

RATHBONES

Incorporating
Investec Wealth &
Investment (UK)

AIMing to save inheritance tax?

The Insurance Institute of Sheffield
Tax Efficiency and Estate Planning Seminars

25 June 2024

This presentation is intended for professional advisers only.
Our AIM IHT service is a high risk, long-term investment.

Investec Wealth & Investment (UK) is a trading
name of Investec Wealth & Investment Limited



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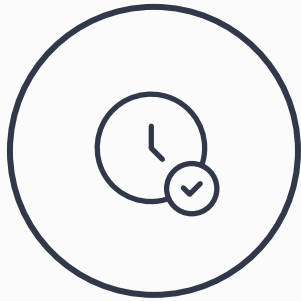
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Intro to IWI&I AIM IHT plan

Introduction to Business relief for IHT

Key Questions for IHT mitigation strategies



How long does it take
to be effective?



Can I keep control
of the assets?



Can I achieve capital growth
without excessive risk?

BR qualifying AIM shares achieve 100% IHT relief after 2 years

Inheritance Tax Planning & AIM



Qualifying AIM investments are exempt from Inheritance Tax via Business Relief, provided that the asset has been held

- for 2 of the last 5 years and
- at the time of death



Replacement provisions allow for

- Active portfolio management
- Temporary withdrawals if necessary



Not all AIM shares qualify



AIM ISAs can be IT, CGT **and** IHT free

The power of an AIM IHT portfolio

Investment case study – the difference 2 years can make

IW&I AIM IHT Planner	No action taken
Initial value - £736,340	Initial value - £736,340
Terminal value - £826,250	Terminal value - £736,340
IHT payable – Nil	IHT payable - £294,536
Net terminal value - £826,250	Net terminal value - £441,804
Net benefit - £384,446 (52%)	

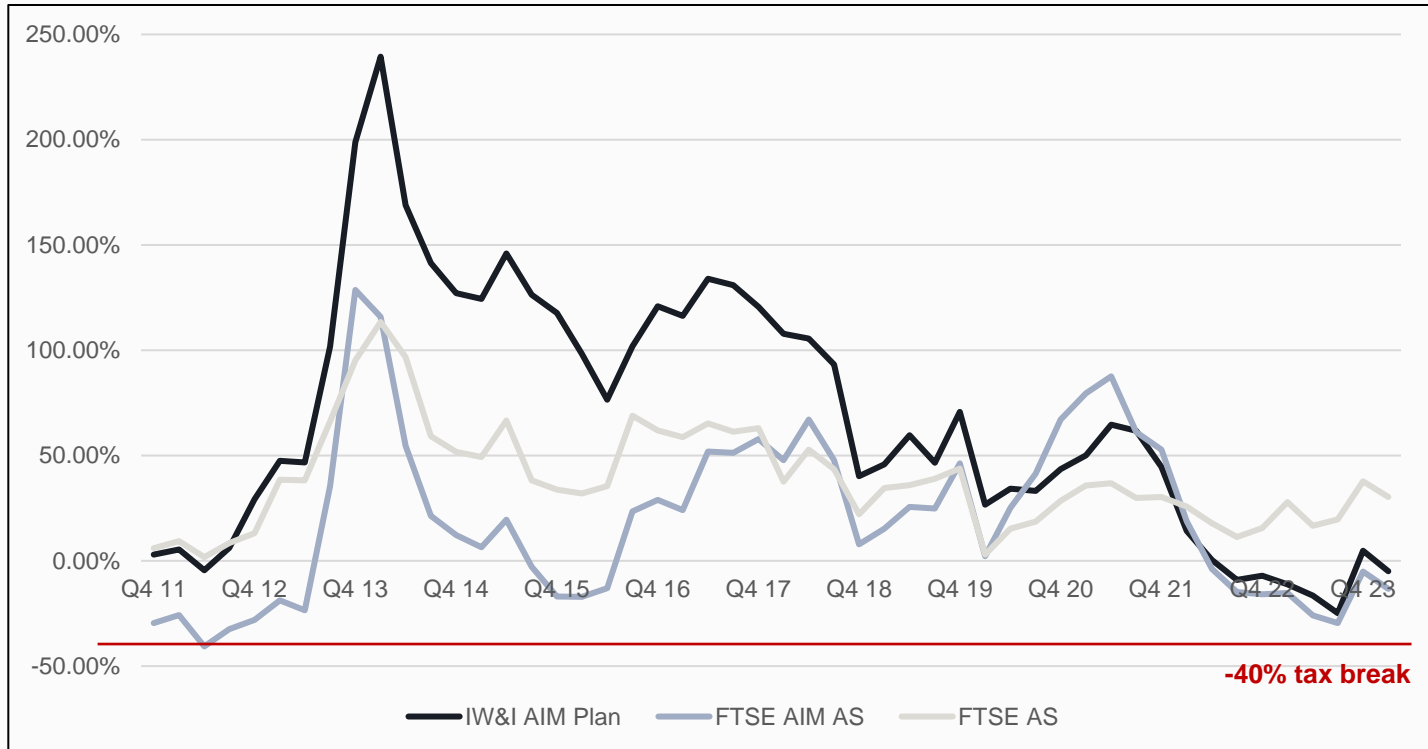
- ✓ Mr C invested £736k in Feb 2017
- ✓ No additions or withdrawals
- ✓ Died in July 2019
- ✓ Performance from portfolio +12%

The key benefits of the AIM IHT solution

- ① Reduced timescale compared to trusts or gifting – IHT sheltering in only 2 years
- ① Retaining access to and control of assets – no Trust structure required
- ① Liquid assets – simpler and quicker access to capital
- ① Sale of family or private company – rollover of BR benefit
- ① Direct exposure to smaller quoted companies

Five year tax break

Five year returns restated by quarter



✓ 5 year average life span of a client.

