are dedicated to helping our clients protect and share their legacy of wealth with their loved ones.

We have designed our Alternative Investment Market (AIM) Strategy to make estate and Inheritance Tax (IHT) planning accessible and achievable for investors.

At **Quilter Cheviot**, our focus is on providing financial advisers like you with the right investment solutions for your clients.

35,000 clients and their advisers trust us to manage over £29.5bn of assets on their behalf (as at 31 December 2024).

"We know that your clients' priority is to give their loved ones the best chance of realising their ambitions. Our AIM Strategy provides your clients with a transparent, diversified and tax-efficient way to pass on their wealth to the next generation."

defaqto ★★★★★ DFM Bespoke 2024 EXPERT RATED

defaqto GOLD DFM Service 2024 EXPERT RATED

A warm welcome from our AIM team

Amisha Chohan
Executive Director
Head of Small Cap Strategy

Richard Mitchell
Lead Portfolio Manager

Amisha and Richard offer over 30 years of combined investment management experience.

Along with their expert team of research analysts and investment managers, they lead a rigorous and carefully thought-out investment process culminating in the construction of a diversified portfolio of AIM stocks.

Introducing the Alternative Investment Market (AIM)

What is the AIM?

The Alternative Investment Market (AIM) provides the opportunity to invest in promising businesses that are disruptors thanks to their innovative solutions. This means that, overall, investors can enjoy increasing opportunities for growth.

AIM-listed companies range from early stage, venture-capital backed to more established firms and represent a wide variety of sectors.

This enables investors to build truly diversified portfolios that benefit from 50% inheritance tax (IHT) relief.

How does the AIM Strategy help with IHT relief?

Companies listed on the AIM can benefit from Business Relief (previously Business Property Relief). Business Relief was introduced with the aim of sheltering certain business assets from IHT. If the investee company's activities qualify for relief and the shares are held for at least two years, the value of the shares benefit from 50% IHT relief at the time of your client's passing (subject to potential restrictions on the value of any excepted assets held by the company).

However, managing the risks entailed in this process without the support of a specialist can be complicated, time-consuming, and lead to suboptimal investments.

How Quilter Cheviot's AIM Strategy can help

Many families and individuals build wealth during their lifetime to prepare for retirement and pass assets on to their loved ones. However, they risk losing a significant part of their wealth once it reaches the IHT threshold.

The Quilter Cheviot AIM Strategy provides a professionally researched and managed portfolio of Business Relief-qualifying AIM-listed stocks for those clients who want to shelter part of their estate from inheritance tax.

The key ingredients of our AIM Strategy

We've designed our AIM Strategy to focus on sheltering the overall value of clients' portfolios to provide an inheritance.

This means that when picking stocks to invest in, we prioritise the selection of stocks that qualify for Business Relief, as this can mitigate potential IHT liabilities for your client.

We then move on to explore unique opportunities for growth and long-term potential performance that can help to preserve your client's capital.

Holding the AIM Strategy in an ISA

Clients can hold AIM investments within an ISA. Existing ISAs can be transferred to us and topped up each year, or we can hold investments in a non-ISA account. We can help you decide which is best for your clients.

Talk to your local Business Development Manager about how we can manage your client's AIM portfolio alongside their core investment portfolio.

An example of how investing in the AIM Strategy can help your clients

- **The first £325,000 of their estate is called the ‘Nil rate band’ because it is taxed at 0%**
- **Any amount over £325,000 could be taxed at 40% (as of April 2022)**
- **There is an additional nil-rate band of £175,000 on primary residences.**

Your client, Maureen, has a family home worth £500,000. She also has investments, held within an ISA, that are valued at £500,000. This makes her total estate worth £1,000,000.

- The first £500,000 of Maureen’s estate will be protected from inheritance tax through the combination of her nil-rate band (£325,000) and her residence nil-rate band (£175,000).
- The remaining portion of her estate, totalling £500,000, will be liable for Inheritance Tax which is charged at 40%.

Without AIM

Maureen’s taxable assets are £500,000 (this is her total estate of £1,000,000 minus the government’s nil rate exemptions worth a total of £500,000).

