



Product Brochure

Kestrel Inheritance Tax Solution (KITS)



The Kestrel Partners

The Kestrel team responsible for selecting and managing your KITS portfolio has more than seventy years' experience in the financial markets as both intermediaries and principal investors, predominantly in smaller quoted companies listed on AIM.



Ari Zaphiriou Zarifi
Chairman

Throughout his career, Ari has worked closely with UK smaller companies and co-founded Kestrel with Max Royde and Oliver Scott in May 2009. A qualified chartered accountant, he began his career at J Henry Schroder Wagg. He was Chief Executive of Heritable & General Investment Bank and instrumental in its sale to Landsbanki in 2000. Ari co-founded and was chairman of Beeson Gregory (part of The Evolution Group until its sale to Investec) and was also chairman and a major shareholder in a commercial property company sold to Hammerson in 2006.



Max Royde
Partner

Max has spent the last 18 years investing in or advising smaller quoted companies. Prior to co-founding Kestrel, Max was a managing director at KBC Peel Hunt. He has advised management teams on transactions, investor communication, board composition and corporate strategy. He also advised institutional clients on smaller quoted company investment. An unrivalled network of contacts among companies, directors and investors helps Max identify and manage Kestrel's investments. He is a non-executive director of Ingenta plc.



Oliver Scott
Partner

Oliver has spent over 20 years advising smaller quoted and unquoted companies. Before co-founding Kestrel, he was a director of KBC Peel Hunt Corporate Finance, where he advised clients on corporate strategy, board composition, IPOs and balance sheet restructurings. Prior to this, Oliver specialised in advising public and private companies on mergers & acquisitions. He is a non-executive director of Ubisense Group plc.



Stuart Rollason
Partner

Stuart has 17 years experience as a fund manager investing in smaller quoted companies directly responsible for managing up to £230m of assets. Stuart joined Kestrel in 2011 having previously been a partner at Bluehone and Director at ISIS investment management. Prior to becoming a fund manager, Stuart was a stockbroker for 5 years as well as a practising medical doctor. He has experience as a non-executive director and has an extensive smaller company knowledge base and contact network with institutional investors, company directors and brokers.

For more details on Kestrel Partners and the team members, please visit our website: www.kestrelip.com.

Kestrel Investment Partners is a trading name of Kestrel Partners LLP ("Kestrel") which is authorised by the FCA

Many individuals are concerned about the impact that inheritance tax (IHT) will have on the value of their estates. They are looking for solutions that will minimise this in a simple, flexible, cost effective manner. At the same time they retain control of their assets.

IHT is currently charged at 40% on any estate worth in excess of £325,000. KITS enables eligible investors to reduce potential IHT liabilities whilst offering them control and access to their investments at all times. There are no complicated Trust structures and assets do not have to be “gifted”.

Please note, Kestrel has not advised, and cannot advise you, as to whether KITS or a KITS ISA is suitable for you.

We strongly recommend that you seek advice from an intermediary concerning any potential investment in KITS or a KITS ISA.

Inheritance Tax

The Kestrel Inheritance Tax Solution (KITS) and KITS ISA enable eligible investors to reduce potential IHT liabilities after only two years, whilst offering them control and access to their investments at all times.

This reduction in IHT liability can be achieved by investing in a selection of AIM companies.

KITS or KITS ISA?

Kestrel offers two types of portfolios to mitigate IHT liabilities – either KITS or a KITS ISA. Both pursue the same investment strategy and comprise portfolios of AIM companies which are chosen and managed by Kestrel Partners. The only difference between the two is that a KITS ISA portfolio can only be constructed with cash or securities that are already in a stocks and shares ISA, whereas KITS portfolios can be constructed from cash or securities generally held.

Further details on a KITS ISA can be found in a separate KITS ISA brochure.

Kestrel’s track record in Smaller Companies

Kestrel launched KITS in July 2011 and KITS ISA in January 2014.