✓ No point over 5 year investment time horizon have losses exceeded 40% - consistently worthwhile for clients.

✓ Sharp decline in recent 5 year performance figures in AIM following peak in mid-2021.

Source: IW&I as at 31 March 2024

The FTSE AIM Index

The AIM market

738 companies, £77bn market cap*



**£1bn +
market cap**
10 companies*

23%
of Market

IW&I investable universe

- >£150m market cap
- 123 Companies
- Value > £57 bn

Watchlist

- £100-£150m
- 48 Companies
- Value > £6bn



**£50m - £1bn
market cap**
253 companies*

68%
of Market



**< £50m
market cap**
475 companies*

9%
of Market

Largest Company

- Jet2
- £3.1bn market cap

Average market capitalization of all AIM

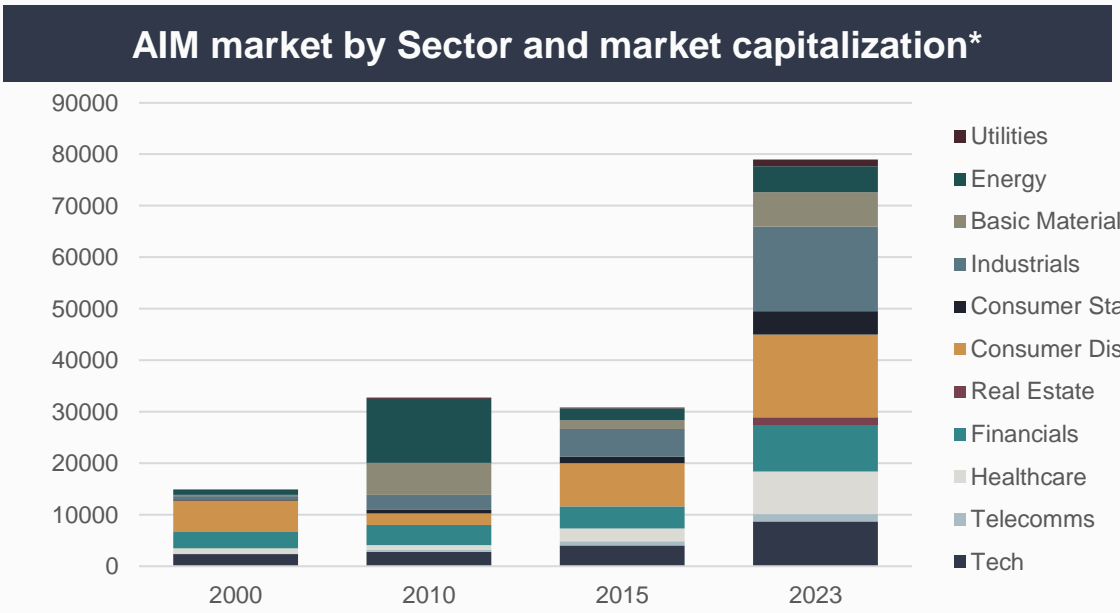
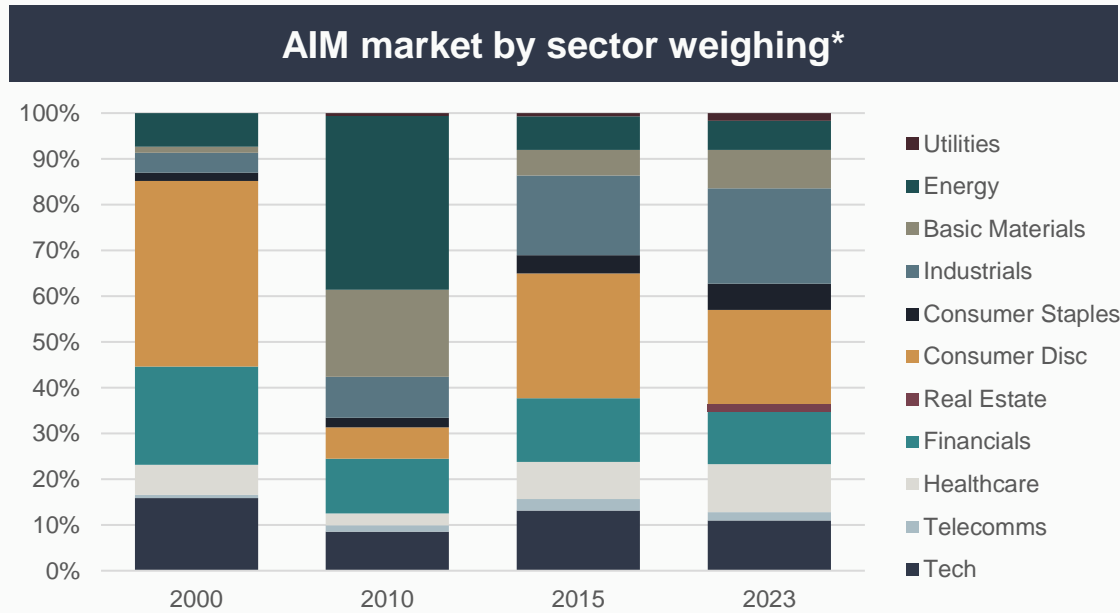
- £105m
- £466m average market cap of company in plan

