

The alternative to cash?

UK Gilts



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.

They are very liquid instruments that can easily be bought and sold at the quoted price throughout the trading day without delay. They can trade in little amounts.

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 your tax status and residence).

What will be held in a typical BMI gilt portfolio?

Typically, we will hold gilts with varying maturities with the longest being no more than around three years in length. These gilts will be specifically selected based on the most tax efficient outcome for the client (i.e. 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.

Maturing gilts will be reinvested into other short-dated gilts that offer similar characteristics.

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, 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 (depending on your tax status and residence). This applies to both individuals and companies.

If held to maturity, investors will get back the full-face value amount (subject to the UK government not defaulting on its repayments). However, the added benefit of buying gilts at a discount is that currently, for Channel Islands and Isle of Man taxpayers, no tax is levied on the capital gain of the bond. This means, for certain bonds that trade at a discount to their issue price, the majority of the return to investors is free of capital gains tax (depending on your tax status and residence).

The overall net return depends on the investor's underlying rate of tax.

Can the capital value in a gilt decrease?

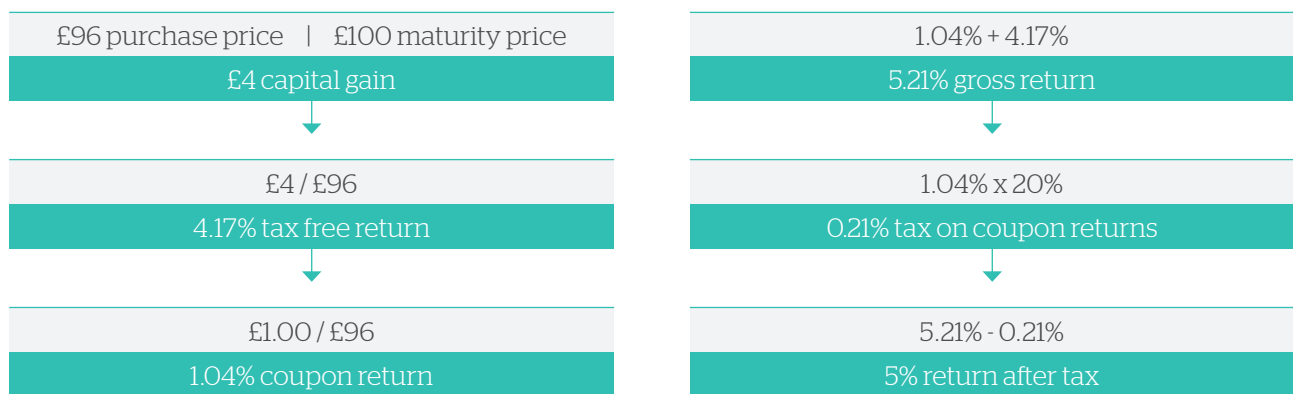
Between the time a gilt is bought and the maturity date, the value of the gilt can fluctuate and so your capital is at risk if you don't hold them until maturity. However, at the maturity date the par value is paid.

Illustrative £1,000,000 portfolio

| Security | Weight | Amount Invested | Nominal/ Capital Maturity Value | Annualised Capital Return | Running Yield | Expected Coupons |
|---------------------------|----------------|-------------------|---------------------------------|---------------------------|---------------|------------------|
| UK Gilt 0.125% 31/01/2024 | 24.90% | £249,000 | £254,793 | 4.78% | 0.13% | £159 |
| UK Gilt 0.25% 31/01/2025 | 24.90% | £249,000 | £266,893 | 4.75% | 0.27% | £1,001 |
| UK Gilt 0.625% 07/06/2025 | 24.90% | £249,000 | £268,791 | 4.30% | 0.68% | £3,360 |
| UK Gilt 0.125% 30/01/2026 | 24.90% | £249,000 | £278,590 | 4.61% | 0.14% | £871 |
| Cash (GBP) | 0.40% | £4,000 | | | | |
| Total | 100.00% | £1,000,000 | | | | |

Source: Bloomberg. Data accessed 4 August 2023.

Example of a gilt maturing at £100 in 1 year's time, currently trading at £96.00 and paying a 1% coupon. Assuming a 20% income tax rate.



Source: Bloomberg. Data accessed 4 August 2023.

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

Important information

This document is issued by Brooks Macdonald International. 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. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change.

The information in this document does not constitute advice or a recommendation for any product and you should not make any investment decisions on the basis of it. While the information in this document has been prepared carefully, Brooks Macdonald gives no warranty as to the accuracy or completeness of the information.

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.

Brooks Macdonald is a trading name of Brooks Macdonald Group plc used by various companies in the Brooks Macdonald group of companies. Brooks Macdonald Group plc is registered in England No 04402058. Registered office: 21 Lombard Street London EC3V 9AH.

Brooks Macdonald International is a trading name of Brooks Macdonald Asset Management (International) Limited. Brooks Macdonald Asset Management (International) Limited is licensed and regulated by the Jersey Financial Services Commission. Its Guernsey branch is licensed and regulated by the Guernsey Financial Services Commission and its Isle of Man branch is licensed and regulated by the Isle of Man Financial Services Authority. In respect of services provided in the Republic of South Africa, Brooks Macdonald Asset Management (International) Limited is an authorised Financial Services Provider regulated by the South African Financial Sector Conduct Authority. Registered in Jersey No: 143275. Registered office: Third Floor, No 1 Grenville Street, St Helier, Jersey, JE2 4UF.

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