



DIRECT  
SECURITY  
DISCRETIO  
NARY  
SOLUTIONS

IFA  
SUMMARY

A WEALTH *of* DIFFERENCE

utmost<sup>™</sup>  
WEALTH SOLUTIONS

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The information in this document is based on our understanding of tax legislation and practice in Ireland and the UK as at 1st June 2024. Tax rules are subject to change.

# WHO ARE UTMOST WEALTH SOLUTIONS?

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UTMOST WEALTH SOLUTIONS IS A LEADING PROVIDER OF INTERNATIONAL LIFE ASSURANCE SOLUTIONS AND HAS OFFICES BASED IN IRELAND, THE ISLE OF MAN AND GUERNSEY.

OUR SUCCESS IS BUILT ON A FOUNDATION OF KNOWLEDGE AND EXPERTISE IN THE INTERNATIONAL WEALTH MANAGEMENT MARKET AS A RESULT OF OVER 25 YEARS' INDUSTRY EXPERIENCE.

# STRENGTH AND STABILITY

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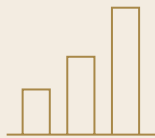
Fitch Ratings, one of the three top rating agencies, has assigned the life insurance companies operating under the Utmost Wealth Solutions brand (Utmost International Isle of Man Limited, Utmost PanEurope dac and Utmost Worldwide Limited) with Insurer Financial Strength (IFS) Ratings of 'A+' with a 'stable' outlook, which indicates to both clients and partners that they are investing with a safe, reliable and strong company.

FITCH ASSIGNED

**'A+'** Insurer Financial Strength rating **with a stable outlook**

Utmost Wealth Solutions is the only independently-owned wealth management business with Fitch 'A+' IFS Ratings for its issuing life companies.

As at 05 June 2024



**£62.8bn**  
**(€72.5BN)**

in assets under administration as at 31 December 2023



**1,500**  
**Employees**

SERVICING

**500,000** Clients



Utmost PanEurope's strength as a product provider is enhanced by the safeguards and regulatory integrity that Ireland can provide. Ireland is one of the largest cross-border life assurance centres in Europe. Irish regulations implement the EU insurance directives in a favourable tax environment.

Utmost Wealth Solutions offers direct security discretionary solutions from Utmost PanEurope, based in Ireland, which was established in 1999.



The protections noted above only cover losses where Utmost PanEurope dac becomes insolvent. They do not cover falls in the value of units linked to your client's policy.

# THE EVOLUTION OF DIRECT SECURITY DISCRETIONARY SOLUTIONS

Life insurance bonds and capital redemption bonds are charged to tax for UK residents under chapter 9 of Part 4 Income Tax (Trading and Other Income) Act 2005 ("ITTOIA"). This tax legislation is often referred to as the chargeable event legislation and parts of the modern legislation date back over 45 years to the Finance Act 1975 - such as the ability to take a tax-deferred withdrawal of up to 5% per annum based on the premium paid.

## FINANCE ACT 1998

Following the introduction of the 1975 legislation, there have been various anti-avoidance amendments to tweak the chargeable event legislation. These anti-avoidance amendments culminated with the Finance Act 1998 and the introduction of the Personal Portfolio Bond (PPB) Rules which are now embedded in the legislation we have today. The PPB rules were a result of the case of CIR v Willoughby and were introduced to further restrict the assets that could be linked to the value of any insurance policy where the client, or any connected party, retained the ability to select under the policy terms.

## ABILITY TO SELECT AND THE PERSONAL PORTFOLIO BOND (PPB) RULES

Under the chargeable event rules there are two core principles to determine whether a policy is a PPB for a UK resident policyholder:

- › Whether the policyholder, or any connected party, has the ability to select (or the option to select) the assets linked to the value of their policy in their policy terms;

AND

- › If they have the ability to select under the policy terms, then whether the property selected is restricted in the policy terms to those assets deemed permissible by HMRC as directed under s571 and s520 ITTOIA. Note here the property they can select must also be made available to either a) everyone or b) a class of persons as directed by the insurer, however, this class cannot be too narrow as to restrict the class to effectively few persons.

If a policy is deemed to be a PPB, due to its terms not aligning to the rules, then there is a deemed tax charge of 15% per annum irrespective of policy growth or loss. This tax charge is there as a strong deterrent, and in practice insurers will not knowingly permit policies to become personalised. Where a policyholder has the right of selection, insurers will instead make sure the assets

policyholders can select when UK resident are restricted to those that fall within the rules. Here it is important to understand that it is not what is selected that matters but rather what can be selected under the policy terms; although HMRC make it clear the existence of non-permissible assets will show selection was available despite what the terms may say.

