CHARLOTTE SQUARE
INVESTMENT MANAGERS

INVESTING IN GILTS

OVERVIEW

Investing in UK Government bonds (known as Gilts) can be an effective strategy to maximise your cash savings from a tax perspective, while providing a higher level of protection against default than placing your money in a bank. Our discretionary bespoke gilt portfolios are designed to be flexible to your cash needs, whilst enabling you to retain access to your capital and take advantage of the favourable tax treatment applied to gilts.

KEY FEATURES

Expert Management

- Our investment managers have extensive experience of investing in UK Gilts.

Access to your Investment Manager

- You can contact your dedicated investment manager throughout the year - not just at the point of your periodic review.

Tax Advantages

- Where gilts are purchased at a discount to their maturity value with only a minimal interest rate coupon, the gain to maturity or redemption value is generally tax free.

Control and Access to Assets

- While gilts offer a fixed maturity date, investors retain the flexibility of daily trading, unlike fixed term bank deposits.

Flexible Time Horizon

- Generally, we will invest in gilts maturing in a range of 1 to 5 years but we have the flexibility to invest in gilts with a shorter or longer maturity.

POTENTIAL RISKS WITH GILT INVESTING

- If interest rates rise after you purchase a gilt, the market value of your gilt may fall.
- Selling a gilt before maturity may result in a loss of capital if market conditions are unfavourable.
- Compared to cash or short-term deposits, gilts may underperform in a rising rate environment.
- Cash held in savings accounts or money market funds typically does not fluctuate in value, though it may offer lower returns. Gilts may outperform cash over the long term, but they are not risk-free in the short term.

WHO COULD BENEFIT?

THIS SERVICE WOULD LIKELY SUIT INVESTORS:

- Able to invest a minimum of £100,000.
- Comfortable committing funds for a minimum of two years (funds can be made available at any time, but there may be capital gain or loss implications).
- Falling into higher rate or additional rate tax brackets.
- Open to assuming a low level of risk to achieve a better after tax return than via cash savings in a bank or building society.
- Who do not need to earn a regular income from these funds but can wait until the maturity date/s to receive the return.

THIS SERVICE WOULD BE LESS LIKELY TO SUIT INVESTORS:

- Investing in the short term who may need a return of funds at any point.
- Who are basic rate taxpayers.
- Seeking growth or higher income.

RISK CONSIDERATIONS

Gilts are issued and backed by the UK government, providing one of the highest degrees of capital security. The UK government has never failed to repay domestically issued debt. Nevertheless, gilts carry a degree of capital risk, particularly if the gilt is sold before its maturity date. While gilts are generally considered low-risk in terms of credit quality, the value of your investment can fluctuate before reaching maturity due to changes in interest rates, inflation expectations, and market demand, potentially impacting your initial investment return. It's noteworthy that, unlike cash deposits, there is no £120,000 cap on the Financial Services Compensation Scheme protection; instead, your funds are backed by the UK government.

TYPICALLY LOWER
REWARDS & LOWER RISK

TYPICALLY HIGHER
REWARDS & HIGHER RISK

INCOME FOCUS | **CAPITAL PRESERVATION** | INFLATION PROTECTION | GROWTH FOCUS

LET US SHOW YOU HOW YOU CAN MAKE YOUR CASH WORK HARDER

ILLUSTRATION

An example might help illustrate the point, based on a 40% taxpayer.

COUPON %	0.125
MATURITY DATE	31/01/2028
YIELD TO MATURITY	3.5%
NET REDEMPTION YIELD	3.45%
GROSS EQUIVALENT YIELD	5.75%

GILTS	
AMOUNT INVESTED	£100,000.00
COUPON	£125.00
TAX DUE	£50.00
TOTAL RETURN	£3,500.00
NET RETURN	**£3,450.00**

SAVINGS ACCOUNT	
BANK ACCOUNT	£100,000.00
INTEREST	£3,500.00
TAX DUE	£1,200.00*
TOTAL RETURN	£3,500.00
NET RETURN	**£2,300.00**

*includes HRT personal savings allowance of £500

- Coupon: equivalent to the interest received on cash savings.
- Yield to Maturity: the annualised return of the investment.
- Net Redemption Yield: the after tax annualised return.
- Gross Equivalent Yield: the bank rate required for equivalent after tax annualised return.

In simple terms, an individual with a 40% income tax rate would need to receive a cash savings rate of 5.75% to have the same after-tax return; or put differently, a cash savings rate of 3.5% would only provide a net return of 2.3%. Upon maturity of the gilts, clients can either reinvest into other gilts, move to another discretionary strategy or withdraw their money.

The purpose of the above illustration is to demonstrate the difference in tax treatment between investing in gilts or leaving cash in the bank. The amount that you pay in tax may differ depending on your personal circumstances. The returns indicated should not be considered as the expected investment return, but are a fair representation of the average rate you could currently expect for gilts and cash returns. The actual rate of return will be dependent on gilt and bank interest rates at the time of investing.

WANT TO HEAR MORE?

Contact one of our investment team at **investments@csmanagers.com**

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3D AWARDED BY ARC FOR COMMITMENT TO TRANSPARENCY 2025

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