

An aerial photograph of a white sailboat on clear turquoise water. The boat is viewed from above, showing its deck, mast, and rigging. The water is a vibrant blue-green color with some whitecaps. The boat's hull is white, and the deck has wooden planking. The mast is a light grey color. The rigging consists of various ropes and pulleys. The boat is positioned diagonally across the frame, with the bow pointing towards the bottom left. The background is a vast expanse of water with some whitecaps. The overall scene is bright and clear, suggesting a sunny day.

Alternative Investment Market (AIM)

Portfolio Service

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Introduction to the Brooks Macdonald AIM Portfolio Service

Brooks Macdonald's AIM Portfolio Service (the Service) is an actively managed discretionary portfolio of Alternative Investment Market (AIM) listed companies. Brooks Macdonald also offers an AIM Individual Savings Account (ISA) service.

Each portfolio within the Service is comprised of 30 to 40 AIM listed companies, based on a guidance model portfolio. Individual holdings that offer sound investment potential are selected using a conservative, long-term investment process.

Under current legislation, Inheritance Tax (IHT) benefits can potentially be derived on the death of an investor if certain AIM listed assets have been held for at least two years, under the UK's Business Relief (BR) regime. This relief was introduced by the 1976 Finance Act to encourage private individuals to support small but growing companies.

The Service is not a collective investment scheme and its simplicity is a major attraction. The Service is a portfolio of shares that are eligible for BR qualification and as such the client retains ownership of the underlying assets. Cash can therefore be realised at any time, although the proceeds raised and the exact timing of settlement will be dictated by prevailing market conditions at the time of dealing.

Withdrawals may also compromise any accrued IHT benefits. The Service was established in July 2011 and has a demonstrable track record and strong position in this market.

For performance data, holdings information and minimum investment levels please refer to the latest factsheet.

“ Individual holdings that offer sound investment potential are selected using a conservative, long-term investment process. ”

Tax treatment depends on your individual circumstances and may be subject to change in the future. Business Relief (BR) is not guaranteed and remains at the discretion of HMRC to be determined on the death of the individual. The individual could die before the two year BR qualification period has been achieved. It is important to note that the BR tax regime itself could be withdrawn by the UK Government at any point in the future.

What is the Alternative Investment Market (AIM)?

The London Stock Exchange (LSE) founded AIM with a view to providing smaller growing companies with a platform upon which they could efficiently raise capital. A wide range of businesses including both early stage and more established companies join AIM seeking access to an international shareholder base to fund their future growth prospects. These companies can be domiciled internationally and operate within any sector.

History of AIM

AIM was launched in 1995 with ten member companies with a collective value of £82.2 million. Since then over 3,800 companies have joined and raised more than £115 billion in new and further capital fundraisings. The AIM market currently consists of 850 companies with a combined value of approximately £104 billion (London Stock Exchange March 2022).

Examples of AIM member companies

Companies that are members of AIM include well known names such as Fever-Tree Drinks (premium mixers), Hotel Chocolat (luxury chocolates), Nichols (producer of the popular soft drink Vimto) and Boohoo.com (online retailer). Many other AIM-listed companies do not have consumer facing brands but do have long-standing relationships with many well-known multinational companies.

Inheritance Tax (IHT)

IHT is a UK tax on the estate (the property, money and possessions) of a deceased individual. The standard IHT rate is currently 40%. It is charged on the portion of the estate that is above the tax free threshold, which is currently £325,000 per person (and is subject to change). If you give away your home to your children or grandchildren, your threshold will increase to £500,000. If you are married or in a civil partnership and your estate is worth less than your threshold, any unused threshold can be added to your partner's threshold when you die.

Example: Your estate is worth £500,000 and your tax-free threshold is £325,000. The IHT charged will be 40% of £175,000 (£500,000 minus £325,000) which is £70,000.

From a tax planning perspective there are multiple ways in which you can reduce your estate which will be subject to IHT. The most common strategies are listed below. Please note, however, that we are not tax specialists and cannot offer tax planning advice. Please seek independent tax advice and note tax treatment depends on individual circumstances and may be subject to change in the future.



Gifts during life (defined as anything that has a value, such as money, property, possessions)

Gifts (outside of your 'annual exemption' and 'exempted gifts') are not counted towards the value of your estate only after seven years have passed. Gifts made three to seven years before your death are taxed on a sliding scale. Gifts given in the three years before you die, are charged at 40%.



Gift to charity in your will

The estate can pay IHT at a reduced rate of 36% on some assets if you leave 10% or more of the 'net value' to charity in your will.



Business Relief (BR)

BR allows some assets to be passed on free of IHT or with a reduced bill. A client can receive 100% BR on a business or interest in a business and shares in an unlisted company (where AIM shares are considered to be unquoted for tax purposes).

Tax treatment depends on your individual circumstances and may be subject to change in the future. Business Relief (BR) is not guaranteed and remains at the discretion of HMRC to be determined on the death of the individual. The individual could die before the two year BR qualification period has been achieved. It is important to note that the BR tax regime itself could be withdrawn by the UK Government at any point in the future.

