Close Brothers Asset Management

Close Inheritance Tax Service

Factsheet for professional advisers and existing investors only
31 January 2024

The Close Inheritance Tax Service (CITS) is a specialist discretionary investment management service designed to provide accelerated relief from Inheritance Tax (IHT) by investing in Business Property Relief (BPR) qualifying shares quoted on the Alternative Investment Market (AIM) and the Aquis Stock Exchange Growth Market (AQSE).

Providing each investment in the portfolio, which qualifies for BPR, has been held for two years at death, all the capital invested, and any growth, is not subject to IHT.

CITS is one of the longest running AIM-based IHT services with a successful track record. Since its launch in March 2001, it has proved effective in protecting the value of clients' estates from IHT. It has a disciplined investment management process which is delivered by an experienced, specialist smaller companies team.

CITS objectives

To achieve the correct tax status by capitalising on BPR
To preserve the value of the capital invested within the context of BPR
To achieve some capital growth
To diversify risk

With those objectives in mind, the investment managers will aim to build a diversified portfolio of profitable and well-managed companies which they believe hold the potential to generate positive returns over the long-term.

Cumulative performance (%)

	1 Year	3 Years	5 Years	10 Years	15 Years
CITS	-6.3%	-2.4%	12.2%	43.2%	322.4%
Numis Alternative Market TR*	-12.1%	-32.8%	-12.4%	-0.7%	110.2%
UK Equities (GBP)	1.8%	28.4%	28.0%	67.8%	238.6%

Discrete performance (%)

Calendar year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD
CITS	21.3%	5.1%	18.1%	-17.9%	24.6%	-6.0%	27.4%	-18.1%	-3.6%	-1.2%
Numis Alternative Market TR*	5.6%	16.2%	27.4%	-17.5%	14.7%	19.3%	7.6%	-31.1%	-7.2%	-1.5%
UK Equities (GBP)	0.4%	17.1%	13.1%	-9.3%	18.5%	-11.5%	18.4%	1.2%	7.7%	-1.4%

Past performance is not a reliable indicator of future results.

Performance figures for the CITS are stated after annual management and dealing fees, but do not reflect the effect of any initial or administration fees. A reference client for each series is used as a proxy for that series and the figures above show the simple average return over all series active in the period under review. The performance of a reference client is only included in the above analysis if that client had been active for at least six months of each period reviewed.

Source: Close Brothers Asset Management, Numis Securities and Morningstar as at 31 January 2024 unless otherwise stated. All use mid-market prices and are shown as Total Return (TR).

Key facts	
Investment directors	Sam Barton Stephen Wood
AUM	£333.1m
Service launch date	28 March 2001
Minimum investment size	£50,000
One-off initial charge	£250 + VAT
Annual management fee	1.25% + VAT
Dealing fee on all transactions	1.00%

Timing of investments

A new series is launched after the last business day of every alternate month (February, April, June, August, October and December).

All subscriptions are collected together and invested at the same time once a 'series' has closed. At this point the investment team starts to buy shares.

Depending on market conditions and other factors, this process may take up to six months.

***Numis Alternative Market Index**

Numis Alternative Market Index (NAMI) TR is used as a comparator only. It reflects part of the opportunity set of the Service, but does not include companies in which we may invest on the Aquis Stock Exchange (previously known as NEX Exchange). Both NAMI TR and Aquis Stock Exchange include companies which are not eligible for BPR. NAMI TR should not be construed as a benchmark for the Service, nor the return which an investor might expect.

Manager commentary

Market in focus

Equity markets consolidated the strong gains at the end of 2023 during January as employment numbers came in ahead of expectations. While strong jobs and wage data should be beneficial for consumer spending and confidence, they have also given rate setters a reason to maintain their current “wait and see” stance. This prompted a recovery in bond yields, with markets now predicting that rate cuts will commence later, with fewer reductions anticipated in the year ahead. In the UK, inflation unexpectedly ticked up to an annualised rate of 4.0% in December. While this remains well below the Bank of England’s November forecast, this prompted two members of the MPC to vote for further rate increases. On a more constructive note, forward looking economic surveys again surprised to the upside, potentially encouraged by rumours of pre-election tax cuts and stimuli. These positives were not enough to sway investors, with the Morningstar UK Index falling by 1.4% and the Numis Alternative Markets Index dropping 1.5% (both on a total return basis).

The average portfolio in the service fared marginally better than the Numis Alternative Markets Index over the month, falling by 1.2%. There was a raft of year-end trading statements, which were broadly as anticipated. There were a few detractors bucking this trend, including H&T Group (-13.9%), where the national living wage for 2024 was set higher than anticipated and Christmas retail sales disappointed, prompting a downgrade to forecasts for the year ahead. This also hit the share price at Ramsdens (-13.5%), although the business did not release a trading statement. Billington Holdings (-7.7%) gave back some of last year’s stellar gains, while a slightly underwhelming (but still in line) Q3 trading statement from Begbies Traynor (-6.4%) saw the shares weaken. In a more encouraging vein, Calnex (+27.0%) bounced on positive news from sector peers, Boku’s (+19.1%) trading update highlighted strong growth across all metrics, while M&C Saatchi (+11.6%) and Next 15 (+10.0%) benefitted from upgraded industry growth forecasts, with both groups trading in line with market expectations.

Sam Barton, Managing Director, UK Smaller Companies
Source for all data: Bloomberg Finance L.P. as at 31 January 2024. For information purposes only.

Company in focus

Spectra Systems Corporation is a leader in banknote authentication and brand protection technologies. Founded in 1998 and based in Rhode Island & Providence Plantations, USA, the business provides covert security technology and consumables to 19 central banks, including the Federal Reserve, The Bank of England and the European Central Bank. Its brand protection solutions authenticate and track consumer products and the security software division provides internal control systems to state lotteries in Norway, Malaysia and 15 US states.

The shares have responded very positively to news flow during the period. Interim results for the six months to 30 June 2023 reflected milestone payments for its sensor development program, higher volumes of K-cup printers and the new in-house consumables supply contract with a central bank (at improved pricing). These saw revenues and adjusted earnings grow by 25% and 74% respectively. A 60% increase in the value of the central bank consumables order in October added further impetus. Finally, the £10.5 million acquisition of Cartor Holdings, a security printer based in Wolverhampton, gives the enlarged Group the ability to supply polymer substrates and banknotes directly to central banks, as well as to integrate Spectra’s technology into Cartor’s wider customer base. With a number of avenues for growth and a solid financial position, we look forward to future developments.

Sam Barton, Managing Director, UK Smaller Companies
Source for all data: Bloomberg Finance L.P. as at 31 January 2024. For information purposes only.

Specific information: CITS is a tailored discretionary investment portfolio management service that invests in both the Alternative Investment Market (AIM) and Aquis Stock Exchange Growth Market (AQSE), with the benefit of major tax advantages introduced by the Chancellor of the Exchequer in his budget of March 2000. CITS is an Inheritance Tax mitigation service based on current tax law and practice. The tax treatment depends on the individual circumstances of each client and may be subject to change in the future. CITS invests in ‘qualifying shares’ in smaller companies which may be more volatile than investments in more established companies. Such companies can be subject to certain specific risks not associated with larger, more mature companies. Consequently this can make the CITS portfolios more volatile as the value of an investment may fall suddenly and substantially. CITS is considered suitable only for informed and experienced investors.

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