Approximately £8.8bn invested from AIM
IHT plans, 11% of the market**

*Source: London Stock Exchange 31 March 2024 AIM statistics.

**Source MICAP September 2023.

The AIM market



Evolution of the market with consumer discretionary dominating 2000

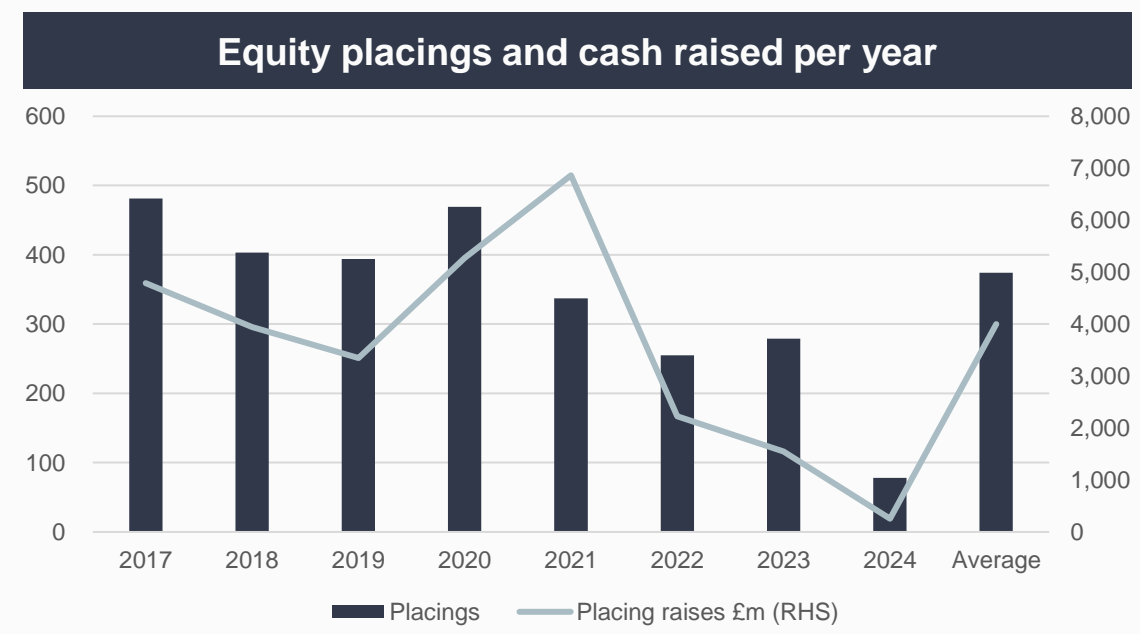
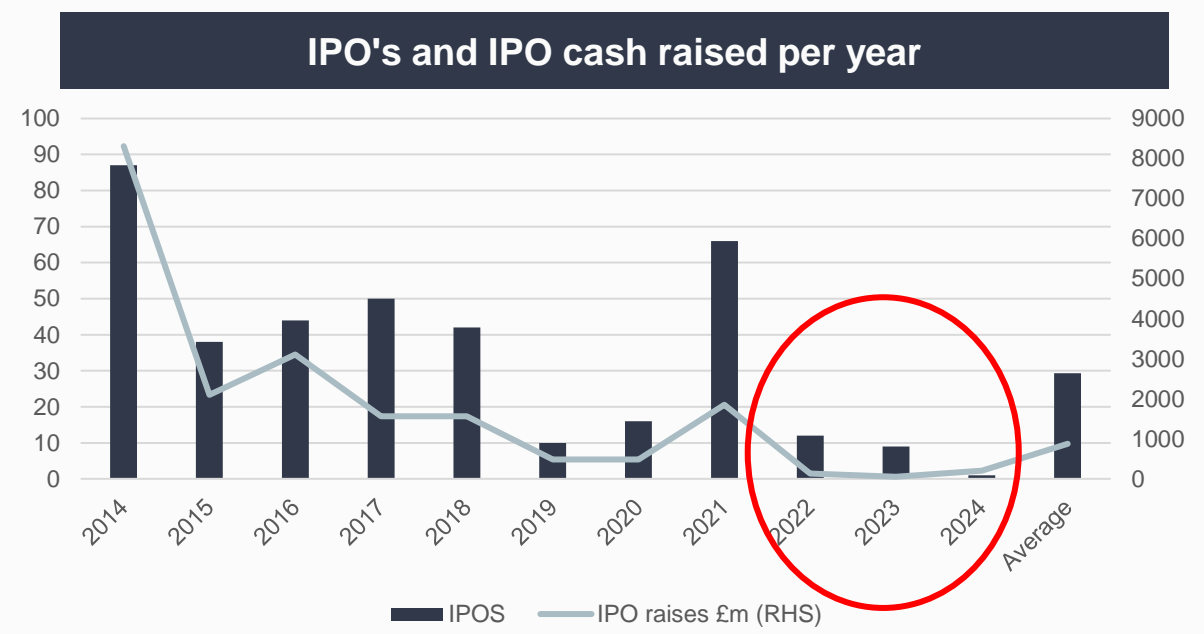
High energy weighting in 2010 after tech was hit hard

