



# LGT Snapshot

6<sup>th</sup> November 2024

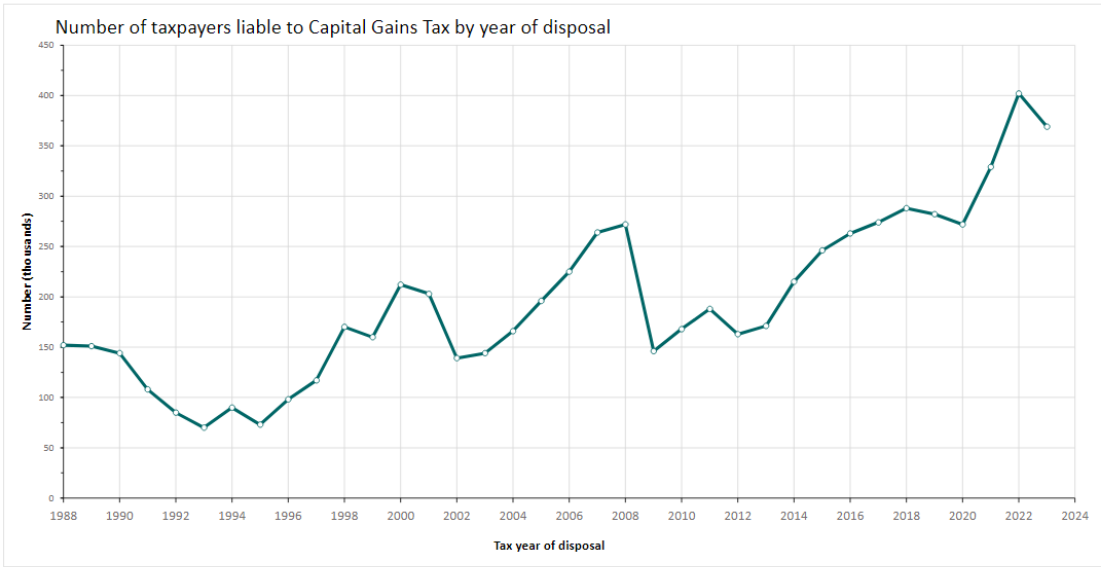
## Unitisation: Maximising efficiency and client outcomes

**Over recent years, there have been several movements in the financial services industry to improve client outcomes. Among these are the emphasis on client segmentation and the products’ suitability. Recent tax changes by the government can impact certain investments within various tax wrappers. These developments have led to an opportunity for advisers to simplify their Centralised Investment Proposition (CIP) by using unitised, multi-asset funds.**

### Industry changes

As part of the implementation of MiFID II in 2018, adviser firms were prompted to segment their client bank. Consumer Duty then added an emphasis on suitability when recommending any product. These regulations ensured the financial products advisers were distributing were designed for the needs of specific client groups.

Additionally, the decrease of the Annual Exempt Amount (AEA) from £12,300 in 2022 to £3,000 today, combined with the recent increase in Capital Gains Tax (CGT) charge from 10% to 18% means that clients with growing assets not inside a tax efficient wrapper will be penalised upon selling. The number of investors who will be impacted by this increase in CGT has grown by over 200,000 in just 35 years.



Source: gov.uk

With the introduction of Consumer duty and hike in CGT, we can now see certain groups where previous model portfolio solutions may not be suitable:

- Clients with lower valued pots, where model portfolio fees and fixed platform trading fees corrode the investment growth.
- Clients with monies in General Investment Accounts who wish to have active management without paying CGT.
- Clients with multiple products seeing inconsistent returns.
- Clients using platforms where no model portfolio service is available.
- Clients with any restrictions on what they can invest in.

Using a unitised product, like a multi-manager fund, can benefit these client segments. Funds do not incur platform trading fees when making changes **within** the unit. Funds tend to be more widely available than models and so can reach more of a client base and be replicated on multiple platforms. Most importantly, active management **within** a fund, if held in a GIA, will have no CGT consequences. CGT may only apply on sale of the fund itself.

