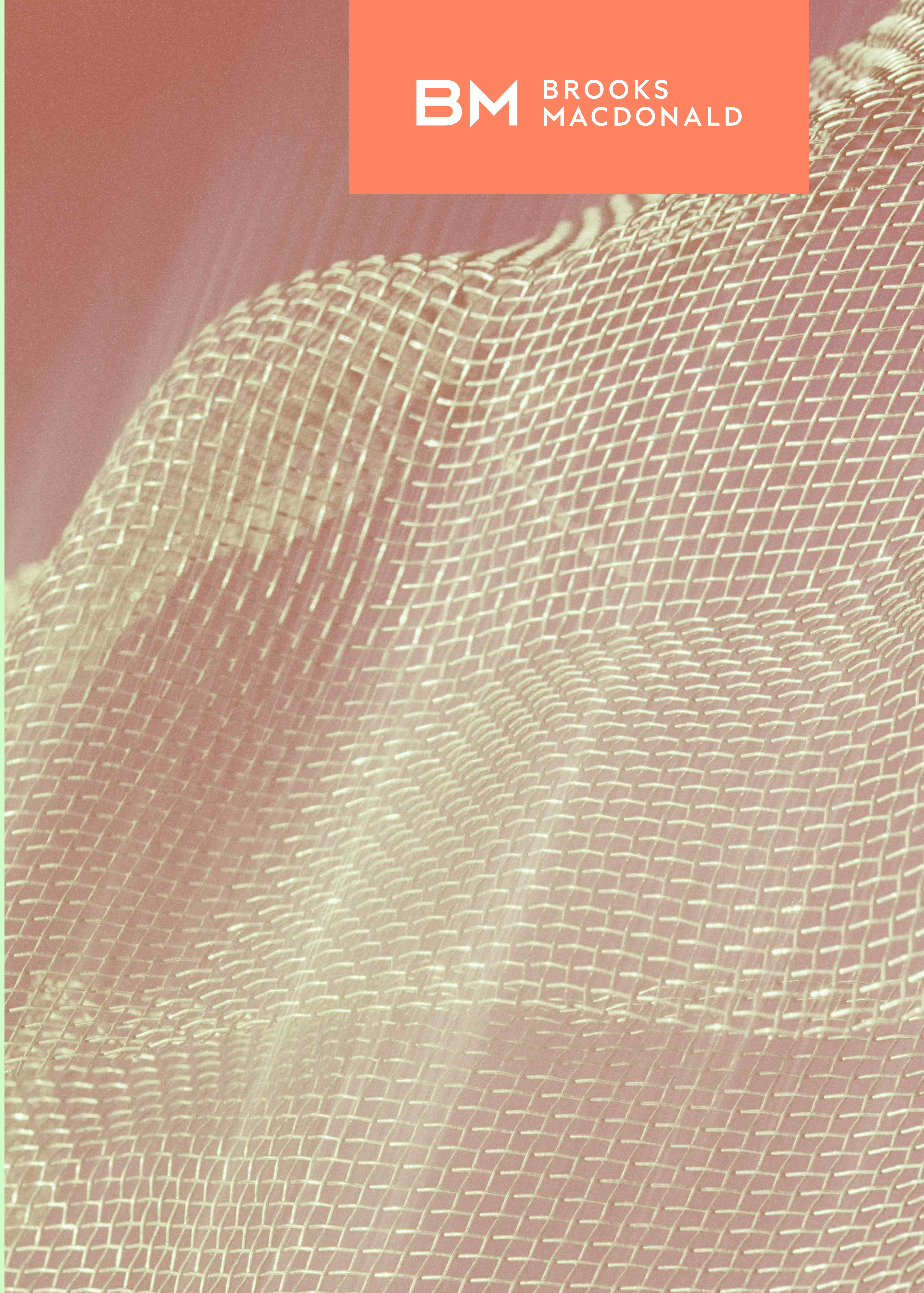
Gilt Portfolio *Client Q&A*



Gilt Portfolio Client Q&A

Gilts provide you with an alternative to holding significant sums of cash in deposit accounts.

What is a gilt?

UK government bonds are known as gilts. A gilt is like a loan to the UK government to help them finance public spending. As with any loan, interest is payable. Loan interest on gilts is called a ‘coupon’ payment and is usually paid twice a year.

Gilts are issued with a very wide range of ‘maturities’, the length of the loan. Maturity dates can be anywhere between 6 months and 10+ years.

The value at which a gilt is repaid at maturity is called ‘par’ or £100. Gilts are very liquid assets i.e. they are bought and sold every day. Gilts can be bought and sold at above or below the par value but will redeem at par value on the maturity date.

The total return you receive from a gilt is made up of two things:

1. **Income (interest received)** – income is taxed at your relevant income tax band.
2. **Capital gain** – gains are tax exempt for UK individuals.

Why should I look at gilts?

In most cases, gilts are trading at prices below ‘par’, or the amount that will be repaid on the maturity date. Most of the return you will therefore receive is capital value, which is exempt from capital gains tax.

Your overall net return (after tax has been paid) will depend on your underlying rate of tax but we have included an illustration to compare your return from £250,000 put into the 30 January 2026 gilt and put on deposit in the NS&I ‘direct saver’ account. (Data as at 18 September 2024).

Provider	Annual interest rate*	Annual capital return	Gross annual interest
NS&I Direct Saver	4.00%	£0.00	£10,000.00
Treasury Gilt 0.125% 30-Jan-2026	3.55%	£8,557.20	£327.44

	Annualised net return at different tax rates on £250,000		
Provider	**45%**	**40%**	**20%**
NS&I Direct Saver	£5,500.00	£6,000.00	£8,000.00
Treasury Gilt 0.125% 30-Jan-2026	£8,737.29	£8,753.66	£8,819.15

Tax treatment depends on your 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.
**For gilts this is the total rate of return you will receive after all interest (coupon) payments and the original principal is repaid and so assumes you buy and hold the gilt until it matures. If you sell before the maturity date you may not receive par value (£100).*

What are the alternatives to gilts?

1. Short term or fixed term deposit accounts at banks or building societies. Money held with a UK-authorised bank or building society is protected up to £85,000 per eligible person, per bank or building society. This is known as the Financial Services Compensation Scheme (FSCS).
2. NS&I – backed by HM Treasury and 100% of your savings are guaranteed.

What are the risks of holding a gilt?

Gilts are regarded as a very low risk investments because they are effectively underwritten by the UK government. However, between the time a gilt is bought and the maturity date, the value of a gilt can fluctuate. Your capital is at risk if you don’t hold the gilt 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 amount.

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 I need to hold a gilt for?

To benefit from tax advantages and to ensure there is no capital loss due to fluctuations in trading prices, gilts should be held to the maturity date. We can construct a portfolio of UK gilts for you which have different maturity dates; some of which can be as short as six months into the future. This means that you can match future liabilities such as tax payments or paying off your mortgage. Typically, we will hold gilts with varying maturities with the longest being no more than five years in length. We will specifically select gilts to provide the most tax efficient outcome for you i.e. where the majority of the total return is from the uplift in capital from your purchase price to the maturity price or par value.

Please ask your usual Brooks Macdonald contact for an up-to-date illustration of a gilt portfolio. Gilts will be held in a taxable account such as a general investment account (GIA).

Will I be charged a fee?

Unlike a bank account, there is a cost of investing in a gilt portfolio. We can provide you an investment proposal highlighting the costs and charges associated with this portfolio.

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

Important information

Investors should be aware that the price of 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 effect on the value, price or income of an investment.

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.

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