2023 more diverse market with consumer discretionary, industrials and healthcare the higher relative weightings

Growth in market cap from 2015 is significant £30bn to £80bn – 2.5x growth in value

*Source: London Stock Exchange 31 December 2023 AIM statistics.

The AIM market



After the backlog of COVID-19, 2021 was a strong year for IPO's.

Quiet 2022 and 2023, slow start in 2024 for new IPO's

Strong 2020 for cash raises with companies strengthening balance sheets amid COVID-19

**Source London Stock Exchange 31 March 2024 AIM statistics.

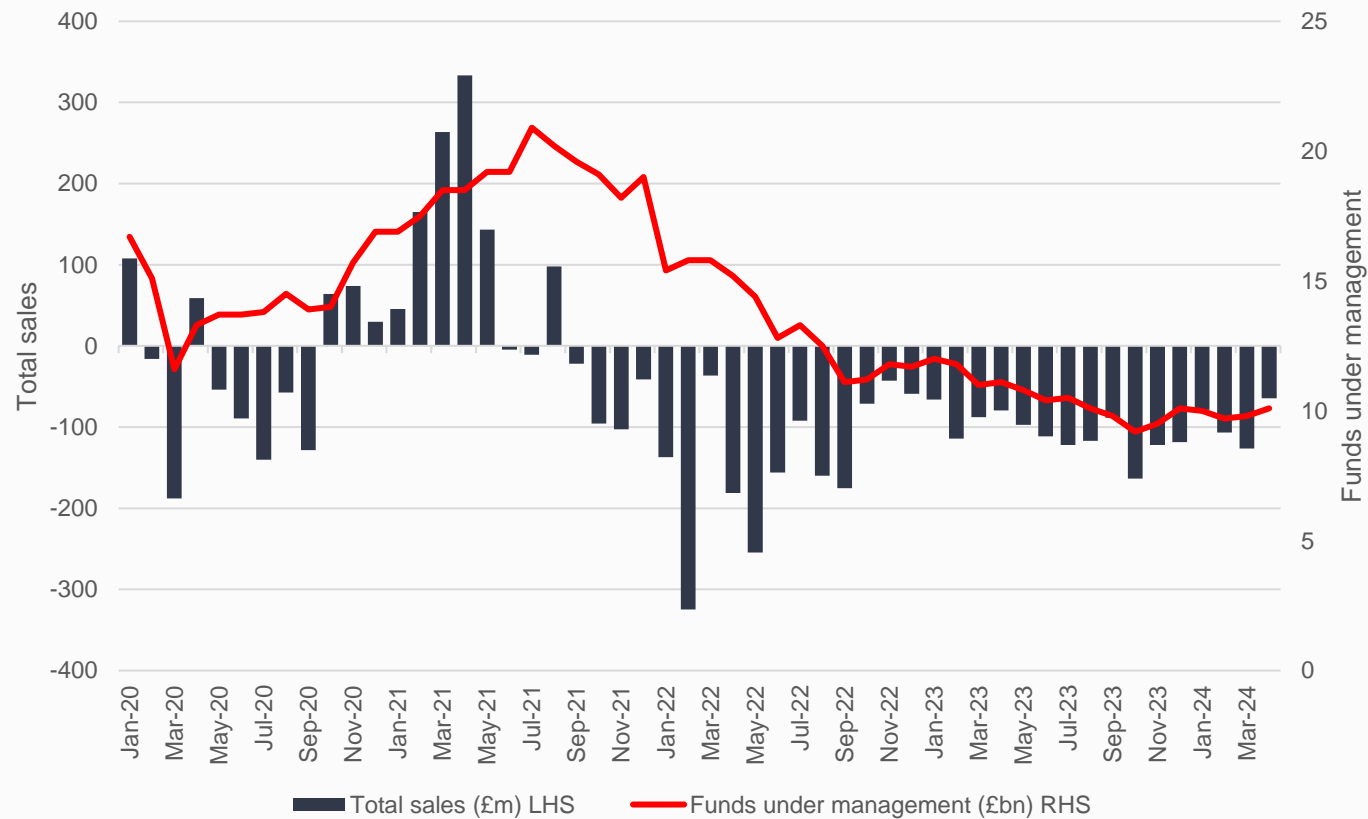
Example companies



Macro drivers

Fund flows drive returns!