After her passing, Maureen’s loved ones could be left facing an inheritance tax bill of £200,000 and no potential tax savings, as ISAs are still fully liable for IHT.

£0 savings

With AIM

Suppose Maureen invests **£100,000*** out of her £500,000 ISA investments into Business Relief-qualifying companies listed on the **Alternative Investment Market**. This means that, if the assets are held for two years, they will benefit from 50% IHT relief.

As such, her **inheritance tax bill** will amount to £180,000 and Maureen’s family will **benefit from £20,000 in tax savings.**

+£20,000 savings

*Capital at risk, clients may not recover what they invest.

Why advisers recommend the AIM Strategy

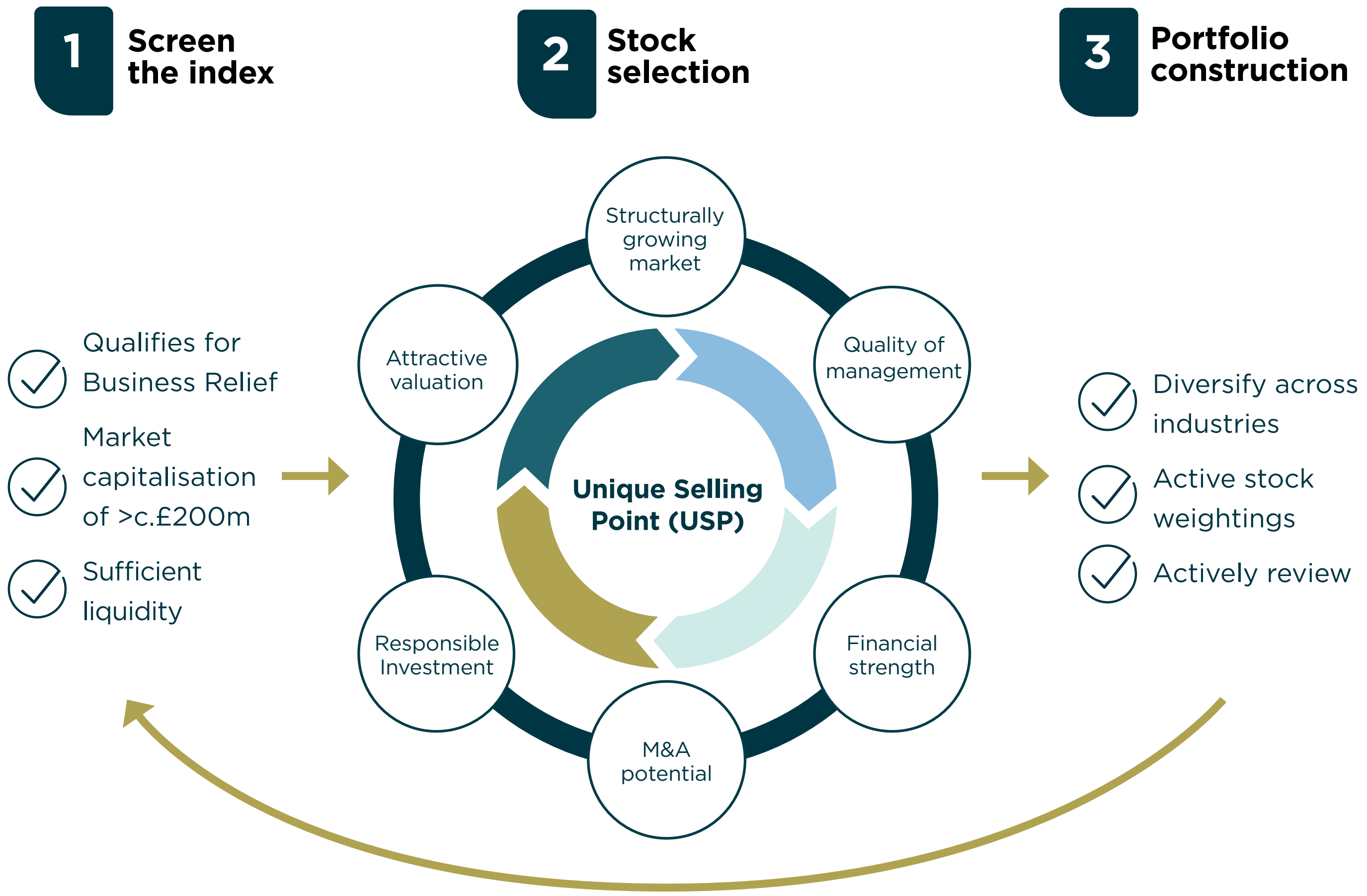
With traditional approaches expect:	With AIM you benefit from:	
Stagnant assets Gifting assets or holding them within a trust means missing out on the opportunity to grow your client's capital.	**Capital growth potential** An opportunity to increase the IHT sheltered portion of their estate through capital growth and the payment of dividends by companies held in their AIM portfolio.	ISA rules mean your clients can hold their AIM shares within their ISAs. This makes it possible for them to enjoy a double tax break - from capital gains earnt on their assets and the potential Business Relief from IHT, once the 2-year period has passed.
Lower liquidity Other IHT-mitigating solutions may invest in more illiquid assets, which can be difficult to trade or take longer to sell.	**Transparency and control** Being able to quickly invest and withdraw funds, typically within two business days, allows more control over investments.	Clients wishing to maintain control of their assets to mitigate IHT (as opposed to gifting) have access to a more dynamic and agile solution.
Longer wait times It can take 7 years for a gift or asset held within a trust to be classified as being outside the original owner's estate.	**A quicker timeframe** Investment only needs to be held for 2 years before your client passes away to be sheltered from IHT.	AIM offers a way for your older clients or those with more serious health concerns to pass on their legacy without a significant burden of time.
Relinquishing control Settling assets into trust or gifting assets transfers ownership of the assets away from the original owner. This means the original owner can no longer access their wealth.	**Better Access** Investments remain in the investor's name. Additionally, AIM investors can make withdrawals, at the cost of losing the IHT benefit.	A special benefit for your clients that have a Power of Attorney in place. Unlike gifting and putting money in trusts, your clients can hold the AIM shares in their name just like any other investment and have the freedom to access their finances later on in life.
A complicated affair The more traditional forms of estate planning can be complex; they often require the settlor or donor to take specialist legal advice and may on occasion require medical underwriting.	**Simplicity** Our AIM Strategy Team simplifies investing in Business Relief-qualifying companies. Everything can be viewed through our easy-to-use online platform saving you time.	The AIM Strategy can be a valid alternative instead of a discounted gift trust (DGT). AIM offers a greater degree of flexibility to your clients to manage any income from the investment, even with the 2-year qualifying period. DGT on the other hand, while immediate in its setup, can restrict your client as any income taken from these investments is fixed and pre-decided from the start.

