

# UNICORN AIM IHT & ISA PORTFOLIO SERVICE - INCOME

## DUE DILIGENCE

### SEPTEMBER 2020



#### The Product

Launched in 2016, the Unicorn AIM IHT & ISA Portfolio Service is a discretionary investment management service, which aims to provide inheritance tax exemption after two years while targeting growth from investments in companies listed on the Alternative Investment Market (AIM).

The portfolio will consist of 25 to 40 companies which have passed Unicorn Asset Management Limited's proven and rigorous selection process, and which have been independently assessed to confirm they qualify for Business Relief (BR). The companies will be spread across a variety of investment sectors to provide diversification, thereby helping to ensure that the portfolio is not overly exposed to one particular company or investment sector.

Once the client has held shares qualifying for Business Relief for a minimum of two years their value will be exempt from IHT.

The Income Portfolio will pay out all dividends received from the investee companies quarterly in January, April, July and October. As all of the portfolio's income is paid out to investors, shares will be sold periodically to meet the cost of the service, which will result in additional trade fees and could result in a potential capital gains liability.

When selecting investee companies to hold in the Income portfolio, a greater emphasis will be placed on the level and sustainability of dividends paid but the types of investee companies will be similar to those held in the Growth Portfolio since the criteria Unicorn look for in the investee companies are very similar.

In the event of the client's death, their shares will be included in their estate for probate purposes and will be revalued as at the date of death. If the shares have been held for two years or longer, then 100% BR will be available, which should result in no IHT being payable on the value of the shares at the date of death.

Any cash or shares that do not qualify for BR but are held in the client's portfolio will remain inside their estate for IHT purposes. If the client was to die within two years of investment, the shares will not benefit from BR and they will be liable to IHT as part of the taxable estate. However, the shares may be transferred to a surviving spouse without triggering an IHT liability and without resetting the two year qualifying period.

The portfolio is actively managed and trades are made without reference to a client's tax position. Therefore, capital gains are likely to be created, which could potentially result capital gains tax being payable.

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#### The Product

The Investment Adviser to the service is Unicorn Asset Management Limited (Unicorn), an investment company that was established in 2000 and specialises in AIM and UK smaller

capitalised companies. Unicorn's investment team is well-resourced and highly experienced and currently manages over £300 million across VCT, IHT and open-ended fund structures.

The Investment Manager of the service is WM Capital Management Limited (WM). WM is the Discretionary Investment Manager responsible for the day to day management of investor portfolios, including the allocation of stocks to client portfolios, compliance and taking legal advice to determine whether stocks qualify for Business Relief.

The Custodian to the service, which will hold client money and the shares for investors, is James Brearley & Sons Ltd. James Brearley is a member of the London Stock Exchange and is authorized and regulated by the Financial Conduct Authority. WM Capital has undertaken satisfactory due diligence of James Brearley and concluded that its financial strength, profitability and robust approach to compliance, mean that it is fit for purpose in terms of the service it provides.

The marketing agent to the service is LightTower Partners, a division of LGBR Capital London Limited. LGBR was established in 2012 and works with a number of leading investment product providers to distribute their products.

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## Target Market

The type of clients to whom the product should be marketed:

- Clients that are able to remain invested for at least a minimum of five years, usually because they have other liquid assets.
- Clients that have knowledge and experience of AIM and higher risk equity investments and who appreciate that shares in AIM companies are illiquid and that it may take some time to invest and reinvest.
- Clients with the ability to bear the loss of capital, either due to other income or significant other assets.
- Clients that will benefit financially from the IHT relief whilst appreciating the potential high risks.
- Clients that wish to receive an income stream from their investments and who would benefit from an opportunity to mitigate IHT liability.

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## Negative Target Market

This product is unlikely to be suitable for clients:

- That cannot remain invested for at least five years and who anticipate that they might have a short term need for a substantial proportion of the money invested in the portfolio.
- For whom the creation of capital gains within the portfolio could create a significant tax burden.
- That cannot suffer the potential capital losses that could be incurred.
- That require a guaranteed income.

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## Distribution Channel

This product should be limited to clients who have received investment advice or are sufficiently experienced to make their own investment decisions and have been assessed as such by a suitable FCA regulated company.

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