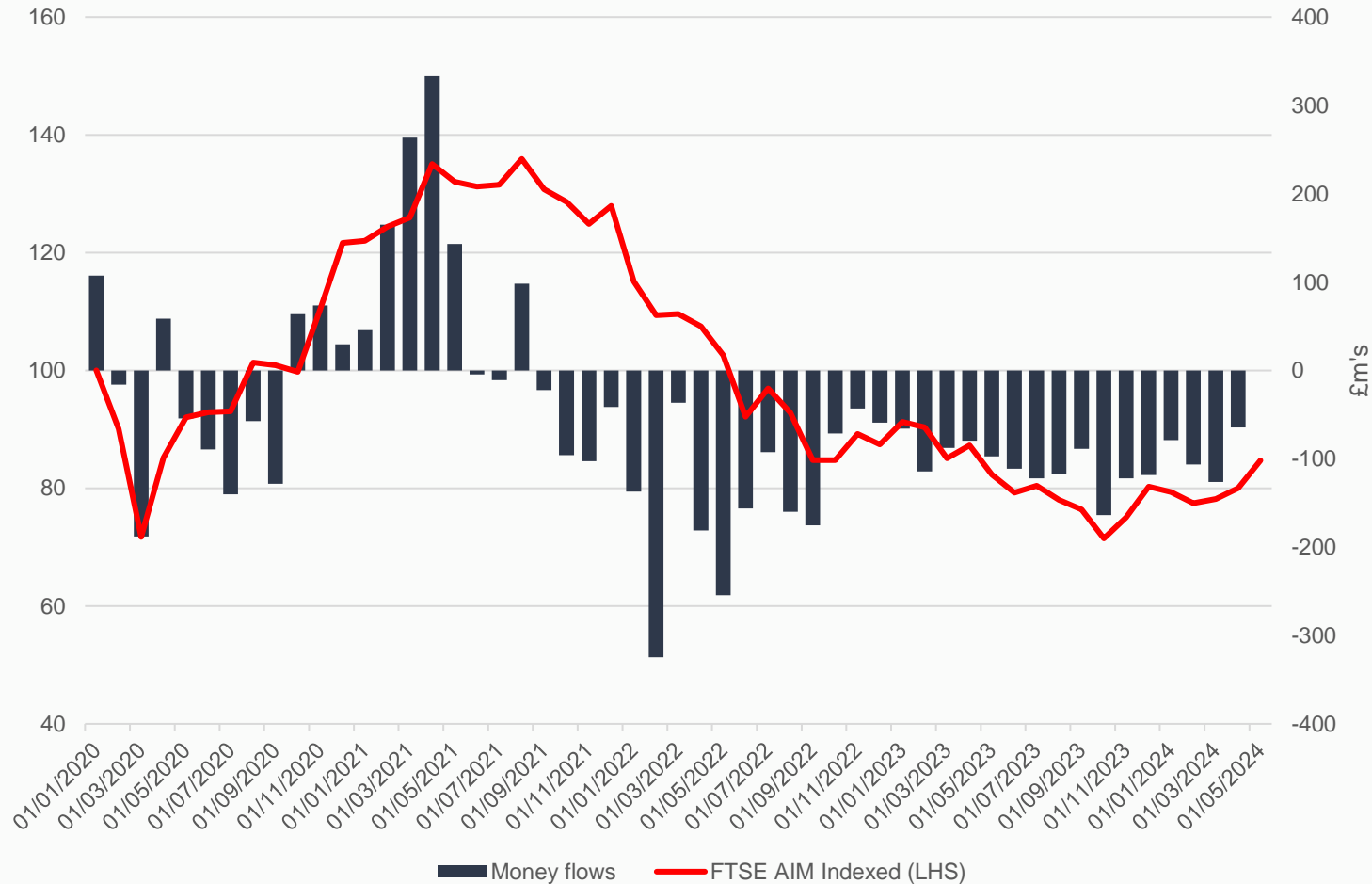
UK Smaller Companies



One of the main reasons why AIM stocks have underperformed other indices over the past few years.

