AJ BELL GILT MANAGED PORTFOLIO SERVICE

Adviser guide



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This guide aims to help you understand, and make the most of, our AJ Bell Gilt Managed Portfolio Service (MPS) – a range of portfolios that are available exclusively through professional intermediaries.

These portfolios are designed to complement the existing range of risk-adjusted portfolios managed by AJ Bell, giving investors access to an asset class that offers a specific structural benefit.

Why are gilts interesting right now?

Lower prices

For a decade, interest rates were at historic lows – so gilts were issued with very low coupon (interest) payments, and are now available at relatively short terms to maturity. When interest rates rose sharply in 2022, the price of those gilts already in issue fell dramatically, and many are still trading below their par value, i.e. less than the value the UK Government will redeem them for once they've matured – which is always £100.

Lower tax

Gilt coupons are paid every six months, and are subject to income tax at your client's marginal rate. However, there's no capital gains tax to pay when the gilts are sold or redeemed. The combination of low coupons and low issue prices presents an opportunity, because the bulk of the return will come in the form of tax-free capital gains at redemption, with much smaller taxable interest payments. You would need to generate higher returns on taxable investments to achieve the same net returns for clients.

There are only limited numbers of the gilts where this combination of factors exist, so we've designed a range of portfolios that will allow clients to access the opportunities for positive outcomes they present.

i | Tax treatment depends on individual circumstances, and rules may change.

Who's the AJ Bell Gilt MPS designed for?

We've designed it for clients who want a low-risk way to generate higher returns than they'd get from cash or cash-like investments via a General Investment Account (GIA).

It will also suit advisers who want to invest their clients in gilts, without having to worry about ensuring they have the right permissions and insurance for direct dealing in gilts.

Minimum investment amount

The recommended minimum investment amount for this service is £10,000. We don't enforce any minimum account values, but the returns your client could expect from a smaller portfolio might be disproportionately affected by the cost of the service and other product charges.

Time horizons

There's no minimum recommended time horizon for investing in this product, and you can sell the gilts at any time. However, it makes sense to hold it until the maturity date of the last issue within a portfolio, in order to maximise the benefit offered by the exemption to capital gains tax.

The portfolios

There are seven portfolios in the range, to suit different clients' investment time horizons. Each portfolio provides access to a number of issues that have been selected for their relatively short-term time horizon to maturity, low coupon rates, and the fact that they're priced at a 'discount' to par.

	Maturity date	Gilt MPS Final Maturity 2026*	Gilt MPS Final Maturity 2027	Gilt MPS Final Maturity 2028	Gilt MPS Final Maturity 2029	Gilt MPS Final Maturity 2030	Gilt MPS Final Maturity 2031	Gilt MPS Final Maturity 2032
0 3/8% Treasury Gilt	22/10/2026	99.00%	49.00%	33.00%	25.00%			
1 1/4% Treasury Gilt	22/07/2027		50.00%	33.00%	25.00%	25.00%		
0 1/8% Treasury Gilt	31/01/2028			33.00%	25.00%	25.00%	25.00%	
0 1/2% Treasury Gilt	31/01/2029				24.00%	24.00%	24.00%	24.00%
0 3/8% Treasury Gilt	22/10/2030					25.00%	25.00%	25.00%
0¼% Treasury Gilt	31/07/2031						25.00%	25.00%
1% Treasury Gilt	31/01/2032							25.00%
Cash		1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**Soft closed to new investment*

What happens when gilts mature?

Model adjustment

One month prior to an issue maturing, we will amend the relevant models where it is held and reallocate the weighting to the remaining gilts. This will allow you to continue recommending new clients to the service, without having to worry about investing them in a gilt that is about to mature.

Importantly, because we do not rebalance the Gilt MPS, existing investors will continue to hold the approaching gilt until its maturity date, and to benefit from the relevant tax-exempt gains.

When a single gilt remains, that portfolio will be 'soft closed', meaning it will no longer be available for investment to new clients. It will still be possible to make additional contributions to the remaining gilt for existing clients already invested within that model portfolio.