Investments and the income from them can go down as well as up.

Our investment process

Our expert and dynamic team work on your behalf to conduct comprehensive research on suitable stocks for inclusion in the AIM Strategy.

We are able to be agile and nimble; thanks to our in-house dealing team we can deal as often as daily, if required. As we don't take large positions in companies we are able to buy and sell with ease.



Ongoing, independent analysis

The investment selections within the Quilter Cheviot AIM Strategy are analysed on an ongoing basis and are subject to an independent review by tax experts engaged by Quilter Cheviot.

This independent tax review examines the accounts of each company that has been selected by Quilter Cheviot for inclusion within our AIM Strategy portfolio and provides a summary of the extent of the availability of Business Relief.

Active ownership

We use ISS as our proxy voting service provider and have set a benchmark policy which ISS bases its recommendations on. We do not always follow ISS' recommendations, and we believe that this is the right approach as it is important that we do not adopt a mechanistic approach to engagement and voting. Voting decisions are influenced by engagement and on occasion because of this interaction we may decide to deviate from ISS' policy recommendation. The extent of the engagement is dependent on the materiality of our holding.

Contact us to find more on our approach to active ownership.

Who is the AIM Strategy suitable for?

*If you can say **Yes** to the following statements, the AIM Strategy could be right for your client:*

✓ **The size of their estate is higher than the current level of IHT-free allowances**	This is important because the primary objective of this portfolio is to shelter assets in excess of the client's nil-rate allowances from IHT.