Full details on the monthly unitised performance of all KITS and KITS ISA portfolios since launch and the methodology used to calculate these figures are set out in the quarterly fact sheet which is available directly from Kestrel or from our website.*

The Kestrel team that will be responsible for selecting and managing your portfolio of AIM shares has more than 75 years’ experience of investing in and advising smaller companies.

About Kestrel

Kestrel is authorised and regulated by the FCA. The company was formed in 2009, with an initial focus on quoted smaller companies and has now grown to offer a range of portfolios, products and funds to both private and institutional investors. All Kestrel products follow the same investment philosophy: to protect and grow capital over the long term. As an organisation, we aim to be transparent and accessible. We share our thinking with our clients, explaining decisions and keeping lines of communication open.

Further information on Kestrel can be found on our website: www.kestrelip.com.

* Past performance is no guarantee of future results and investors may not get back the full amount invested. Real results may vary.

Important Information. This brochure has been approved for issue in accordance with S21 of the Financial Services and Markets Act 2000 by Kestrel Partners LLP (Kestrel), which is authorised and regulated by the Financial Conduct Authority (FCA). Please pay particular attention to the Suitability and Risks section on page 5. If you are in any doubt about the suitability of the proposed solution to your personal circumstances, please consult your intermediary, tax or other professional adviser before completing any application.

How the Kestrel Inheritance Tax Solution Works

Under current tax rules, an exemption from IHT is available to private individuals in respect of shares that have been held for two years in companies that are eligible for Business Property Relief (BPR). Most companies on AIM, other than companies principally involved in investment activities, are eligible for BPR.

You are in control. Whilst Kestrel will manage your KITS portfolio as a discretionary investment management service, you will retain beneficial ownership of all the investments. This enables your KITS portfolio to be excluded from your estate, for the purposes of calculating any IHT liability, after two years.

In principle, once a KITS portfolio has been fully invested for two years, 100% of its value falls outside the scope of an individual's estate for the purposes of calculating any IHT liability. The advantage of this approach is that you do not have to "gift" any assets from within your portfolio in order to obtain the tax relief. You therefore retain ownership of and access to your investments. Further, there are no complicated Trust structures, which can take up to seven years before being fully exempt from inheritance tax. You can withdraw some or all of your investment in KITS at any time and Kestrel imposes no penalty for liquidating your KITS portfolio other than normal transaction charges. However, any assets that are withdrawn will form part of your estate again. Should the investor die within two years of their KITS portfolio being invested, and not have a spouse to transfer their portfolio to, they will not benefit from any IHT relief.

Worked Example

In the example below, an individual has an estate that includes a portfolio of stock market investments worth £700,000. If he/she invests £200,000 from that portfolio into KITS, their estate ought to benefit from a reduction of £80,000 in its IHT liability after two years, assuming that the estate's nil rate IHT band is already used up by other assets such as real estate and savings.

Value of estate on death	Without a KITS portfolio	With a KITS portfolio
Value of stock market investments	£700,000	£500,000
Value of KITS portfolio	£0	£200,000
Less IHT @ 40%	(£280,000)	(£200,000)
Value of portfolio net of IHT	£420,000	£500,000
Potential IHT saving	£0	£80,000

Note: This table does not take into consideration the performance of any investments in the estate.

The rate of IHT, the level of the nil rate band and the available exemptions are subject to any change made by HM Revenues & Customs (HMRC) which may impact on the level of any IHT savings described above. The exact level of IHT savings will depend on your individual circumstances and we recommend that you take advice from your intermediary, tax or other professional adviser before making any investment decision.

Growth or Income

Whilst KITS is not primarily designed to be an income generating asset, many of the companies that we invest in pay dividends. Kestrel will collect any dividends and interest to which you are entitled and either reinvest these on your behalf in additional shares, or pay this income into your bank account on a six-monthly basis.

Benchmark

Whilst the benchmark for performance calculation purposes is the FTSE AIM Index, KITS is not trying to beat a benchmark. Rather, it is utilising a strategy of stockpicking AIM equities to preserve wealth and mitigate any potential IHT liability.