**Example - Outlook for the UK has changed dramatically and it is advised across all models to sell out of all UK funds.**

Client 1: Model Portfolio held in GIA:

Fund	Cost	Gain/Loss
Bonds	£20,000	£5,000
UK Equity	£25,000	£6,300
US Equity	£40,000	£8,000
Alternatives	£4,000	(£1,000)

In this example, if the adviser needs to rebalance the client to change asset allocation based on the changing market outlook, an adviser will need to take the following steps:

1. Calculate Gain and sale proceeds, manually or using platform tools where available.
2. Work out how many units can be sold without triggering CGT using the AEA.
3. Work out how many loss units can be used to offset gains. If losses are used, these must be reported.
4. Choose to align the portfolio correctly for the economic landscape and required risk level or prevent the client from paying CGT and therefore not sell all units required.
5. Repeat this for each individual client with a GIA.

Client 2: Holds a multi-asset fund in a GIA:

Fund	Cost	Gain/Loss
Multi-Asset Fund	£90,000	£17,000

In this example the investment manager of the fund can trade within the fund, sell all UK holdings if required without triggering any CGT and the adviser has no action to take.

### **Business challenges and client opportunities**

Using risk-rated funds for clients has some significant benefits both to the investor and for the advice firm.

- **Consistent investment behaviour**- Clients invested in a risk rated multi-asset fund benefit from the fund manager actioning all investment changes within the structure and these trades are then automatically reflected on each platform. The fund itself can be reflective of a model portfolio but any changes in asset allocation appear within the fund itself and has no impact to holding a unit.
- **Wider investment access** - Using a unitised solution allows clients to hold a broader range of assets as they are not bound by platform constraint or exchange traded product trading fees. This opens up direct shares, bonds and even commodities for clients.
- **Faster investment reaction**- Trading can be implemented quicker within a fund than it can be done in a model portfolio due to platform trading times and delays in client agreement, which can be reassuring in times of volatility.
- **Operational efficiency** - If firms do not use unitised products or discretionary MPS, they generally create and manage their own in-house models. Running these models is a vast administrative and operational undertaking. Ensuring consistent behaviour of each model across platforms is nearly impossible due to varying platform charges and availability of underlying holdings.
- **Risk monitoring** - Rebalancing portfolios frequently also demands significant resources, but without it, portfolios deviate from their intended risk profile.
- **Increased profits** - Operating a CIP that incorporates unitised solutions, firms are reducing operational and administrative costs associated with running in-house models. This allows teams to spend time and resource on other revenue generating activities.

### Potential Solutions

LGT offer a wide range of unitised solutions and we would suggest that funds can complement a CIP with an MPS, particularly for clients not suited to a model. We also believe that due to the extensive range of investments and products available they can be the core strategy for a strong CIP, delivering good outcomes to clients consistently. Advisers should consider whether there exists a segment of clients that would benefit, either because of cost, tax or complexity, from investing in a unitised product.

### Important information

This communication is provided for information purposes only and is intended for the exclusive use of the recipient to whom it has been directly delivered by LGT Wealth Management UK LLP and is not to be reproduced, copied or made available to others. The information presented herein provides a general update on market conditions and is not intended and should not be construed as an offer, invitation, solicitation or recommendation to buy or sell any specific investment or participate in any investment (or other) strategy. Past performance is not an indication of future performance and the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invest. Although this document has been prepared on the basis of information we believe to be reliable, LGT Wealth Management UK LLP gives no representation or warranty in relation to the accuracy or completeness of the information presented herein. The information presented herein does not provide sufficient information on which to make an informed investment decision. No liability is accepted whatsoever by LGT Wealth Management UK LLP, employees and associated companies for any direct or consequential loss arising from this document. LGT Wealth Management UK LLP is authorised and regulated by the Financial Conduct Authority.