✓ **They anticipate holding their assets in this portfolio for at least two years before passing and are considering an investment horizon of at least 7 years**	Stocks listed on AIM can be volatile and offer varying degrees of liquidity. It is important that your client understands the risks associated with this type of strategy.
✓ **They have £100,000 or more to invest in the AIM Strategy**	This is the minimum investment amount for our AIM Strategy.
✓ **They are a UK resident**	If your client lives outside of the UK, this strategy may not be suitable. Please discuss with a tax adviser to see if is the right option for them.

Additional information about investing in AIM

Two simple charges

Initial Charge: 1%*

Annual Management Charge: 1.25%**

* up to £5,000

** This charge is applied quarterly in arrears

How income is treated

We offer two options for how income can be treated:

1. Your client can receive income in the form of dividends. These can be paid every month, or every three months by standing order.

2. We can reinvest income into the portfolio. Reinvested income is assessed separately from the parent shareholding it is received from, meaning the two-year qualifying period for this new investment starts from the date the income is reinvested.

What happens to the portfolio when the investor passes away?

If your client passes before the end of the 2-year holding period, the portfolio can be transferred to their husband, wife or civil partner and the 2-year period will continue without the need to restart after the transfer.

If the portfolio cannot be transferred to a surviving husband, wife or civil partner, IHT will be charged on the assets within the portfolio on the same basis as any other assets held by the estate.

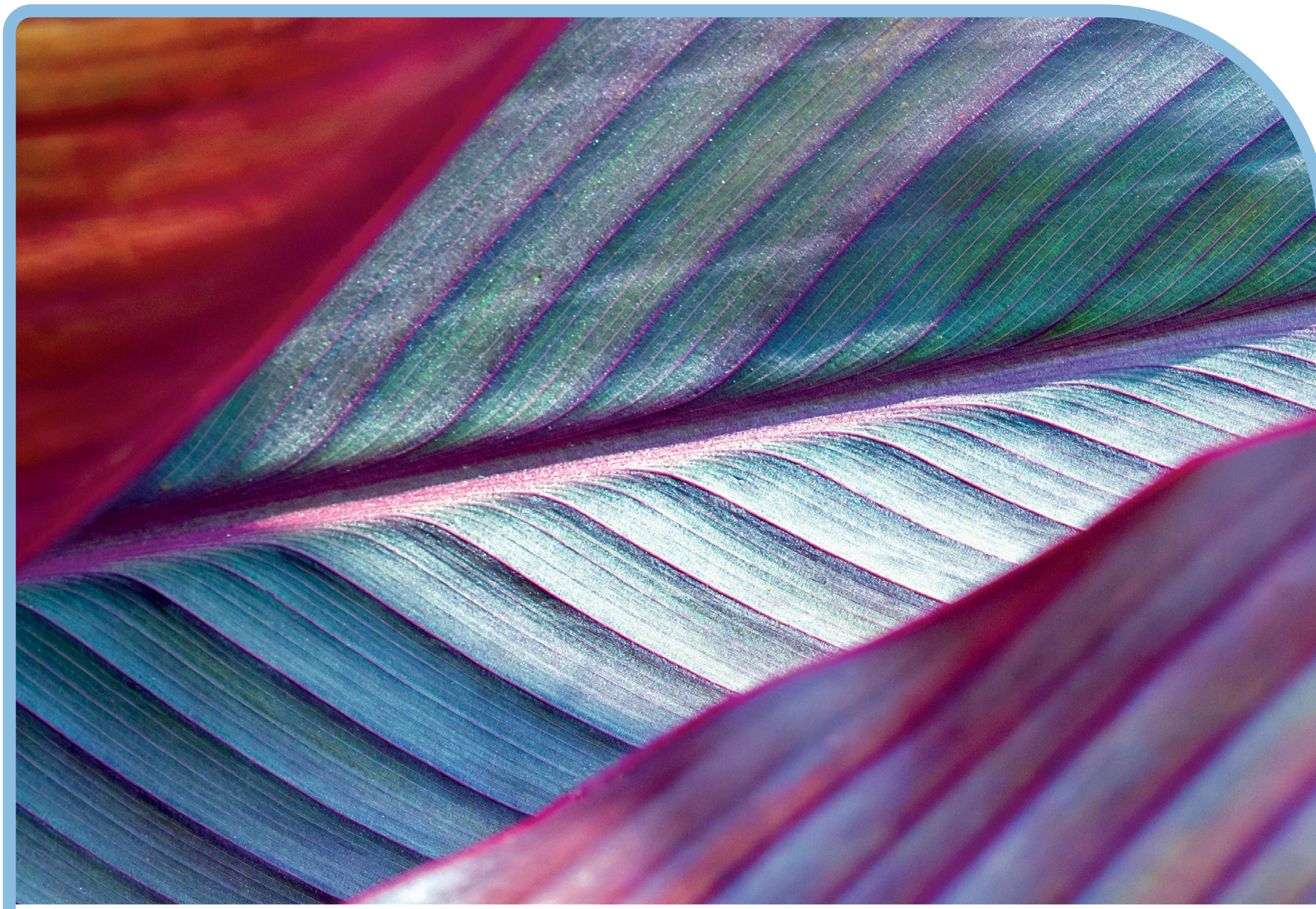
Once the two-year holding period is complete, the equity investments in the portfolio should qualify for 50% relief from inheritance tax.

