

Gilt portfolio Q&A



Brooks Macdonald international

Investing in gilts now allows you to provide your clients with an alternative to holding significant sums of cash in deposit accounts where banks have been slow to pass on the interest rate rises to their customers.

What is a gilt?

Government bonds in the UK are known as gilts and are issued by HM Treasury. A gilt is like a loan to the UK government, with ongoing 'coupon' payments in the form of interest, usually twice a year. Gilts can be traded at prices above or below 'par'. 'Par' is the amount that will be repaid at the agreed maturity or redemption date.

The total returns of gilts are made up of two things:

1. *Income (interest received)* - Income is taxed at the holder's marginal rate of income tax.
2. *Capital gain* - Capital gains are tax-exempt. Depending on on your tax status and residency

Why should I look at gilts now?

As a result of the ultra-low interest rate environment we had for the last decade and the speed of interest rate rises in recent months, the gilt market is currently offering a very compelling, short-term opportunity. Gilts are, in most cases at present, trading at prices below 'par', or the amount they will be repaid at. The majority of the return to an investor may therefore be the gain in the capital value or 'pull to par', which is exempt from capital gains tax. This applies to both individuals and companies.

The overall net return depends on the investor's underlying rate of tax - below we've shown an indicative table of annual returns comparing depositing £250,000 in the 31 January 2025 gilt and the NS&I 'Direct Saver' account (data from 17 July 2023):

Provider	Annual interest rate*	Annual capital return	Gross annual interest
NS&I Direct Saver	3.65%	£0.00	£9,125.00
Treasury Gilt 0.25% 31-Jan-2025	4.90%	£11,575.61	£666.99

*For gilts this is the yield to maturity which refers to the annual total return expected at purchase if the bond is held until maturity and coupons are reinvested at the same rate.

Annualised net return at different tax rates on £250,000

Provider	20%
NS&I Direct Saver	£7,300.00
Treasury Gilt 0.25% 31-Jan-2025	£12,109.20

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.

What are the alternatives to gilts?

1. *Deposit accounts at banks or building societies*
- interest paid on bank accounts is subject to income tax**. Money held with a bank or building society may be part of a deposit protection scheme but its level is different in each jurisdiction.
2. *NS&I* - backed by HM Treasury and 100% of your savings are guaranteed.

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Can the capital value in a gilt decrease?

Between the time a gilt is bought and the maturity date, the value of the gilt can fluctuate and so your capital is at risk if you don't hold them until maturity. However, at the maturity date the par value is paid.

Are there minimum and maximum amounts that can be invested?

Brooks Macdonald can open gilt portfolios of £200,000 or above. There is no maximum.

How easy is it to buy and sell gilts?

The gilt market is very liquid which means that gilts can be bought and sold at the quoted market price easily throughout the trading day and without delay. The average size of a new gilt issue is £29 billion, which is vastly higher than corporate bonds where there may be liquidity constraints for retail

investors. The minimum purchase size for gilts can be as little as £100 allowing wealth managers to buy smaller quantities for retail investors. Activity in the secondary market is buoyed by demand from banks and other financial institutions who hold gilts to meet their regulatory liquidity and funding requirements.

What is the minimum length of time my client needs to hold a gilt?

Gilts are liquid assets and can be bought and sold. If a gilt is redeemed (sold) early, a client may experience a loss on the capital. To benefit from the tax advantages, a gilt should be held to the maturity date. We can construct a portfolio of UK gilts with differing maturity dates, some of which can be as short as six months into the future, to allow for matching client liabilities such as tax repayments.

Please ask your usual Brooks Macdonald contact for an up-to-date illustration of a typical gilt portfolio. Typically, we will hold gilts with varying maturities with the longest being no more than five years in length. These gilts will be specifically selected based on the most tax efficient outcome for the client (ie where the majority of the total return is from the uplift in capital from the purchase price and par or maturity value) and held in an investment account.

Will I be charged a fee?

Unlike a bank account, there is a cost of investing in a gilt portfolio. Please discuss cost and charges of this product with your usual Brooks Macdonald contact.

**Depending on the tax jurisdiction and tax residency of the investor

If you have any other questions, contact your Brooks Macdonald representative for more information.

Important information

This document is intended for professional advisers only and should not be relied upon by any persons who do not have professional experience in matters relating to investments. The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results.

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