The assets that can be selected under the PPB rules can be broadly said to be collective investment funds and cash (although 'cash like' instruments such as structured notes are not permitted). They currently include but are not limited to authorised unit trusts, shares in approved investment trusts, OEICS, cash, interests in certain collective schemes and UK REITS.

## THE RISE OF DISCRETIONARY SOLUTIONS

Since the introduction of these rules back in the late 90's, conventional policy structures sold to UK residents have restricted the policyholders to selecting assets that are permissible. However, since the dawn of the new millennium the use of outsourced discretionary fund management (DFM) solutions has become more and more popular. These solutions as offered today range from model portfolios and platforms all the way up to fully bespoke discretionary solutions.

Whilst there has been a rise in the popularity of these outsourced DFM solutions the PPB rules have meant that, until recently, the linked assets that could be retained and selected by the DFM must also be restricted to the permitted assets as prescribed under the PPB rules. This led to DFMs having to compromise in some areas on the portfolios they build for portfolio bonds they are appointed under - for example quoted shares are not permissible under the PPB rules and these may be commonly held under DFM structures as part of a standard approach.

## INNOVATION WITH THE FULLY DELEGATED SOLUTION

In 2012 two of the companies which now comprise Utmost Wealth Solutions independently sought extensive legal and tax advice in this area and were the first to launch fully delegated direct security discretionary solutions. It is interesting to note that the advice received was broadly aligned and thus the approach was therefore very similar.

The product solutions provided (Private Wealth Portfolio UK and Delegation) were simple stand-alone products where the linked assets are managed by a discretionary manager nominated by the client and appointed by the life company on a fully delegated basis. Here the policyholder(s), or any connected party, cannot select or influence the selection of the property under the policy terms. This key point is made clear in all product material and having dedicated product solutions for these fully delegated mandate product allows for more effective controls at the discretionary fund manager's end.

Under these now established products, policyholders are not permitted to discuss the strategy with the discretionary manager and will simply provide them with a broad mandate whereby the manager will then build an independently selected portfolio aligned to the general mandate and risk profile.

## INCREASED FLEXIBILITY

These products give the DFM much more flexibility in the types of funds and assets that can be linked to the product allowing them to better manage the portfolio in line with the broad investment mandate and risk profile provided. It also avoids the need for the DFM to ascertain if the specific asset they are looking at would be a permissible asset under the PPB rules. Under conventional DFM arrangements, some asset types can be particularly difficult to determine in relation to the permissibility rules and this sometimes leads to delays in investment, i.e. where the DFM discusses the potential permissibility with the insurer.



Whilst the range of permissible assets is much wider, there are some restrictions. For example, personalised assets such as private company shares are not permissible as these could clearly indicate there was some selection or influence. Other assets which are illiquid in nature, not regularly traded or difficult to sell or price (e.g. tangible items) would not be permitted to be held. For example, closed-end funds, fine wine and property would not be permissible.

## ROBUSTNESS OF USING A SEPARATE PRODUCT

Both products in the Utmost range follow this arms-length stand-alone approach as a robust solution for the following reasons:

1. It allows us to create bespoke product literature to inform clients of the strict rules regarding the product and remind them they cannot influence or discuss the selection of the portfolio assets with the appointed DFM
2. It allows a clear separation of the books of business within the DFM partner firm, allowing them to better recognise which policies under their management can take the wider investment approach. This is especially important as many DFM partner firms will also manage books of business where the policy terms allow policyholder selection rights. These policies will need to stay within the PPB rules discussed on the previous page
3. It provides for clear and bespoke product terms and conditions which remove the policyholder's ability to select.

# THE BENEFITS OF DIRECT SECURITY DISCRETIONARY SOLUTIONS

## AVAILABLE ASSETS

Direct security discretionary solutions can offer a number of benefits including financial efficiency in the range of assets that can be held in comparison to non-discretionary solutions.

Utmost's discretionary managed solutions enable a wide array of assets to be managed by a portfolio manager within a discretionary bond from Utmost PanEurope.

These include structured products and derivative instruments which can be used for currency hedging to reduce investment risk or to facilitate efficient portfolio management. Fixed interest holdings can also be accommodated to align with specific policyholder objectives such as retirement, for example.

