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Investment | Wealth

Gilt Portfolio Service

About the JM Finn Gilt Portfolio Service

We offer an investment service for clients that invests solely in gilts. The investment manager will create a portfolio of gilts – this can also be run alongside a standard investment portfolio.

What is a gilt?

A gilt is a type of 'bond' – bonds are essentially a loan that investors make to the bond issuer for a set time period. Bond issuers can either be corporations or governments, however 'gilts' are specifically bonds that are issued by the UK government. By buying one, an investor is effectively lending money to the government for a fixed period, in return for regular interest payments and repayment of the original amount at 'maturity' (i.e., the date the loan is due). The time frame gilts are issued for can vary greatly, from as little as 3 months to up to as long as 50 years. They can also be traded on the secondary market – with prices typically rising as the maturity date approaches.

How do gilts work?

The UK government wants to raise some money. It issues a gilt, this will have:

- **A face value**
  (typically £100)
- **A coupon**
  (the interest rate the gilt pays)
- **A maturity date**
  (the date the gilt will be repaid)

Government issuance
↓
Investor ownership
↓
Market trading
↓
Income payments
↓
Repayment at maturity

After it's been issued, the gilt can be bought and sold by investors on the secondary market for any amount – this could be at a premium (i.e., above the original £100 face value) or at a discount (below face value). It can then be bought or sold any number of times before it reaches maturity – at which point whoever holds the gilt on that date will receive the £100 face value from the UK government.

What are the benefits of a gilt portfolio service?

Tax-efficient: A gilt portfolio service will typically give the holder a much better total return than holding money in cash. This is because unlike money held in cash (and also unlike standard investment portfolios that also contains equities), any gains received in gilt portfolios are not subject to capital gains tax. This means that gilts that are purchased at below their full nominal value can also benefit from the increase in value if the gilt is held to 'maturity' – i.e., the date that the UK government repays the original amount borrowed.

Low-risk investment: Suitable for risk-averse investors seeking a conservative allocation, supported by UK government bonds. Unless the UK government defaults on its debt (which has never happened in modern history), then an investor purchasing a gilt is guaranteed to receive the redemption amount when the gilt reaches maturity.

Predictable returns: Unlike an investment portfolio, the return that the gilt will give at the point of redemption can be calculated exactly. This gives the investor certainty about the return they will receive from the gilt, and the date they will receive it.

High liquidity: Gilts can typically be easily sold if the investor requires them to be converted quickly into cash. This comes with the caveat that the price the investor receives for the gilt at the time of sale may be higher or lower than they originally paid for it. A key benefit of selling a gilt at a profit is that this will not be subject to capital gains tax (as selling 'equities' (company shares) would be).

Can be created as a secondary portfolio: A portfolio comprised solely of gilts can be run alongside a standard investment portfolio by your JM Finn investment manager, to add a low-risk strategy to counterbalance a higher risk one.

Lower fees: The administration charge for running a gilt portfolio is lower than a standard investment portfolio.

Income return

Which types of investors are gilt portfolios suitable for?

Clients seeking capital security and wishing to minimise investment risk.

Investors wanting predictable income, especially those who rely on regular cash flow.

Clients looking for tax efficiency. Gilt portfolios can be particularly beneficial for higher and additional rate taxpayers.

Those building diversified portfolios who want a low-risk fixed income component.

Clients with shorter-to-medium-term horizons where capital stability is a key priority.

Individuals or advisers looking for transparent fees and simple oversight in a discretionary managed service.

For which purposes might someone hold a gilt portfolio?

These are many reasons, just some of which could include:

— Putting cash aside for a future known liability, e, g. a tax bill
— Funding care home fees
— Private school fees
— Funding a future house purchase
— Extra income during retirement
— Business owners seeking to offset the concentration risk of wealth tied up in their business.

Low coupon vs high coupon gilts

There are different types of gilts, known as low or high 'coupon' ('coupon' is the rate of interest paid by the bond issuer).