32 months of redemptions from the UK Smaller Companies space

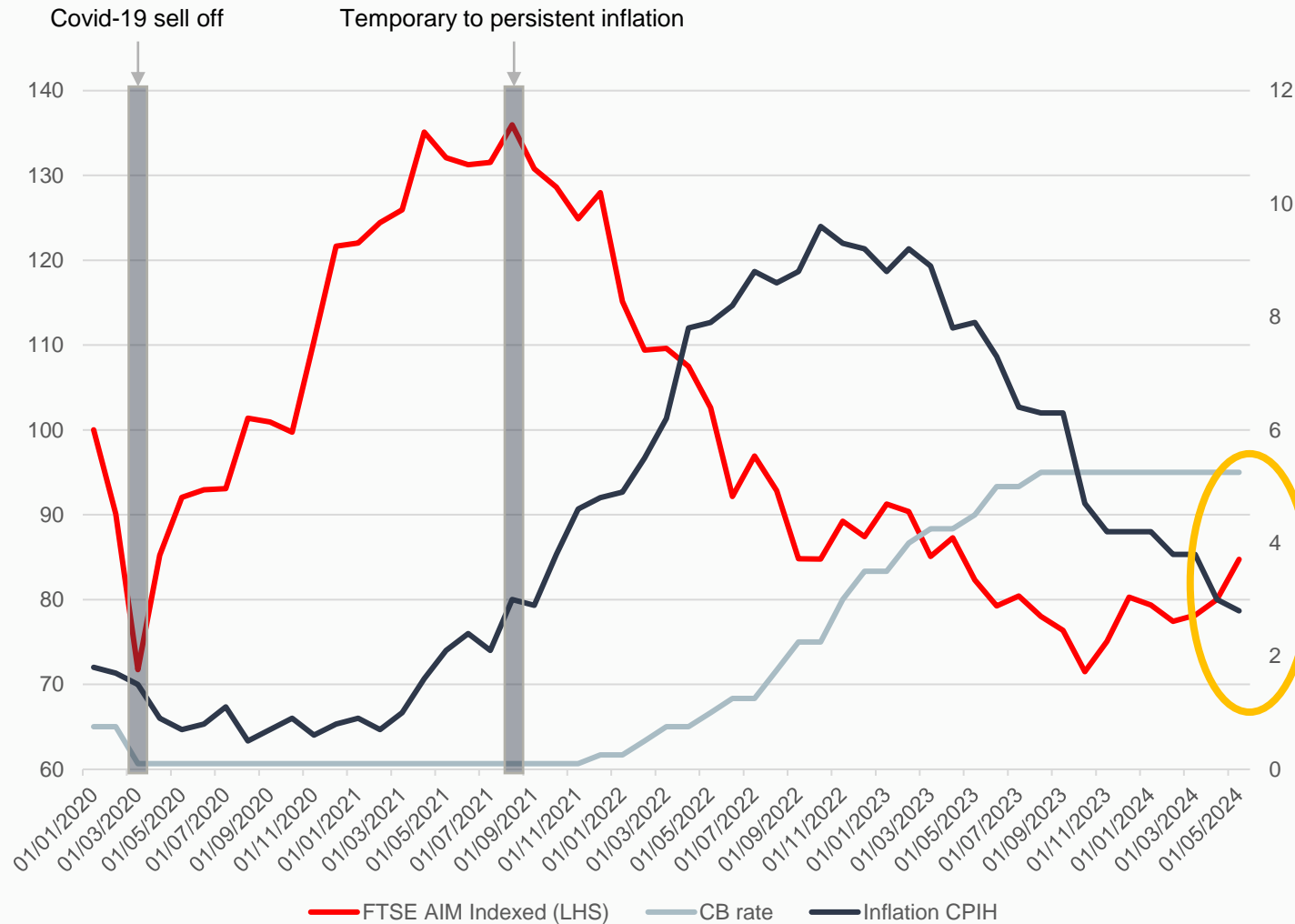
Index FTSE AIM All share v money flows



Carbon copy of previous
chart.

Money flow out has stemmed
the sell off in AIM

FTSE AIM Allshare, CB Bank Rate, Inflation CPIH



Lots of macro drivers over last four years

Initial sell off in the market due to COVID-19, a “V” shaped recovery before Aug 21 high.

Central bank rhetoric changed from temporary to persistent inflation, drove the market down, inflation up and cost of capital up.