The following is a summary of the assets that can be managed by a portfolio manager in an Utmost PanEurope discretionary bond:

- › Equities (regulated market only)
- › Debt securities, bonds and other money and capital market instruments
- › Commodities and metal accounts
- › Funds
- › Currencies (liquid and convertible on demand only)
- › Derivative instruments
- › Structured products
- › Fixed interest securities

Please review Utmost PanEurope's Asset Permissibility document for full details.



The value of your client's bond can fall as well as rise and they may not get back the amount invested.

The assets are held in custody in segregated accounts maintained by Utmost Wealth Solutions' approved Custodian partners.

## COST SAVINGS FOR DISCRETIONARY SERVICES COMPARED TO CONVENTIONAL BONDS

The cost associated with a direct security discretionary solution could be potentially lower than using actively managed collectives, as trading and holding collective investment funds will include the costs from the underlying fund manager. Furthermore, the funds will already have their own annual management fees and other charges.

Replacing these funds with direct holdings in the underlying assets can significantly reduce exposure to this second layer of charges.

Savings can be made by holding direct securities instead of collective funds. For example, if the fund savings are 0.4% per annum then compounding this saving could achieve extra returns of the following amounts:

YEARS	10	15	20
RETURN	4%	6.1%	8.3%

## COST SAVINGS ON VAT - DISCRETIONARY MANAGEMENT

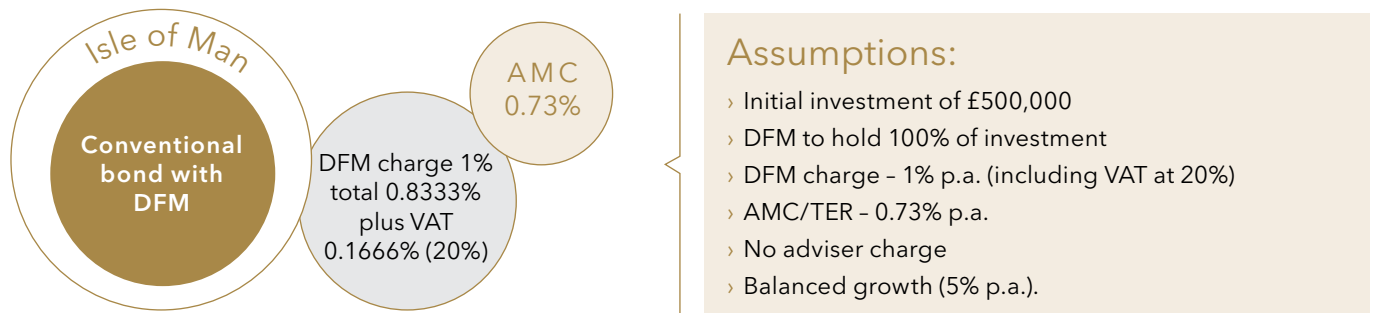
A further benefit is that because Utmost's discretionary solutions are based in Ireland, they currently benefit from lower charges due to the favourable VAT position in Ireland for such services. This is because the VAT position of a discretionary management service is based on the VAT code of the jurisdiction where the recipient of that service is located. As such the recipient of the discretionary management services is Utmost PanEurope dac. The location of the portfolio manager who supplies the service is not relevant.

## Examples comparing jurisdictions and discretionary approach

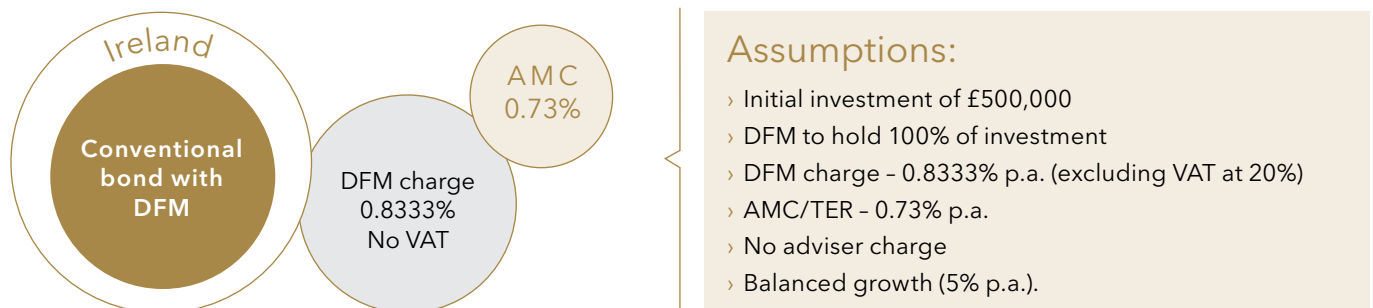
The following examples demonstrate both the benefit of the VAT savings and the savings on the fund charges by comparing three examples of policies holding discretionary portfolios.