About Business Relief (BR)

BR is an established part of IHT legislation, enabling BR qualifying investments that have been held for at least two years to be passed on potentially free from IHT on the death of the investor.

Our intention is to invest only in AIM-listed companies that qualify for BR. When selecting our holdings we refer to the tax statute governing BR. For example, stocks must be defined as 'trading companies' to qualify, therefore we will avoid certain businesses such as, property companies, cash shells and investment companies. However, we cannot be certain that each company will ultimately qualify for BR, as this remains at the discretion of HMRC on the death of the investor. We do engage the services of a leading accountancy practice to provide further independent oversight for BR qualification purposes.

“ Our intention is to invest only in AIM-listed companies that qualify for BR. When selecting our holdings we refer to the tax statute governing BR. ”

BR example

Below is an example of how investment in BR qualifying AIM stocks can reduce the amount of IHT ultimately payable on an estate. The example details multiple scenarios for a client with £700,000 of funds available for investment and assumes that the individual has no nil rate band left.

The example shows that even if the client's AIM portfolio fell by 40% in value, they would still have the same net value of estate (after

IHT has been deducted) as a portfolio that had not invested in qualifying AIM assets.

Although the risk profile of the Service may be considered higher than other IHT planning strategies (such as gifts or life insurance), for some clients the accelerated qualification period and the retention of asset ownership can represent an attractive investment with an added tax planning opportunity.

AIM investment start		£200,000	£200,000	£200,000	£200,000	£200,000	£0
AIM Portfolio Service illustrative performance	40%	£280,000	-	-	-	-	-
	20%	-	£240,000	-	-	-	-
	0%	-	-	£200,000	-	-	-
	-20%	-	-	-	£160,000	-	-
	-40%	-	-	-	-	£120,000	-
AIM investment end assuming two years ownership		£280,000	£240,000	£200,000	£160,000	£120,000	£0
Other assets		£500,000	£500,000	£500,000	£500,000	£500,000	£700,000
IHT payable at 40%		£200,000	£200,000	£200,000	£200,000	£200,000	£280,000
Net value of estate		£580,000	£540,000	£500,000	£460,000	£420,000	£420,000

Above table is for illustrative purposes only and assumes nil-rate band used against other assets. Portfolio must normally be held for two years in order to achieve BR relief. Past performance is not a reliable indicator of future results. BR could be withdrawn at any time.

Tax treatment depends on your individual circumstances and may be subject to change in the future.

Business Relief is not guaranteed and remains at the discretion of HMRC on the death of the individual. The individual could die before the two year BR qualification period has been achieved. It is also important to note that the BR tax regime itself could change or be withdrawn by the UK Government at any point in the future.



Brooks Macdonald investment process

Our investment process is fairly conservative in nature and as such we have a bias towards (but not a contractual obligation to restrict ourselves to) companies with strong balance sheets, robust cash flows and demonstrable track records of profitability. We are also attracted to companies with attractive but secure, sustainable and growing dividends. In terms of qualitative factors, we look for companies boasting high market shares in niche industries with defensible and sustainable competitive advantages and benefitting from structural (rather than cyclical) growth tailwinds. We believe that these qualities lead to attractive and sustainable profitability. Valuations are clearly also important.

In terms of a new portfolio within the Service, we would normally expect 50% of the portfolio to be invested fairly promptly and fully invested four weeks after the first investment is made. Under the terms of our AIM Service rules each new portfolio must be fully invested (i.e. less than 5% cash) within six weeks of the initial starting date.

Transfer of estate on death

On notification of the death of the investor within the Service we will continue to actively manage the portfolio until we receive instructions to the contrary from the executors. An original copy of the death certificate will also be required as part of the process.

We will also provide executors with a basic valuation of the portfolio as at the date of death and a transaction history to assist with taxation matters and the winding up of the estate.

We can facilitate in-specie transfers or liquidations subject to receiving the required documentation.

Under UK ISA legislation, in cases where the holder of an ISA portfolio dies, the surviving spouse/civil partner is entitled to an additional ISA allowance equivalent to the value of the deceased's ISA as at date of death. This is available whether the surviving spouse/civil partner inherited the estate of the deceased or not and either in cash or in specie. If the surviving spouse/civil partner does not inherit the estate, an Additional Permitted Subscription (APS) can be made in cash only from their own resources.

Tax treatment depends on your individual circumstances and may be subject to change in the future.

Risks involved

The more volatile nature of the AIM market and the fact that the portfolio will remain fully invested in a single asset class and geography (i.e. UK equities) leads us to describe the investment mandate as 'high risk'. Investors should be aware that the price of investments, as well as the income from them, can go down as well as up and that neither is guaranteed. Further risks include the reduced liquidity associated with the AIM market and the fact that the BR regime itself could be subject to change (or withdrawal) in the future. It is also important to note that BR qualification remains at the discretion of HMRC and is only tested upon the transfer of inheritance. Accordingly, BR is not guaranteed and as such there is a risk that a holding may not ultimately qualify. We do, however, endeavour to ensure that our investment universe is restricted to those companies that we believe qualify for BR.