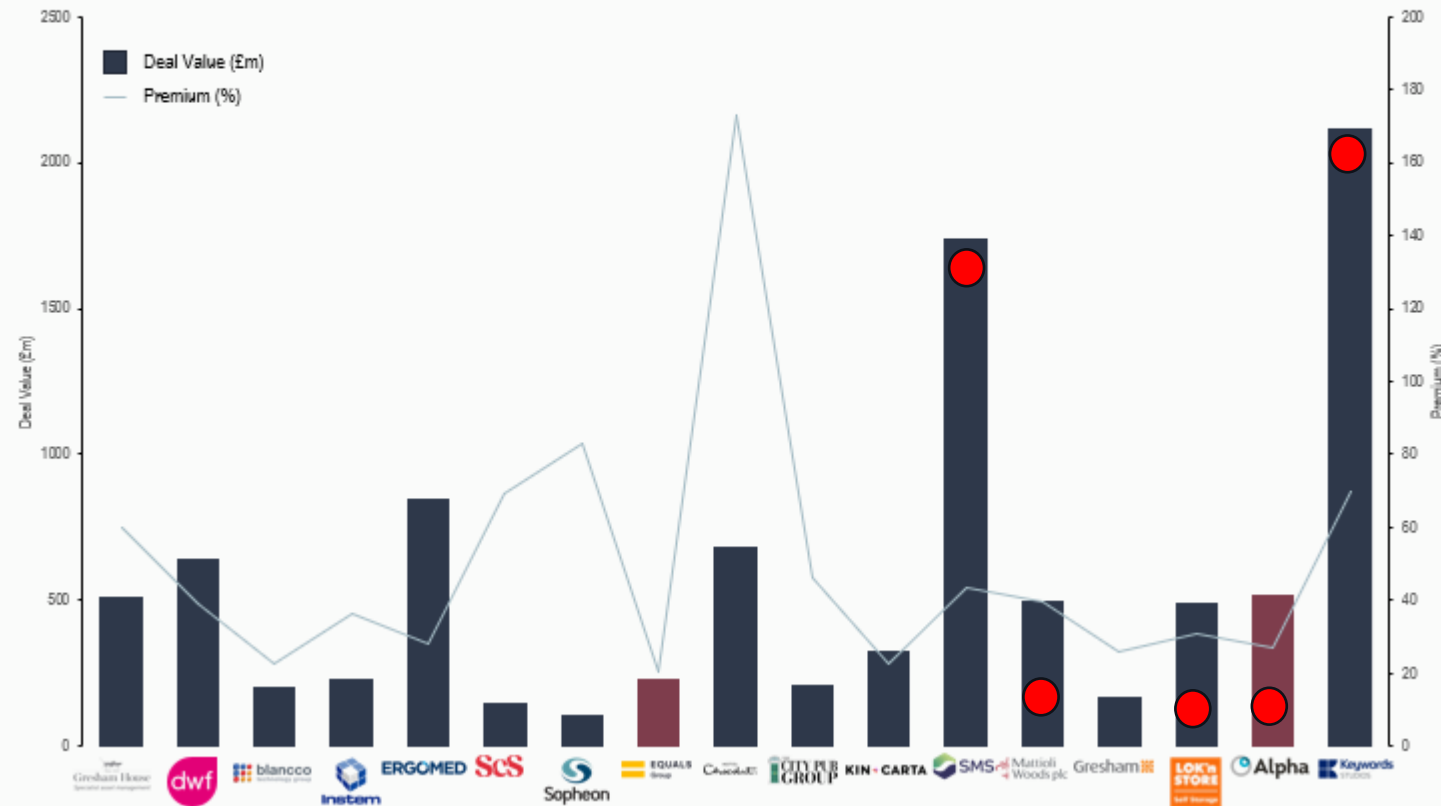
Inflation falling back to the 2% target, markets have recovered.

AIM market still c15% lower than pre – COVID-19, unlike other global markets

Transactions in last 12 months

AIM Bids and Takeouts in the last 12 months

The FTSE AIM has become an area of focus for global PE and trade



AIM has been a PE/trade buyers area of focus

High quality assets are cheap valuations

Premiums still not as attractive as they once were, averaging 30 – 40% of undisturbed price.

Why is this happening?

The usual responses from Executive management/Boards

- Provides **immediate opportunity** to realise growth in share price
- **Lengthening of the sales cycle** – customers are taking longer to place orders/make decisions on projects
- The share price **does not reflect the growth** potential
- Raising equity is **too dilutive** for the groups ROI at current levels
- Trade buyer – further consolidation in the industry, improve efficiencies and economies of scale
- Private Equity buyer – Mismatch between share price and true Value of the business – will fund the growth cycle through private capital



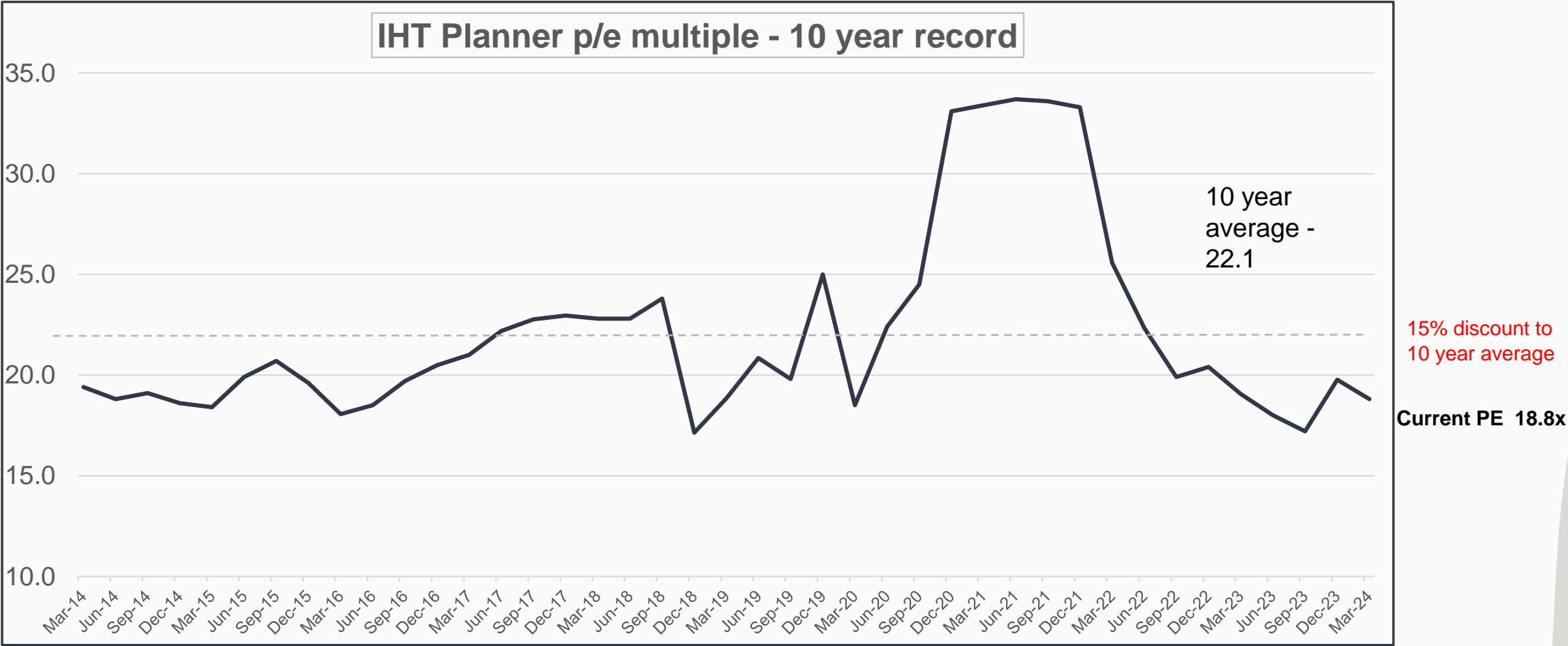
Does it Matter? – YES!