The examples first compare a policy linked to a discretionary managed portfolio issued by an Isle of Man life office with the same portfolio issued from Ireland where the VAT exemption is available for discretionary management. They then compare the Irish version with the further potential fund cost savings that are available using a direct security discretionary solution. These examples show how both the VAT exemption in Ireland on discretionary management services and the fund savings can combine to increase the effective returns by reducing the overall costs.

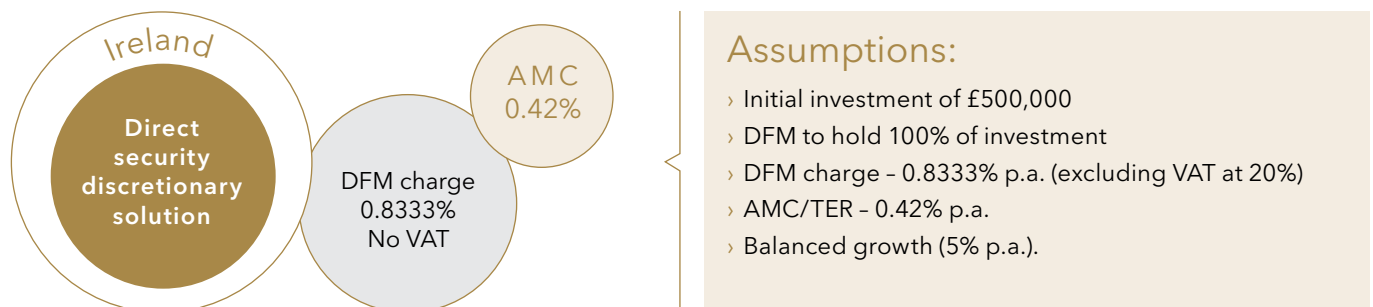
### GENERIC ISLE OF MAN CONVENTIONAL BOND HOLDING DFM PORTFOLIO



### UTMOST PANEUROPE CONVENTIONAL BOND HOLDING DFM PORTFOLIO



### UTMOST PANEUROPE DIRECT SECURITY DISCRETIONARY SOLUTION



The figures given are for illustrative purposes only and are not guaranteed.

# OUR DIRECT SECURITY DISCRETIONARY PRODUCT SOLUTIONS

We have two direct security product options to select from and their main features are covered in the table below:

PRODUCT FEATURE	DELEGATION	PRIVATE WEALTH PORTFOLIO UK
Ability for the DFM to select a broader range of assets than those usually permitted under the PPB rules?	✓	✓
In-specie assets accepted as premium?	✓ Subject to these assets being acceptable by the company	✓ Subject to these assets being acceptable by the company
Portability options available?	✗	✓ Portability and specific support for France, Italy, Portugal and Spain <sup>1</sup>
Investment conversion facility (ICF) <sup>2</sup> available?	✓	✗
Tax reclaims of foreign withholding tax on dividends offered?	✗	✓
Capital redemption variant?	✓	✗
Life assurance variant?	✓ Last death only	✓ Last and first death options available
Ability to place in a discounted gift trust?	✓	✓* *Considered on a case-by-case basis and only where the policyholder is not also a life assured.
Favourable VAT position on DFM management?	✓	✓
Maximum number of segments	9,999 subject to minimum values per policy segment of GBP500, USD1,000 or EUR750	Bespoke segmentation permissible on case-by-case basis depending on premium
Minimum premium	GBP 500,000 USD 1,000,000 EUR 750,000 If two DFMs are appointed, a minimum of GBP 100,000 (USD 200,000 or EUR 150,000) must be allocated to each DFM account.	GBP 500,000 or currency equivalent

<sup>1</sup> In all cases, portability is subject to local taxation and regulatory constraints and to the agreement of Utmost PanEurope.

<sup>2</sup> ICF is a once-off option to transfer to self selection model where the client can select from a narrower range of assets subject to PPB restrictions.

# SELECTING THE RIGHT SOLUTION FOR YOUR CLIENTS

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The right product choice for your client will depend on many factors including the client's circumstances and their future intentions.