The final decision on qualification for IHT relief rests with HMRC and the final amount of the investment that qualifies will also depend on the specific assets held by the business at the time.

Once probate or letters of administration have been granted, the shares can be sold or transferred to beneficiaries.

Withdrawing funds

Funds can be withdrawn from the portfolio at any time, but this will reduce the amount of IHT relief that your client qualifies for.



Our approach to Responsible investing

As a responsible investor Quilter Cheviot is committed to our role as a steward of clients' assets in order to protect and enhance long-term returns. This encompasses our engagement with investee companies, through proxy voting and face-to-face dialogue, as well as considering environmental, social and governance (ESG) factors which could impact shareholder returns. This is our firmwide approach which applies across our investment strategies.

We have adopted the Investment Association's Responsible Investment Framework. The points below summarise our three main approaches to responsible investment.

Stewardship: This involves engaging with companies to discuss ESG issues to improve their handling and disclosure of such issues.

ESG Screening: We have a firm-wide restriction on investing directly in cluster munitions and anti-personnel landmines*. We also monitor any potential indirect exposure to this on an ongoing basis.

ESG Integration: This is the explicit and systematic inclusion of ESG issues in investment analysis and decisions - to better manage risks and improve returns.

*A number of international conventions and treaties prohibit or limit the use and availability of these weapons.

Key considerations for investing in the AIM Strategy

At Quilter Cheviot, we are committed to minimising risks where possible, and encourage you, along with your client to consider the following potential risks before investing:

