

Alternative Investment Market (AIM) - Portfolio Service Guide

The Alternative Investment Market

AIM was launched in 1995 and is the London Stock Exchange's junior market for UK and international smaller companies. It is home to nearly 1,000 stocks and as the chart opposite shows, covers nearly every industrial sector.

AIM offers young and growing companies a public market and regulatory environment designed specifically for them but also now includes some more familiar brand names.

Business Property Relief (BPR)

Investors in relevant business property, including qualifying shares listed on the AIM market, are subject to 100% relief from inheritance tax (IHT) if the investment is held for a period of at least two years and held at the time of death. The required holding period commences from the date each individual investment is made.

Not all AIM shares can be considered for inclusion. BPR is only available for trading companies benefitting the economy, not those which according to HMRC are wholly or mainly dealing in securities, stocks or shares, land or buildings, or in making or holding of investments. On this basis the portfolio is unlikely to include financial stocks and investment companies or those involved in commercial or residential property management, letting and development, including holiday businesses.

Discretionary Management

The portfolio will be managed on a discretionary stand-alone basis from any other assets managed or advised by Farley & Thompson.

Individual investor portfolios will vary depending on the timing of the investment and some clients may pay more or less than others for the same stock

Investment strategy

The portfolio will be invested for capital growth over the longer term (generally 5 years plus) with no requirement for income and will typically hold between 15 and 25 companies.

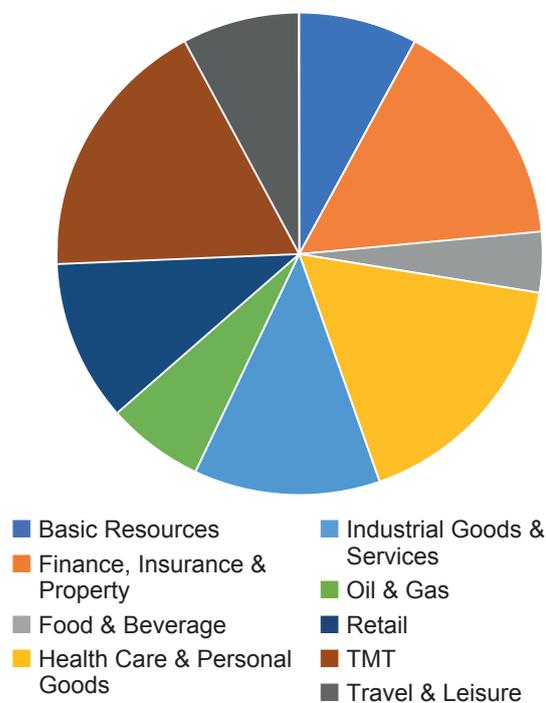
Our screening process looks at various financial indicators to source established companies with a strong balance sheet and good cash flow. Although we

are not targeting an income the type of business we are looking to invest in is likely to have the ability to pay a dividend. It is also important that senior executives have a stake in their company so that management and investor interests are aligned.

AIM statistics

Total number of companies 871
Total market capitalisation £100,048m

Breakdown of AIM by sector weight
(Source: LSE, December 2019)



Our stock universe is likely to focus on the top third of all AIM companies by market capitalisation enabling client portfolios to have exposure to a sufficiently broad mix of industries.

Investment amount

The minimum investment amount is £50,000. We will endeavour to invest new money in a timely manner but this will depend on individual stock liquidity and prevailing market conditions.

Additional contributions

Additional contributions to the portfolio are permitted but will be subject to a new two year holding period. The minimum additional amount is £10,000.

Replacement relief

Stocks within the portfolio will be bought and held with the IHT benefit as the main focus. However, the 'replacement relief' rule usually allows for a qualifying AIM investment to be sold and the proceeds invested into another qualifying stock without having to reset the clock. We do not expect the portfolio to be actively traded but this does give us the means in exceptional circumstances to exit a security without jeopardising its IHT status, but it may give rise to a capital gains tax charge.

We may be forced to sell a stock due to a takeover or listing change. This could result in liquidity issues and a delay in reinvestment.

Charges

The AIM Portfolio Service is subject to a combined charging structure of an annual management fee together with a fixed transaction charge.

There is no initial set-up fee.

Annual Fees (minimum charge £750)

We charge a fee of 1.5% of the total value plus VAT half yearly in arrears.

Dealing commission

£30 per transaction. AIM securities are exempt from stamp duty but transactions in excess of £10,000 are subject to a £1 PTM levy.

Income

We do not target a specific dividend yield from the portfolio and no income is guaranteed. However, as we look to invest in established, profitable companies it is likely that they will pay a dividend. We recommend this income is used to cover the annual costs but it can be paid away or reinvested. Reinvested dividends will be subject to a new two year holding period.

Reporting

We will provide you with quarterly valuations with formal reviews at the end of June and December to include transaction and cash statements as well as a summary of investment performance together with selected stock comments. The Farley & Thompson AIM portfolio will not be formally benchmarked against any index. A consolidated tax certificate will be produced at the tax year end.

Access to your capital

You can withdraw some or all of your capital at any time, although the tax relief would be lost on any funds withdrawn. The AIM market is less liquid so there may be a wide spread between bid and offer prices (the prices at which the shares are bought and sold). In some circumstances it may take longer to sell a holding and we reserve the right to delay a disposal to ensure an orderly market.

Individual Savings Account (ISA)

AIM shares can be held within an Individual Savings Account meaning that you can gain from tax free growth and tax free income within the ISA wrapper in addition to the IHT relief of an AIM portfolio falling outside of your estate.

Succession/death

Upon death we will ask the Executor for a copy of the death certificate and we will produce a valuation for Probate purposes. The Executor will then make a claim to HMRC for relief from IHT. Once Probate has been granted the shares can be distributed according to the terms of the Will which may include transfer to a surviving spouse/civil partner, whereby the period of ownership will pass to them and preserve the ongoing relief. For anyone other than a surviving spouse/civil partner the qualifying period will begin from the date of new ownership. ISA benefits can also now be transferred as legislation entitles surviving spouses and civil partners to an extra ISA allowance under the 'Additional Permitted Subscription' regime, even if they are not inheriting the actual ISA investments.

Planning example

The table below provides an illustration of possible savings if an individual invested £100,000 in a Farley & Thompson AIM portfolio. The estate will benefit even if there is no growth as long as the shares are retained for the two year holding period.

	Without an AIM portfolio	With an AIM portfolio
Total estate value	£800,000	£800,000
Less nil rate band	(£325,000)	(£325,000)
Less AIM portfolio		(£100,000)
Value of taxable estate	£475,000	£375,000
IHT on estate	£190,000	£150,000
Net estate after IHT	£610,000	£650,000
IHT saving		£40,000

Risk warnings: Please remember that rates of tax and allowances change from time to time and are not guaranteed. Our AIM Portfolio Service has been designed with UK resident taxpayers in mind who have taxable estates significantly in excess of the current nil rate band and who are willing to accept the higher risks associated with investing in AIM securities. There is no guarantee that your AIM portfolio's objective will be achieved and your capital is at risk and you may not get back the full amount invested. We do not provide tax advice and it is essential that you consult a tax adviser with regard to suitability to your individual circumstances before making any investment. This document should be read in conjunction with the AIM Portfolio Service Discretionary Management Terms & Conditions as well as our information sheet 'Risk & Diversification'.