Delegation is designed for the UK market and mirrors most of the features of Private Wealth Portfolio UK for a slightly lower ongoing product charge. Delegation also has a capital redemption version which may be of interest where the policyholder is likely to be a UK trustee. The capital redemption version doesn't require a life assured and thus can be useful to match the lengthy perpetuity periods that may be required under trusts. It can also be placed into a discounted gift trust to allow for inheritance tax planning.

Through the investment conversion facility, Delegation gives policyholders the opportunity to request that they can select (or influence) the assets that are linked to the value of their bond. Following this request, and the acceptance by Utmost PanEurope dac to the facility being used, the bond will then be restricted to those assets permissible under the Personal Portfolio Bond rules. Once the conversion has taken place, this cannot be reversed. There is a one-off charge when using the investment conversion facility. Details can be found in the **Delegation Guide to Charges**.

The Private Wealth Portfolio range continues to be our global flagship offering and the Private Wealth Portfolio UK product builds upon the Delegation product by adding some additional features including portability. It is designed to also cater for mobile clients who may be intending to leave the UK in the future. Furthermore, the added tax reclaim functionality on this product may be very useful for many clients.

# PORTABILITY

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Changing circumstances for globally mobile clients can pose a challenge, but the impact on their financial plans should not. Our Private Wealth Portfolio UK portability solution allows for flexibility when the client's plans and location change. With over 20 years' experience in the market we have amassed expertise on portability.

Private Wealth Portfolio UK can provide additional flexibility for UK residents who may have plans to change their country of residence. Specific and detailed tax support can be provided for clients considering moving to France, Italy, Portugal or Spain.

We can also provide support for other countries around the world and assist with portability solutions that can be tailored to meet the client's needs. Life assurance is a straightforward and recognised financial structure in many countries around the world. Private Wealth Portfolio UK can potentially remain locally compliant with the tax rules of the client's new country of residence, due to our ability to adapt the policy to the rules of the destination country.

# TAX RECLAIM

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Dividend withholding tax is generally applied at the domestic rate in the jurisdiction of the investment. As Utmost PanEurope dac is an Irish tax resident company and beneficially entitled to the dividend income, the domestic tax rate can be lowered under the terms of the Double Taxation Agreement between Ireland and the jurisdiction of investment.

If Utmost PanEurope dac is entitled to a lower rate of withholding tax, the reduction can be claimed at source or by way of a reclaim<sup>3</sup>.

## DEDICATED SPECIALIST SUPPORT

Making withholding tax reclaims in a large number of investment jurisdictions is a complex process that requires tax technical knowledge, specialist experience and local language skills. Therefore, Utmost PanEurope dac has appointed a third party withholding tax reclaims specialist firm (WTax) to undertake all withholding tax reclaims on Utmost PanEurope's behalf.

Benefits include:

- › Access to a dedicated specialist withholding tax firm
- › Access to tax treaty reliefs
- › Preparation and collection of all reclaims
- › No fees for unsuccessful reclaims - The fees payable for successful claims are 20% of the amount of tax reclaimed (plus outlay).

The tax reclaim service, combined with our existing tax relief at source service, is expected to deliver additional investment returns on equity investments for policyholders<sup>4</sup>.

The tax reclaim service is dependent on the custodian providing all relevant information for the reclaims.

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<sup>3</sup> Tax Reclaim is only applicable to PWP

<sup>4</sup> The additional investment returns will depend on the level of equity within the policy, the dividend yield and the investment countries of the equities.

# UTMOST EXPERTISE

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UTMOST WEALTH SOLUTIONS  
HAS A HISTORY OF OVER  
20 YEARS ADMINISTERING  
DISCRETIONARY MANAGED  
PORTFOLIOS




We have gained significant experience in the efficient management of listed securities within discretionary solutions. The companies that are now under the Utmost Wealth Solutions' brand were the first to enter the market in 2012 via Generali PanEurope and later AXA Life Europe in 2013. Both businesses are now part of Utmost PanEurope dac.


As at 31 March 2024, we have around £6.85bn of listed holdings under administration and have an in-depth understanding of administering complex assets and the required reporting.


# WE'RE HERE TO HELP

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Telephone calls may be recorded.

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Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

Utmost PanEurope dac is regulated by the Central Bank of Ireland (No 311420). Its registered office is Navan Business Park, Athlumney, Navan, Co. Meath C15 CCW8, Ireland. Utmost PanEurope dac is a Category A Insurance Permit holder with the Jersey Financial Services Commission.

Utmost Wealth Solutions is registered in Ireland as a business name of Utmost PanEurope dac.

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