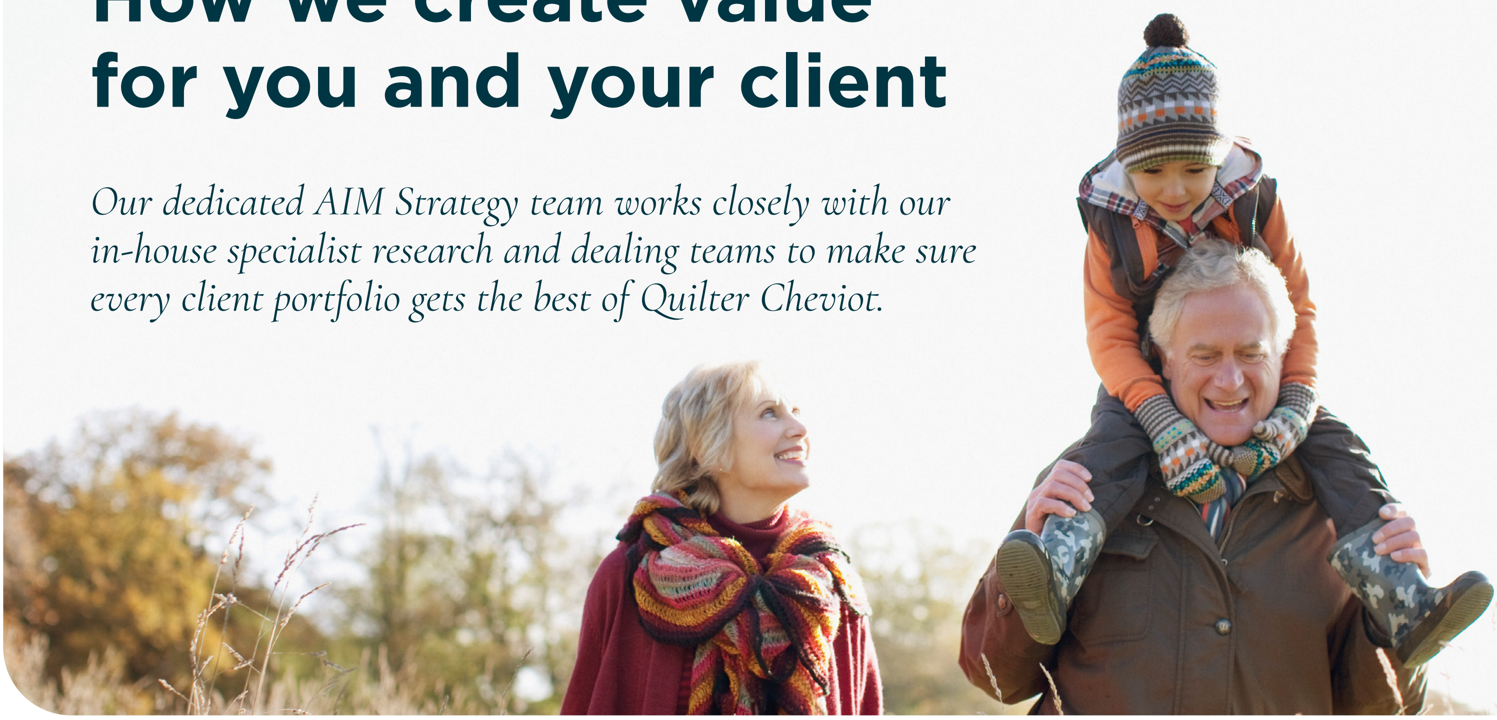
- Investing in smaller companies is associated with higher levels of risk, so please ensure this is something that you are comfortable with.
- The market to sell investments in smaller companies is less readily available, which can make it more difficult or take longer to sell.
- The advantages of investing in a portfolio of AIM stocks depends on the existing tax rules in place. This means that the benefits of investing in the AIM Strategy could be impacted by any future changes in the tax rules.
- Smaller companies and those involved in niche sectors, such as new technology or alternative energy, often experience above average price movements, both up and down. These are typically greater than those experienced by investments held in companies with a full listing on the London Stock Exchange.
- As smaller companies usually rely on a smaller management team, changes to this team can have a bigger impact on company performance.
- By their nature, smaller companies often specialise in particular sectors as they target their products and services at a narrow range of consumers. Any small changes on the market place is likely to have a significant impact on the company's performance.
- Buying (offer) and selling (bid) price differences for AIM companies will often be greater than those on the full London Stock Exchange. As with any investment, capital (initial investment) is at risk and sale proceeds may not always be greater than the initial investment, particularly if the sale is shortly after buying.

Our risk controls include:

- **Meeting company management before we invest**
- **Avoid loss-making businesses**
- **Avoid 'blue-sky' companies**
- **Minimum market cap threshold of c. £200m, and**
- **To not own more than 3% of a company's free float.**

How we create value for you and your client

Our dedicated AIM Strategy team works closely with our in-house specialist research and dealing teams to make sure every client portfolio gets the best of Quilter Cheviot.



By choosing us, you'll be in safe hands with an expert team that:

Connects the dots for you

Thanks to our dedicated research team and access to industry experts, we can leverage global market insights. We actively initiate conversations with 1000+ management teams per year.

This helps us ensure that we only select the most promising stocks for your client.

Conducts proactive reviews

We engage a team of independent tax experts to regularly review the accounts of the investee companies we have selected.

In doing so, we make sure that the stocks we hold continue to qualify for Business Relief.

Stays on top of your client's portfolio

We provide timely and regular reporting on important portfolio and market insights.

Our secure online portal enables you and your client to monitor portfolio performance online.

Environmental, Social and Governance considerations are fully integrated into our research process, which helps us identify and understand potential risks and opportunities.