Low coupon gilts offer very low interest rates, and typically trade at a discount to their face value. This means that if they are held until maturity (i.e., the end date of the gilt), then the owner may benefit from both income (interest) on the gilt and the repayment of the gilt capital when the gilt matures.

High coupon gilts offer high interest rates, but are typically also bought at prices at or close to their face value – meaning there will be little gain to be made when they reach maturity.

High coupon gilts do not offer the same tax benefits as low coupon gilts because the interest they pay is taxable at the holder's marginal rate of income tax – so for example if you are a higher rate income taxpayer, you would pay 40% tax on any interest received from gilts.

Their main benefit is that they typically provide a higher interest rate than having cash in the bank. This can make them useful for clients who simply want a low-risk regular income.

Example – low coupon gilt portfolio

Emma has £100,000 she can invest for 5 years. She is a higher rate taxpayer who doesn't need income now — she wants to maximise what she gets back at the end, ideally in a tax-efficient way.

— Emma buys gilts with a very low coupon (e.g. 1%)
— Because the coupon is low, the gilts trade at £85, £15 lower than their £100 face value.
— Emma receives a small income each year of £1 per £100 invested in gilts – this is taxed at her rate of income tax (40%).
— At maturity, she will still receive £100 per £100 invested (face value). This means that Emma receives a £15 capital uplift on each gilt. Because no capital gains tax applies to gains on gilts, Emma is able to receive all the gains made on the gilts without paying tax on them.

Example – high coupon gilt portfolio

Sarah is retired and wants a steady income to help cover her day-to-day expenses. She is not trying to grow her capital significantly – she just wants something predictable and low risk.

— Sarah buys gilts with a 4% coupon
— She pays £98 per gilt (close to face value)
— She receives £4 interest per year for every £100 invested – this income is taxed at Sarah's marginal income tax rate of 20%
— At maturity, she will still receive £100 per £100 invested (face value). This means that Emma receives a £2 capital uplift on each gilt, free of capital gains tax.

Laddered gilt portfolios

Your JM Finn investment manager can purchase on your behalf a series of gilts that have maturity dates staggered over regular time periods (known as a ‘laddered gilt portfolio’) – for example every year for up to five years.

At the point where one gilt reaches maturity, the investor will receive the principal sum from the gilt and this can then be converted to cash, or, if you prefer, the money can be used to purchase another gilt to extend the laddered portfolio.

A key benefit of using a laddered investment portfolio is that it provides a regular, predictable source of capital, typically with a gain on the initial amount invested.

Example – Laddered gilt portfolio

Ruth invests £500,000 upfront into a laddered gilt portfolio. She needs the gilt investment to cover a series of payments over a period of five years, so her investment manager builds a laddered portfolio comprising five gilts, one of which will mature every year over the five-year period, providing a guaranteed sum of money that is higher than the initial amount invested in the gilt.

In total, by the end of the five-year period, Ruth receives £542,523 from her initial £500,000 investment.

Government bond	Maturity date	£ Invested	£ Price	£ Income received to maturity (Gross)	£ Received on maturity	£ Total capital and income received
0.375% 22 Oct 2026	22 Oct 2026	100,000	99.0	188	100,997	101,184
1.25% 22 Jul 2027	22 Jul 2027	100,000	97.1	1,875	102,934	104,809
0.125% 31 Jan 2028	31 Jan 2028	100,000	94.2	250	106,102	106,352
0.5% 31 Jan 2029	31 Jan 2029	100,000	91.3	1,500	109,529	111,029
0.375% 22 Oct 2030	22 Oct 2030	100,000	85.1	1,688	117,462	119,149
		£500,000	-	£5,500	£537,023	**£542,523**

Note: Examples of government bonds are correct at the time of publication. They are included for illustrative purposes only and will be subject to change. Returns are listed gross of fees.