- **UK economic growth**, given that small & midcap companies are generally growing, whereas many of our larger companies are shrinking their workforce.
- **Lower attraction of the UK as a listing venue**
- **Reduction in sector peers and depth of knowledge**, which further reduces the attraction of listing in the UK.
- **Negative impact on a broad range of professional services firms**, which is a particular area of expertise and knowledge in the UK.
- Reduced importance of UK markets in international indices, resulting in **lower attention from international investors**.
- There is a change from **broad to narrow ownership**.
- **Circularity of negativity**, whereby valuations are low, liquidity is depressed and companies exit the market as long-term prospects/valuation are not being adequately recognised. – **de-equitisation of AIM**

Source: Peel Hunt 2024



AIM IHT Plan company valuations



Source: Factset and Investec Wealth and Investment ,31 March 2024

Why AIM/Smaller companies now?

Valuation remains attractive

M&A is prevalent, 2023 was an active year for PE/Overseas buyers of UK small cap – 2024 started off strongly too.

Declining inflation and downwards route of travel for interest rates

Regulatory changes / UK Smaller are significant employers and need support

Marginal buyer coming back to the market, recent buyers have been the companies themselves.

Spring budget introducing - GB ISA and Pension UK equity holdings disclosure to promote UK PLC investment.



IW&I AIM IHT plan

Investec AIM IHT Plan

Objectives



Preserve business relief



Reduce volatility



A return commensurate with high-risk mandate

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.



Our philosophy

Investing in Quality	AIM IHT plan	FTSE AIM Allshare*	Relative
Gross Margin	44%	21%	23%
Return on Capital Employed	17%	11%	6%
FCF yield	6.1%	6.1%	0.0%
Cash conversion	73%	60%	13%
Interest expense / EBITDA	5%	9%	-3%

*Notes to calculations

FTSE AIM Allshare exclude companies <£100m market cap, and financials

Return on capital employed is calculated by EBIT / Shareholder Eq + Long term liabilities

Cash conversion = FCF / EBITDA

Interest expense / EBITDA gives a weighted interest expense over total weighted EBITDA generated.

Source of data: Factset, obtained 31 March 2024

- Experienced management team
- 5 years trading and quoted for at least a year
- Distinctive capabilities
- Proven financial track record with dividends
- Sound balance sheet with low finance risk
- Potential catalyst for trading step-change
- Liquidity in the shares

AIM EIS proposition

	Business Relief (AIM IHT portfolios)	Enterprise Investment Scheme (EIS)	Venture Capital Trusts (VCTs)
Maximum investment for reliefs	Unlimited	Up to £2m p/a for Income Tax Relief* No limit for Business Relief or CGT deferral	£200k p/a
Minimum holding period	2 years and on death	3 years for Income Tax Relief 2 years for Business Relief and held on death	5 years
IHT relief	Yes	Yes	No
Income Tax relief	No	30%	30%
Tax free growth	No, unless held in an ISA	Yes**	Yes
Tax free dividends	No, unless held in an ISA	No	Yes
CGT deferral	No	Yes	No
Loss relief	No	Yes	No

*£1m of this must be invested into knowledge intensive companies

** provided Income Tax Relief was claimed

- IW&I are combining with Rathbones, who have an AIM EIS proposition
- Each client has their own bespoke EIS portfolio managed on a discretionary basis
- Each portfolio is invested into a minimum of 12 EIS qualifying AIM or Aquis traded companies
- EIS qualifying shares must be primary issues, whereas BR shares are predominantly bought from the secondary market
- AIM EIS share values are market priced and have greater ability to liquidate when required than off market holdings

Please note that the value of investments and the income derived from them may fluctuate and investors may not receive back the amount originally invested. Past performance of an investment is no guide to its performance in the future.

Current tax levels and reliefs may change and the investments and investment services referred to may not be suitable for all investors.

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Thank you