

# The AIM IHT Collective

Stimulating investment in the UK economy

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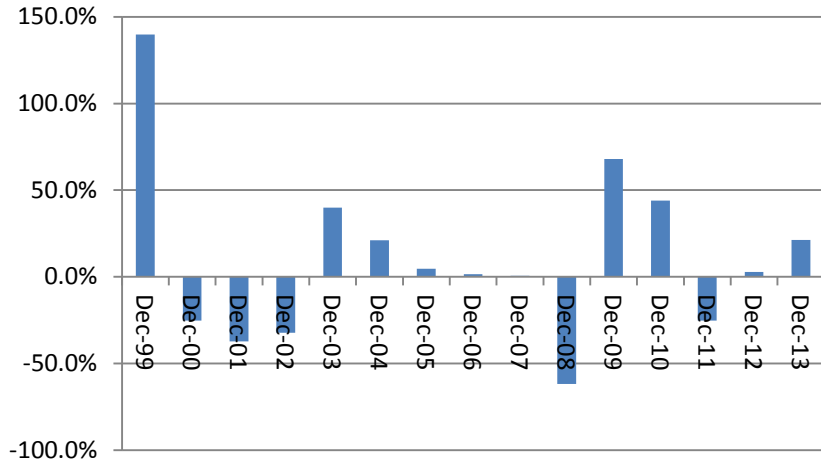
# The AIM Market

- The AIM market supports 1088 companies with a combined market capitalisation of £81bn<sup>\*1</sup>.
- However there is only one mutual fund in the IMA UK Small Company sector dedicated to AIM companies.
- The AIM market has been far more volatile than equities overall and has underperformed the market over the longer term.
- AIM requires tax incentives to encourage investment.

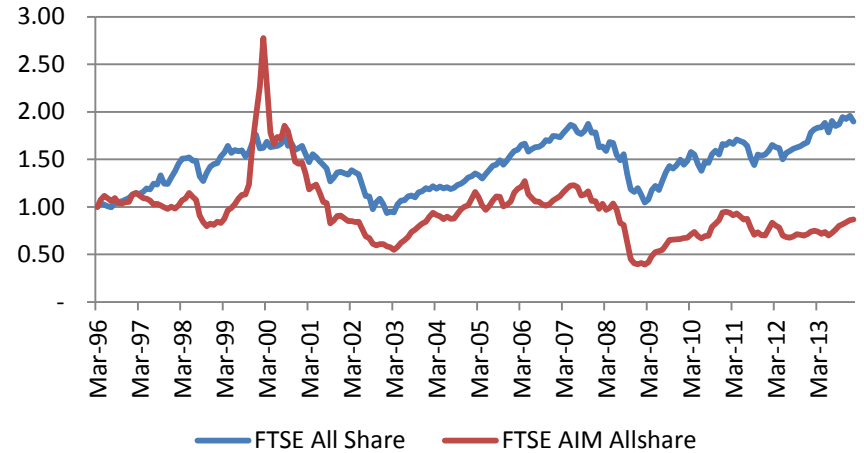
*\*1 source FTSE at Feb 2014*

# AIM is a volatile market

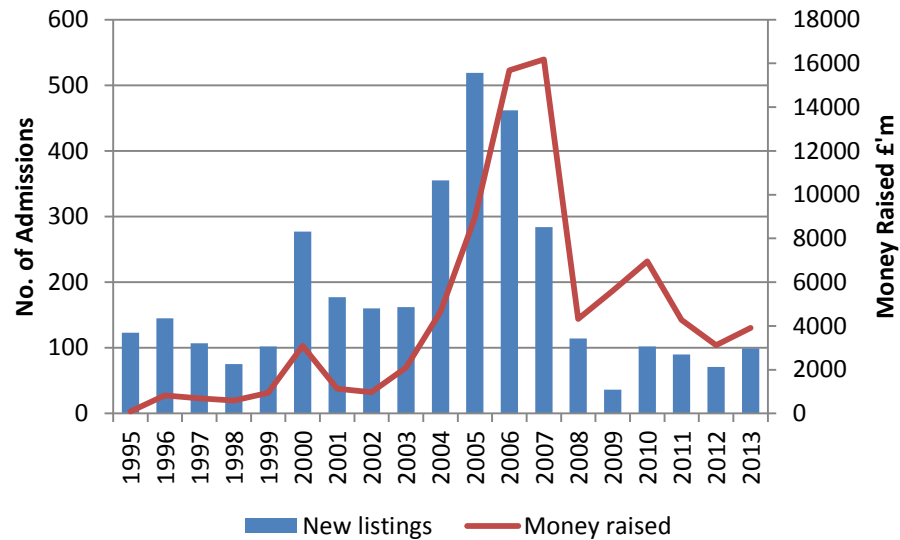
## FTSE AIM All Share Total Return



## Capital gains returns



# But propagates a lot of young companies



# AIM IHT Funds

- A number of wealth managers offer discretionary AIM IHT funds for their customers.
- Many have minimum investments of up to £100,000 closing off this product to many investors.
- Funds typically invest in only 20-30 companies – and as a result often invest in larger, less risky investments.
- AIM IHT funds already provide a significant support for smaller companies (estimate £2bn plus of funds) but this could be enhanced by the extension of Business Property Relief Rules to collectives and potentially small main market listed businesses.

# Proposed changes to BPR rules

- Extend Business Property Relief IHT rules to include AIM IHT collectives which are themselves invested in BPR qualifying companies.
- Additionally consider extending Business Property Relief to Main market listed fledgling companies as well, or define qualifying companies as those in bottom 2% of the market (this would include part of the FTSE Small Cap Index).

# Benefit for government

- Fresh capital going in to support small companies who generate UK employment and help drive UK GDP.
- Provides a source of long term capital for small companies as investors will need to keep invested in an AIM collective to retain their IHT shield. This will help support small, risky businesses that banks may be unwilling to lend to.
- Encourages more businesses to list in the UK rather than listing overseas or being subject to acquisition by foreign businesses so supports the AIM market.
- Low near-term impact on tax receipts as shielding tax only paid on death. Any IHT foregone should be offset by increased tax paid by the small companies themselves and employees of these businesses.
- Broadens the number of holdings in an IHT fund to a larger number including smaller or riskier investments so providing more capital to smaller companies.

# Benefit for consumer

- Greater clarity in performance as would see daily pricing and performance tables for funds.
- Ability to switch between fund managers.
- New fund launches should lower fees for consumers.
- Opens up the market to investors with less than £100k to invest (the minimum for some managers).



# Benefit for Fund Managers

- Greater ability to switch between investments within the collective, improving performance and allowing more efficient capital allocation.
- Ability to run more diverse portfolios than the 20-30 companies typically held so opening up the scope to invest in smaller or higher risk stocks – likely to rise to 60-120 holdings.
- Increases the capacity of existing IHT funds.
- More cost effective to run one large portfolio rather than a large number of discretionary portfolios.