Get in touch

Gilts can be a tax-efficient and low-risk way to invest. If you'd like to understand whether a gilt portfolio could be suitable for your needs, please call

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or if you would like to speak to your local office:

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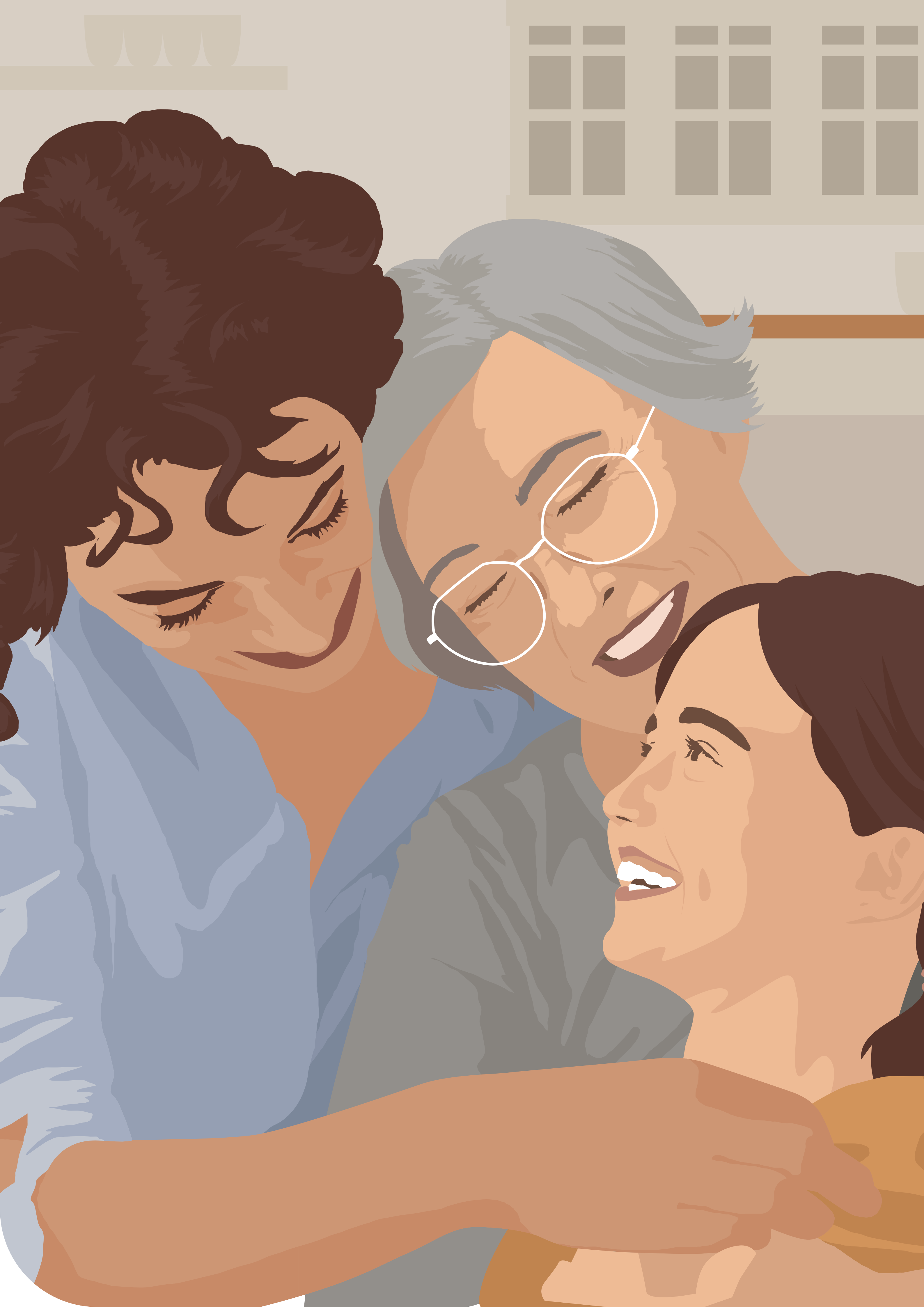

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