Investment Policy

Kestrel has rigorous stock selection criteria and focuses in particular on quality of earnings, cash generation and balance sheet strength. We will not invest in early stage or loss making companies.

Our investment objective is to balance financial returns with sustainable growth. KITS portfolios will typically consist of 10-30 companies which will be selected for their long term potential. It is not anticipated that KITS portfolios will be actively traded.

Kestrel follows a strict and prudent stock selection procedure and require our investee companies to display many of the following characteristics:

- Established companies in growth mode;
- Strong management;
- Good levels of revenue visibility;
- Low debt ratios;
- Low technology risk;
- Profitable at the EBITDA level;
- Generating positive cash flows or on the cusp of doing so; or
- The ability to pay dividends.

KITS portfolios will be invested in all industry sectors, although there are some high-risk sub-sectors, such as biotech, pure exploration or early stage technology that are unlikely to meet Kestrel's investment criteria.

Kestrel actively engages in a regular and constructive dialogue with the boards of the companies in which it invests and believes that such a dialogue assists in creating shareholder value and also helps drive liquidity.

It is expected that a normal portfolio will consist typically of 10-30 companies and usually no more than 30. Companies are selected for their medium to long term potential and it is not expected that KITS portfolios will be actively traded. All companies within KITS portfolios are monitored on a daily basis.

We will start investing your KITS portfolio approximately two weeks after

accepting your application. However, due to the illiquidity of many of the companies we invest in, it can take several weeks or even months for a KITS portfolio to become fully invested.

It should be noted that shares may cease to qualify for BPR for a number of reasons. Kestrel cannot guarantee that all investments made in a KITS portfolio will qualify for relief from IHT or, if they do initially qualify, that they will continue to do so.

If individual holdings within a KITS portfolio are sold due to the company being taken over, ceasing to be eligible for BPR or because Kestrel no longer deems the holding to be appropriate, then provided that the proceeds are reinvested in another qualifying company, the holding period for the initial investment can normally be added to that of the second investment for the purposes of satisfying the two year rule. In the event that a capital gain arises, Capital Gains Tax may be payable at the appropriate rate. However, if the two year holding period has been satisfied, on death all liability to unrealised capital gains is removed.

Investment Monitoring

The status of the AIM companies in which we invest is regularly monitored by Kestrel. Whilst we will endeavour to accurately assess a company's eligibility for BPR, it ultimately depends on many factors and is only finally determined by HMRC on the death of the shareholder. There is a right to appeal an HMRC decision which is heard by a Special Commissioner.

Suitability and Risks

KITS should be regarded as a higher risk, longer term investment. Kestrel can not advise you on whether KITS is a suitable investment for you.

Comments and complaints procedure

Kestrel is committed to treating its customers fairly and would welcome any comments you wish to make. Please write in this regard to Stuart Rollason of Kestrel Partners at stuart@kestrelip.com or 1 Adam Street, London, WC2N 6LE.

If you wish to register a complaint, please write to The Compliance Officer, Kestrel Partners LLP, 1 Adam Street, London, WC2N 6LE. Investors who are not satisfied with our response to a complaint may be eligible to complain to the Investment Ombudsman and, in the event of the failure of Kestrel, may be able to claim compensation from the Financial Services Compensation Scheme.

Client Suitability

KITS is specifically designed for individuals whose estate is expected to be valued significantly in excess of the nil rate band for IHT. Kestrel has not and can not advise you on whether KITS is a suitable investment for you. Your individual circumstances may make KITS unsuitable for you and we recommend that you take advice from your intermediary, tax or other professional adviser before making any investment decision.

The minimum investment in KITS is £50,000. The minimum investment in a KITS and KITS ISA combination is £100,000. Applicants will need to confirm that they are UK resident.

Risks

An investment in equities should be considered as higher risk than an investment in bonds or holding cash. Within equities, an investment in AIM quoted companies should be considered as a higher risk strategy than investing in larger companies, such as the largest 100 companies quoted in the UK (FTSE 100). In addition, shares in AIM companies can be volatile and often suffer from limited marketability, as a result of which they may be difficult to sell. A KITS portfolio should therefore be regarded as a higher risk, longer term investment, that is, an investment

period of at least two years. Although we will seek to partially mitigate this risk through diversification, you should discuss the general topic of risk with your intermediary, tax or other professional adviser.