Speak to our helpful team today to explore how the AIM Strategy could benefit your clients

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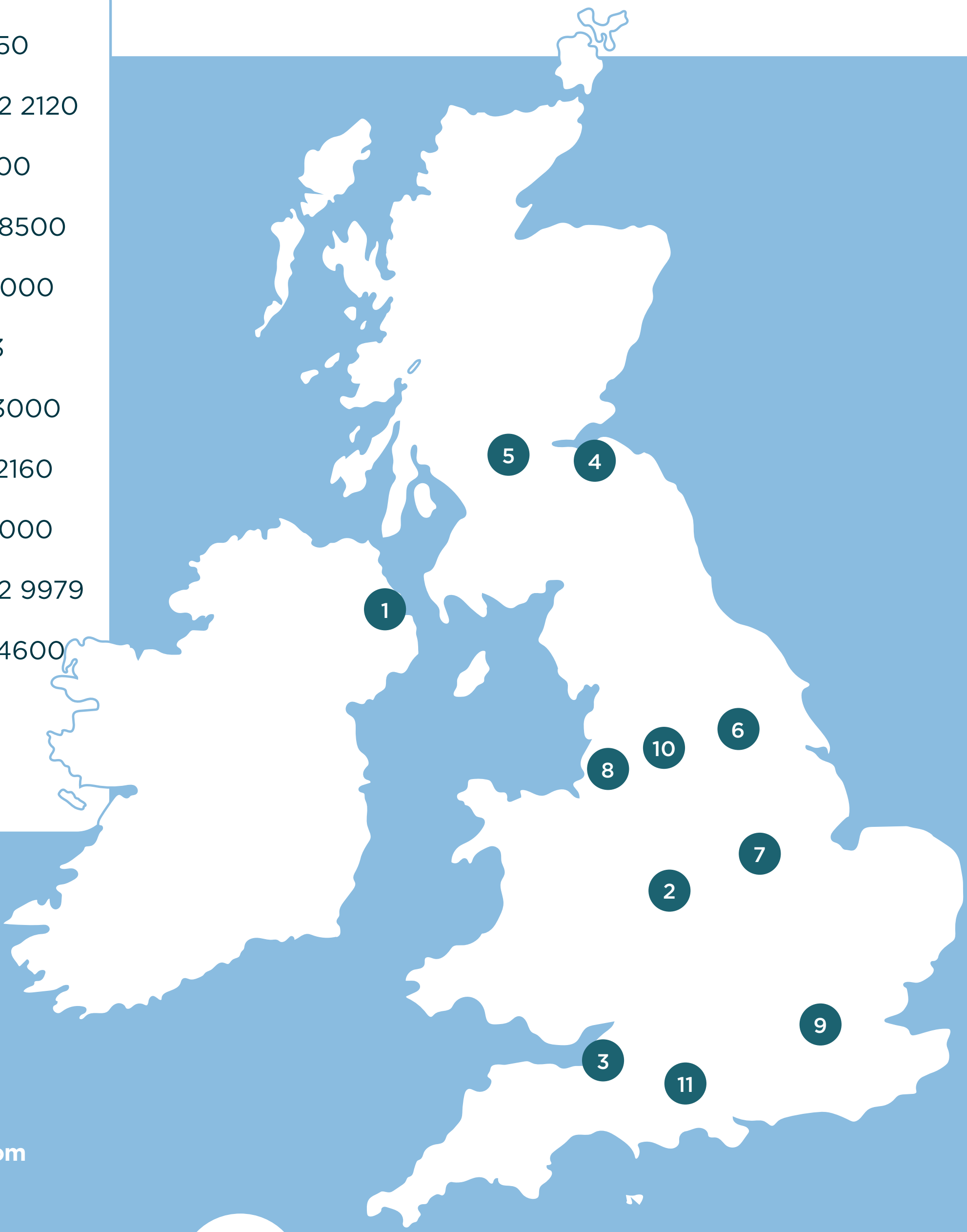

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SPECIALISTS IN INVESTMENT MANAGEMENT

Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest. This document is directed at and is intended to be viewed by investment professionals only; it should not be disseminated to or relied upon by any other person.

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