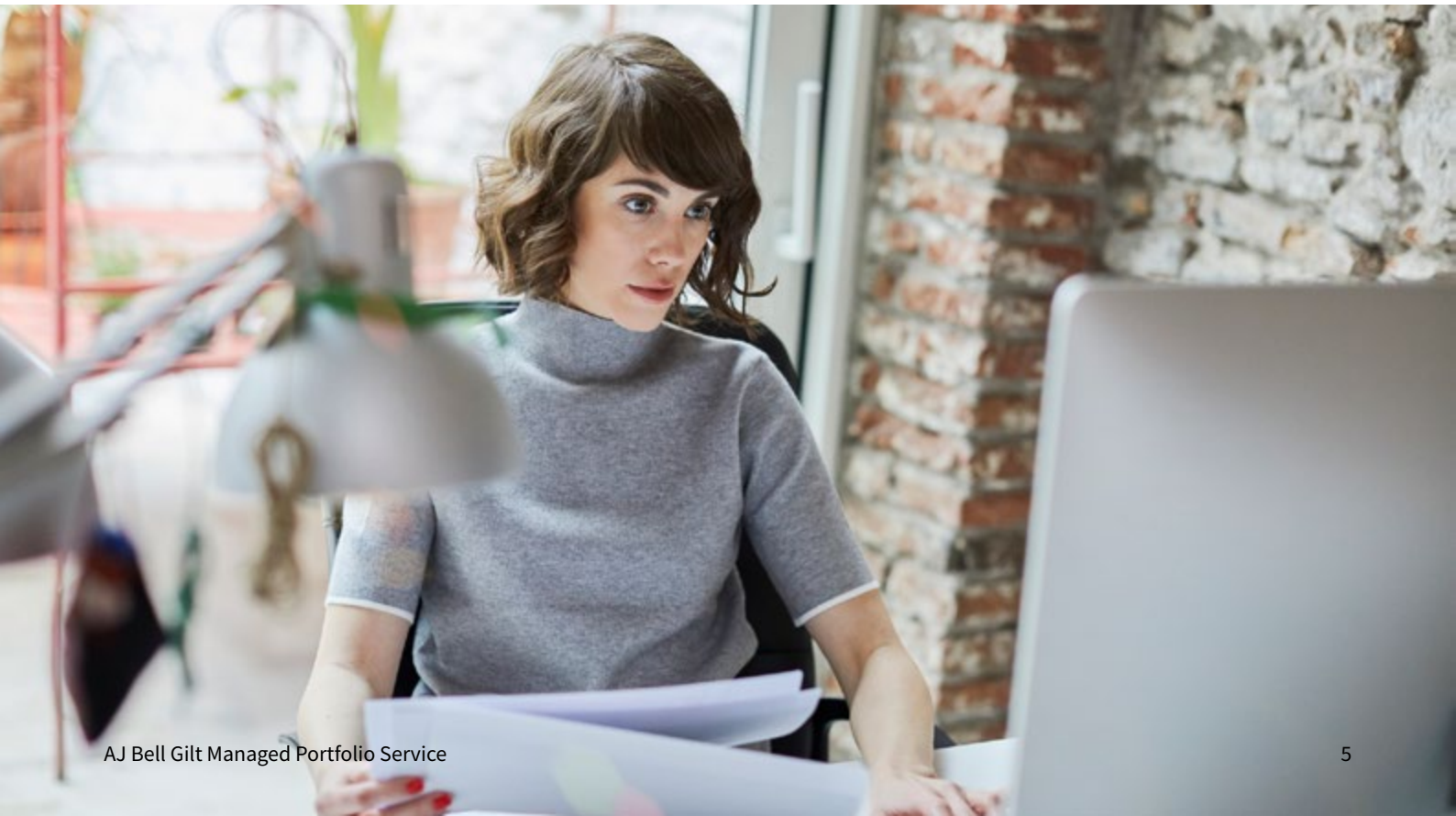
When each gilt in an MPS matures, your client's investment in it will be automatically redeemed, and the proceeds will be credited to their account, together with the final coupon. At this point, the cash can either be reinvested in the remaining gilts held within the portfolio, linked to the next Gilt MPS portfolio within a separate account, or simply withdrawn.

Maturity ladder

When the final issue in a Gilt MPS portfolio is redeemed, you'll be able to link them to another Gilt MPS portfolio that meets their investment time horizon – assuming you don't have a different investment strategy planned, or your client doesn't need to access the capital at that point.