You should only invest in KITS if you have financial security independent of any investment made. The value of shares purchased within a KITS portfolio and any income derived may fall as well as rise and investors may not get back the full amount invested. Past performance is not a guide to the future.

Potential investors should be aware that tax rules are subject to change at any time and the current tax reliefs described in this document may not be available in the future. It is important to note that shares can qualify for BPR but still suffer a restriction of the relief to the extent that the AIM listed company is undertaking non-trading activities or holding investment assets. Kestrel will undertake regular due diligence, as far as practical, on the companies within each portfolio to consider whether they hold or have acquired assets that might be considered to be Excepted Assets by HM Revenue & Customs. However, Kestrel does not guarantee that all investments made will qualify or continue to qualify for BPR. Kestrel also does not guarantee the timescale for fully investing portfolios or that portfolios will be fully invested at all times in the future.

Charges

Our charges relating to KITS portfolios are designed to be straightforward and transparent.

Kestrel charges a 2.0% annual management fee on all KITS portfolios, but makes no charge for either the establishment or closure of a KITS portfolio. All dealing costs within your portfolio will be passed on to you without any mark up.

Initial charge

Kestrel will make no initial charge on your investment in KITS. However, an initial charge may be made by advisers or intermediaries. If you have a professional adviser, you should liaise with them directly to establish whether they intend to charge an initial advisory fee.

Management charges

The annual management charge payable to Kestrel is 2.0% of the value of your portfolio, out of which Kestrel will meet all custody and administration fees. In addition to this, your adviser may charge you an annual fee, depending on your arrangement with them. If you have professional advisers, you should liaise with them directly to establish whether they will charge you any ongoing annual fees and, if so, the level of such fees.

Kestrel's management charge is calculated and debited directly from your KITS portfolio at the beginning of each month based on your portfolio valuation at that date. All management charges are subject to VAT.

Transaction charges

Transaction costs are passed straight on to the investor without any mark up by Kestrel. Dealing charges will generally comprise two elements: (i) broking fees, which Kestrel will seek to negotiate on institutional terms as opposed to retail terms. These should generally be less than 0.5% of the contract value, subject to minimum fees that vary from broker to broker; and (ii) a flat stock exchange levy of £1 on bargains that exceed £10,000. All transaction charges will be deducted directly from your KITS portfolio.

In specie transfers

Kestrel will make no initial charge on in specie transfers to KITS regardless of whether you are a new or existing client.

Termination – KITS

The minimum withdrawal from your KITS portfolio is £5,000 and no penalty fees are charged when closing a KITS portfolio.

More Details

You can monitor the performance of your portfolio on-line and we will send you contract notes when we trade on your behalf. You can withdraw your money at any time without penalty, although this may impact your inheritance tax benefits.

Minimum subscription

1. The minimum subscription for KITS is £50,000.
2. The minimum subscription for a combination of a KITS and a KITS ISA is £100,000.
3. There is no maximum investment.

In specie transfers

Kestrel will accept in specie transfers of existing portfolios of shares at no additional cost, either from other providers or from personal accounts. Shortly after transfer, we will undertake a review of the portfolio to assess BPR eligibility and compliance with our own stock selection criteria. Following this we will start to make any changes we deem appropriate to provide you with Kestrel's own IHT solution.

Aggregation, execution and allocation of orders

Executions are allocated on a pro-rata basis in relation to the clients for whom the orders are placed, subject to a de minimis level below which allocation is at Kestrel's discretion.

In determining which clients to place orders for, Kestrel will adhere to the following policies:

- On purchase orders, Kestrel's policy is to prioritise new clients who need to commence the two year investment process to obtain Business Property Relief. Thereafter, Kestrel will adhere to a wealth preservation principle.
- On sell orders, Kestrel adhere to a wealth preservation principle.