How we manage risk

We have a number of strategies in place to ensure that we appropriately manage the risk that investing in AIM companies presents. Philosophically, whenever we add an investment to a client portfolio we always consider how much risk we are taking and whether the potential additional investment return adequately compensates the client for the risk being assumed.

At a practical level, a key risk control is that we should not own more than 3% of a company's share capital within the Service. This rule is in place to support liquidity considerations and our ability to buy and sell shares at our own discretion. In addition, at an individual portfolio level, our maximum individual holding size is 10% of the portfolio value with no more than 5% of the portfolio invested into a single holding at the outset.

“ Philosophically, whenever we add an investment to a client portfolio we always consider how much risk we are taking and whether the potential additional investment return adequately compensates the client for the risk being assumed. ”

How to invest

The Service can only be accessed through a professional adviser who agrees to take responsibility for suitability including the assessment of the client's risk appetite and capacity for loss. The adviser will complete a 'request for an investment portfolio report' form on the client's behalf. Once processed, the Brooks Macdonald AIM team will produce a formal AIM proposal report and send this to the client's professional adviser along with all relevant application documentation.

The account opening is processed by our Edinburgh administration team who will advise by email when the application form has been received and once the account has been opened, to advise that capital can now be accepted for investment.

Please note, we are unable to manage accounts on a combined basis and minimum investment levels apply, please see the latest factsheet for details. For example, we cannot manage ISA and non-ISA funds on a combined basis as one account.

Contact us

For further information or to request a client specific proposal report, contact us via the details below.



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Fees and charges

The fees and charges of the Service are outlined below.

1

Annual Management Charge (AMC) plus dealing

AMC		1.25% + VAT
Dealing charges	Up to £10,000	1.00%
	From £10,001 to £250,000	0.15%
	£250,001 and upwards	0.11%
AIM ISA portfolios	Up to £30,000	0.5% + VAT is levied
	£30,001 and upwards	0.1% + VAT is levied

In addition, AIM ISA portfolios are subject to the charges below.

2

All-inclusive AMC

AMC of 1.75% per annum plus VAT, charged against individual portfolios on a quarterly basis. This charge includes all dealing and ISA administration costs.

We do not charge either an initial fee or an exit fee, however, corresponding dealing fees or in-specie transfer charges may apply.

Professional advisers have the opportunity to levy both initial and recurring adviser charges via AIM Service portfolios, provided these charges have been agreed in advance with the client and are documented in the client agreement.

The AIM Portfolio Service Contacts



Ewan Millar Senior Investment Director, Head of AIM

Ewan joined Brooks Macdonald in 2020 and is the head of our Alternative Investment Market (AIM) Portfolio Service. Ewan sits on our Direct Equities research team.

Previously, Ewan was a Senior Investment Manager at Cornelian Asset Managers before its acquisition by Brooks Macdonald. Prior to that Ewan spent ten years at Kempen Capital Management (UK), working in their Small Cap team where he was the co-lead manager of their flagship European Small Cap fund.

Ewan is a Chartered Financial Analyst (CFA) Charterholder.



Joe Capaldi Investment Director

Joe joined Brooks Macdonald in 2022 and is an Investment Director on our Alternative Investment Market (AIM) Portfolio Service and sits on our Direct Equities research team.

Prior to joining Brooks Macdonald, Joe worked at CS Investment Managers (formerly known as Charlotte Square Investment Managers) in Edinburgh for eight years where he was an Investment Director and head of the AIM IHT Service. Joe managed a variety of private client mandates but specialised in tax efficient AIM portfolios. He has over 10 years' experience in financial services.

Joe attained a first-class honours degree in Management & Business Enterprise from the University of Strathclyde in 2011 and is a Chartered Financial Analyst (CFA) Charterholder.

Important information

Investors in the Brooks Macdonald AIM Portfolio Service should be aware that the price of their investments and the income from them can go down as well as up and that neither is guaranteed. Past performance is not a reliable indicator of future results. Investors may not get back the amount invested. Changes in rates of exchange may have an adverse affect on the value, price or income of an investment. Investors should be aware of the additional risks associated with funds investing in smaller companies.

The information in this document does not constitute advice or a recommendation and investment decisions should not be made on the basis of it. This document is for the information of the recipient only and should not be reproduced, copied or made available to others. Tax treatment depends on individual circumstances and may be subject to change in the future. Brooks Macdonald does not provide tax advice and independent professional advice should be sought.

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AIM companies can be illiquid in nature, meaning that it can be difficult to implement purchase or sale decisions during periods of market volatility.

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More information about the Brooks Macdonald Group can be found at www.brooksmacdonald.com.

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