We've included an example at the end of this guide to help illustrate the potential tax efficiency of the Gilt MPS portfolio structure.

Please bear in mind that clients won't automatically be unlinked from a Gilt MPS portfolio when the final issue matures. Like any model portfolio, you'll have to unlink the account, even if you intend to hold the proceeds as cash in their account and not reinvest in a new Gilt MPS portfolio.



How it works

The example below shows what the returns could be for a higher income taxpayer, who is liable for a 40% charge, when investing within gilt issues with different coupon rates that mature at the same point. The end return shown (referred to as the tax equivalent yield) is the return an investor would have to achieve from investing the same amount in an investment outside a tax-efficient wrapper, such as an ISA or SIPP account. Each Gilt MPS portfolio will seek to invest in available gilts that have relatively low coupons, that should also have relatively larger 'discounts to par'.

The example assumes that each issue is held through to a maturity of one year, allowing most of the return to come from the capital gain (free of capital gains tax). Any return of income from a gilt's coupon is still taxable at an individual's tax rate.

Please note that this is an illustrative example and not an illustration of either the actual issues that are invested within an AJ Bell Gilt MPS or the returns that an investment should be expected to generate.

Yield to maturity 3.49%	1.25% coupon	One-year fixed rate term 4.10%
Face value	£100,000	£100,000
Purchase value (market price)	£97,050	£100,000
Capital gain	£2,235	£0
Income	£1,250	£4,100
Yield (total return) as £	£3,485	£4,100
Income taxed at 40%	-£300	-£1,440
After tax return as £	£3,185	£2,660
After tax yield as %	3.19%	2.66%
Tax equivalent yield	5.01%	2.66%

Source: AJ Bell Investments. Illustrative example, tax equivalent yield on one-year gilt, for a 40% taxpayer, considering a £500 interest allowance. Coupon example based upon annualised return from a UK Treasury 1.25% Gilt 22/07/2027 as at 27/02/2026 and held to maturity.

Using the above example, an investment in the fixed rate cash example would have to make 5.01% to be equivalent to the return from a gilt, considering the tax paid by a higher rate taxpayer. This is referred to as the 'tax equivalent' or 'pre-tax' yield.

How much does it cost?

We firmly believe that high charges are one of the biggest threats to investment returns. That's why our Gilt MPS carries an investment management charge of just 0.10% p.a., which is lower than many of our competitors. Please remember that additional charges, such as platform costs, also apply.

What are the risks?

Gilts can be seen as lower-risk investments because they're backed by the UK Government – which has never failed to repay domestically-issued debt. This gives investors a high degree of capital security.

The portfolio does carry some reinvestment risk though. This can be defined as the risk that money earned from an investment can't be reinvested at a comparable rate to the current rate of return. For example, it may not be possible to reinvest coupon payments from bonds into another security with a comparable yield.

Gilt prices will fluctuate and are exposed to a degree of interest rate risk. So, the actual discounts to par may change over time if the expectation is that interest rates fall. Conversely, prices may fall if interest rates increase. However, investors will still be able to benefit from the capital gains tax exemption when they invest below par and hold until the redemption date.

Although it is possible to redeem at any time, if you need to disinvest from a Gilt MPS portfolio before all issues have matured, there's a risk that your clients may get back less than they invested. This is because gilt prices are subject to fluctuations before the issue reaches its maturity date.

Who will manage the money?

AJ Bell was established in 1995 and has grown to become one of the UK's largest investment platforms, with £126 billion of assets under administration and 796,000 customers. We launched AJ Bell Investments in 2016, with the purpose of designing and managing a range of simple, transparent, low-cost investment solutions that deliver good customer outcomes.

Our highly-experienced and respected Investments Team holds £9.5 billion of assets under management for clients, and it is this same team that manages the AJ Bell Gilt MPS.

i The projected returns shown may vary according to the tax treatment of your client's investment. If your client pays tax on this investment, their returns may be lower. Tax treatment depends on their individual circumstances, and the rules can change at any time in the future.

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This brochure provides general information about the AJ Bell Gilt Managed Portfolio Service. It should not be read or construed as investment advice. It is your responsibility to assess your clients' circumstances and make a personal recommendation that is suitable for their needs.

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