Kestrel's best execution and allocation policies are available on request.

KITS – withdrawing money

If you need to realise all or part of your investment within the first two years it will not qualify for IHT relief. If you sell within a short period after purchase, the proceeds are likely to be less than originally invested, due to transaction charges and bid/offer spreads. In most cases, in order to ensure the orderly disposal of your investments, we would expect to be able to liquidate your portfolio in 1 to 2 months or less depending on the size of the account. It is possible that we may not be able to liquidate certain holdings in your portfolio e.g. if the shares are suspended from trading and/or are part of a drawn out corporate action. In these cases we would liaise with you to agree the most suitable course of action.

Monitoring your portfolio

In order to keep you up to date, you can see current valuations and the performance of your portfolio, on-line at any time. Kestrel will also send you contract notes for each transaction undertaken as well as periodic statements, valuations and reviews. After each tax year end, you will also be sent a consolidated tax voucher listing all dividends, interest and related tax credits received on your behalf.

Administration and custody

Kestrel is not authorised to hold your cash or investments. We have engaged Jarvis Investment Management Limited to take on this role for our KITS accounts and hold all of your investments with its nominee service. Jarvis Investment Management Limited is authorised and regulated by the FCA to hold your cash and securities. We, therefore, have included within the Application Pack a Custodian and Money Laundering Authorisation section whereby you appoint Jarvis Investment Management Limited as your custodian. We reserve the right to change custodian during the life of your KITS account and would require you to open an account with our new custodian at that time.

FAQs

If you have any questions regarding KITS or would like an Application Pack, please contact your intermediary, tax or other professional adviser or contact Kestrel Partners directly on 0203 371 6100.

Who should invest in KITS?

KITS is aimed at investors whose estate is expected to be valued significantly in excess of the nil rate band for inheritance tax. You should consult your intermediary, tax or other professional adviser to establish whether this product is suitable for you and before making any decision to invest in KITS.

What is Kestrel's track record with KITS and KITS ISA portfolios?

Kestrel launched KITS in July 2011 and KITS ISA in January 2014. Full details on the monthly unitised performance of all KITS and KITS ISA portfolios are set out in the quarterly fact sheet which is available either directly from Kestrel Partners or our website.

Who owns the shares within my KITS portfolio?

In order for the investments within your portfolio to qualify for Business Property Relief, it is a requirement of HM Revenue and Customs that individual investors are the beneficial owners of the shares within their KITS portfolio. Given you will have appointed Jarvis Investment Management Limited or such other custodian as we have engaged, to be your custodian, the shares will be registered in the name of its nominee company and held on your behalf. This enables efficient administration of the shares and prompt settlement of transactions.

Who is Jarvis Investment Management and what is their involvement with KITS?

Kestrel is not authorised to hold client

money or securities. In order to make things simple and cost effective, we suggest you appoint Jarvis Investment Management as professional administrator and custodian for your KITS portfolio. Jarvis Investment Management is authorised and regulated by the Financial Conduct Authority.

How do I check on the progress of my portfolio?

You will be sent contract notes, either by post or email, every time we buy or sell any shares in your KITS portfolio. In addition you will be able to view your portfolio on-line and you will be sent a formal portfolio valuation and portfolio review twice per year on a quarterly basis. You will also be sent a consolidated tax voucher at the end of each tax year.

What is the minimum amount I can invest?

The minimum investment in KITS is £50,000. There is no maximum.

Can I make in specie transfers of existing portfolios into KITS?

Yes, we will accept in specie transfers of existing portfolios either from other providers or from personal accounts. Shortly after the assets are transferred, we will undertake a review to assess BPR eligibility and compliance with our own stock selection criteria, making changes as and when appropriate. If you wish to make an in specie transfer, please complete the Transfer Form in the Application Pack, together with the other application documents.

More FAQs

How long do I have to wait before I am eligible for IHT relief?

