

Unicorn AIM IHT & ISA Portfolio Service

Product Due Diligence & Target Market

Dividend Focus



Service Proposition

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 and income from investments in companies listed on the Alternative Investment Market (AIM).

The portfolio will consist of 20 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 Dividend Focus Portfolio can pay out all dividends received from the investee companies monthly or the dividends can be reinvested into their portfolio. If 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 resort in a potential capital gains liability.

When selecting investee companies to hold in the Dividend 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 should be available, resulting 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.

Responsible Investment Option

Responsible investment is a key priority for both WM and Unicorn. Unicorn has a company-wide Responsible Investment Policy, which details how environmental, social and governance (ESG) issues are incorporated into its investment and management processes.

Copies of the policy are available on Unicorn's website www.unicornam.com/policies-and-disclosures, or on request from LightTower

We recognise, however, that some investors require strict sector limits and/or exclusions alongside a robust ESG policy. We therefore offer a Responsible Dividend Focus Portfolio, which overlays business involvement and ESG screens on top of Unicorn's responsible investment process.

Higher Rebalance Threshold Option

As part of the active management of the Unicorn AIM IHT & ISA Portfolio Service, portfolio holdings are reviewed each month and the manager typically trims 'overweight' positions, reinvesting the proceeds in smaller holdings. However, this rebalancing also triggers capital gains and potentially therefore, a capital gains tax liability.

Although, the manager cannot take a view on any individual's capital gains tax situation when making investment decisions or provide advice, accommodations can be made within the service for those investors who wish to reduce rebalance activity in order to reduce potential capital gains tax liabilities. Therefore, for General Investment Account portfolios valued at over £150,000, there is a Higher Rebalance Threshold Option, which will reduce the value of sales and subsequently, the potential capital gains tax liability. However, it is likely to increase stock-specific risk within the portfolio as individual stock weightings will be allowed to rise higher and also smaller holdings will not be topped up as regularly, which is likely to result in the growth of the portfolio being more volatile and potentially lower over the longer term.

Dividend Reinvestment Option

For clients that do not want to receive their dividends, they can elect to have the dividends reinvested.

Platform Option

The service is also available on investment platforms selected by Independent Financial Advisers.

The Higher Rebalance Threshold Option and Phased Investment Option are not available via platforms.

The option to receive dividends is dependent on the platform selected by a client's Independent Financial Adviser.

The Manager

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 £914 million (as at 31/03/2023) 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.

Target Market

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

- Clients that are able to remain invested for 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.
- Clients that wish to invest into a portfolio of UK smaller companies.
- Clients that have an FCA regulated intermediary who is responsible for suitability and can help their clients to understand the risk, features, and time horizon of the service.

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 unless they are able to invest by an ISA.
- That cannot suffer the potential capital losses that could be incurred.
- That require a guaranteed income.

Distribution Channel

To minimise the risk of the service being bought by any consumer that does not fit with the defined target market the decision has been taken to distribute via financial intermediaries.

The distribution channels are therefore financial advisers and execution-only intermediaries.

Client Vulnerability

As the product offers the potential to save on inheritance tax on death, suitable clients for the portfolio are often elderly. Some of these elderly clients may suffer from reduced mental capacity as they get older and subsequently, it is important that they are assessed for vulnerability not just at outset but during the period they are invested into the service. WM Capital Management will work with IFAs who have identified clients as vulnerable to ensure that they are treated accordingly. Ensuring that clients' ongoing decision-making is supported by the establishment of "Lasting Powers of Attorney" is likely to be a key consideration in avoiding foreseeable harm.

Important Information

This document is a financial promotion that has been issued and approved by WM Capital Management Limited and constitutes a financial promotion under Section 21 of the Financial Services and Markets Act 2000 for IFA & Professional Clients.

WM Capital Management Limited is authorised and regulated by the Financial Conduct Authority is recorded in the Register under reference no 601025.

Your client's capital is at risk and they may not get back the full amount invested and the tax treatment of their investments depend on their personal circumstances and may be subject to change. Past performance is not a reliable indicator of future results.

The availability of tax reliefs depends on investee companies maintaining their qualifying status. Investments quoted on AIM are likely to have higher volatility and liquidity risk than securities on the London Stock Exchange Official List.

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