Shares that are eligible for Business Property Relief must be held for a minimum of two years in order to be eligible for exemption from IHT. After this period, the portfolio should be retained in order to continue to benefit from the IHT exemption. If you elect to reinvest any income generated from your portfolio, then these additional funds must be invested in BPR eligible companies for a minimum of two years before they become exempt from IHT.

What happens if you sell some of the shares within my portfolio?

Whilst we will be investing your portfolio on a long term basis that is, an investment period of at least two years, and do not intend to actively trade your investments, we may decide from time to time to sell an investment for various reasons such as a company being taken over, its shares no longer being listed on AIM, it no longer being eligible for Business Property Relief, or on the basis of valuation or changes to the business or management. Provided we promptly replace your investment with another company that is eligible for Business Property Relief, the date of the original investment will be carried over to the new investment for the purposes of calculating the required two year holding period.

What happens to my portfolio after I die?

Provided your portfolio has been invested in companies that are eligible for Business Property Relief for at least two years, the prevailing market value

of these holdings will be exempt from IHT. Normally a claim will be made by your executor(s) after your death to confirm eligibility for Business Property Relief. On the instruction of your executor(s) we will, if requested, sell the investments within your portfolio as soon as possible, or continue to manage some or your entire portfolio on behalf of your beneficiaries. If the qualifying AIM shares are transferred to a surviving spouse or civil partner, your period of ownership will pass to them, thereby preserving the Business Property Relief if the portfolio is retained.

Should the investor die within two years of investment, the portfolio can be transferred to a surviving spouse/civil partner without restarting the qualifying period. If this is not possible, the portfolio will not benefit from IHT relief.

Will any income tax or capital gains tax be payable on my KITS portfolio?

Yes, any income earned regardless of whether it is distributed to you or reinvested in your KITS portfolio will be chargeable to income tax at rates of up to 50% for interest and 36.11% for dividends. Capital gains tax will only be payable when shares within your KITS portfolio are sold at a gain, and even then you will only be liable to capital gains tax to the extent that your gains (when aggregated with any other capital profits made by you during the relevant year) exceed your capital losses and subject to your annual exemption. No capital gains tax is payable by your estate upon death and your beneficiaries/estate will adopt the price at that date as the cost price for future capital gains computations.

Will I have to send a cheque to cover the initial fee or the annual management fee?

No, any initial fee may be deducted from the subscription that you make. Ongoing annual management fees will, where possible, be satisfied from the retention of dividends and interest arising on your portfolio, although if there are insufficient funds to cover such fees, we may need to sell some of your shares.

How do I apply?

You and your adviser should review this brochure and in particular the section on Suitability and Risks. You also need to review the quarterly fact sheet and the Application Pack which contains the Customer Agreement for Investment Management and Dealing Services as well as the Jarvis Investment Management Custody Terms and Conditions. If in doubt about the suitability of this product, you should consult your intermediary, tax or other professional adviser. You should then complete the Application Form and Client Declaration Form and send it together with (if appropriate) the Transfer Form and/or Authority to give instructions Form to Kestrel Partners LLP, 1 Adam Street, London, WC2N 6LE. Unless you are making an in specie transfer or are funding your subscription by bank transfer, you should also enclose a cheque to cover payment.

Next Steps

If you would like to invest in KITS please request a copy of our Application Pack from your intermediary, tax or other professional adviser, from Kestrel Partners directly on 0203 371 6100, or from our website www.kestrelip.com/funds/kestrel-inheritance-tax-solution/overview



1 Adam Street, London, WC2N 6LE kestrelip.com +44 (0)20 3371 6100 Registered in England and Wales Partnership No: OC346415
Kestrel Investment Partners is a trading name of Kestrel Partners LLP ("Kestrel") which is authorised and regulated by the FCA

Important Information. This brochure has been approved for issue in accordance with S21 of the Financial Services and Markets Act 2000 by Kestrel Partners LLP, which is authorised and regulated by the Financial Conduct Authority. Please pay particular attention to the Suitability and Risks section on page 4. If you are in any doubt about the suitability of the proposed solution to your personal circumstances, please consult your intermediary, tax or other professional adviser before completing any application.