Stellar Growth Inheritance Tax Service

Tax-Advantaged Investments

BR IHT Review

JULY 2020

Contents

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Overview

Stellar Asset Management Ltd ("Stellar" or "the Manager") continues to raise funds for its inheritance tax services, the Stellar Growth Inheritance Tax Service ("Service" or "Growth IHT Service"), that aims to provide Inheritance tax ("IHT") mitigation to private clients by investing in a range of sectors by partnering with sector experts. The Service has a target return of 5% per annum (net of all fees).

Investment Details:

Score:	84
Offer Type	Evergreen
BR strategy	Capital preservation and growth
BR AUM (Pre-Offer)	£90.9 million
Manager AUM	£320 million
Risk Level	Medium

Investment:

Minimum subscription	£40,000
Maximum qualifying subscription per tax year	N/A
Early bird discount	N/A
Loyalty discount	N/A

Closing Date:

There is no closing date

This document verifies that *Stellar Growth ITS* has successfully completed our independent due diligence process, having passed through all stages of the governance process in the run-up to the report's publication on the date listed below. It has therefore been awarded the MJ Hudson Cornerstone Trustmark.

Risk Warning for IHT BR Schemes

Individuals should always read and bear in mind the 'Risk Warning' notices that are included within providers' investment offer literature/documentation, including Prospectuses, Information Memorandums, Securities Notes, Brochures and other related marketing literature. While the following list is by no means exhaustive, some of the main risks to be aware of are:

- Investments may be made in small, unquoted companies and/or partnerships, and should be considered as high risk;
- Investments may be highly illiquid and difficult to realise. Realisations and distributions could be further delayed if a substantial proportion of the investors in a product/service wish to exit around the same time;
- An IHT BPR investment should be viewed as a long-term investment;
- Legislation, together with the nature and level of tax reliefs, is subject to change. There can be no guarantee that investments will be eligible or remain eligible for business property relief;
- Past investment performance is not and never should be used as a guide to future performance. The value of your investment may go down as well as up;
- Investment strategies employed by various managers differ from each other. Individuals should ensure that they understand the nature and inherent risks of the product/service for which they are considering a subscription;
- IHT BPR insurance options may have exclusions and termination/renewal dates;
- IHT BPR investments should only be undertaken by sophisticated investors who understand and have given careful consideration to the underlying investment strategy and associated risks. For help in determining potential investment suitability, we recommend that professional advice should be sought.

Executive Summary

MANAGER

Stellar Asset Management Ltd ("Stellar" or the "Manager") was established in 2007 by former Directors of Close Brothers Investment Limited. Stellar focuses predominantly on BR qualifying investments, and today has approximately £330 million under management, spread across both AIM quoted companies and private businesses operating across a variety of asset-backed sectors. The Manager typically partners with third-party specialist/advisers to assist with the management of underlying assets and investments. Having been in operation for almost 13 years now, Stellar has a growing track of operation, and continues to grow organically in line with its AUM.

PRODUCT:

Stellar Growth ITS is a bespoke investment product in the BR IHT marketplace. Each investor will establish a new company (the "Company"), which is 100% owned by the investor. The Company will then become a member of several Partnerships, each of which will in turn ordinarily acquire underlying operating businesses in a specific sector. Investors may stipulate which trades are included or excluded. Stellar uses Joint Venture Partners to manage the trading businesses on behalf of each Partnership. The product offers individuals exposure to a range of underlying asset-backed businesses with the intention to preserve capital and generate net returns of at least 5% p.a. The current portfolio consists of 37 Partnerships, which have made combined unrealised returns of 22% over seven years.

SUMMARY OPINION:

Stellar's Directors have significant experience in managing IHT-efficient investment products, given their existing products and past experience at Close Brothers Investment Limited. The Manager has been increasing in both revenues and net assets and has made a profit for the past five years, albeit profit margins have narrowed in the most recent financial period. According to Stellar, this margin compression has been driven by slower fundraising as a result of Brexit uncertainty, along with additional investment into Stella's workforce and IT systems. Jonathan Gain, founder and CEO owns over 60% of Stellar, which does present a concentration in ownership, and given his significant involvement in both the daily operations of the business and execution of investment strategies, presents a significant level of key person risk. Nonetheless, Stellar has made an effort to shore up its governance and oversight procedures, with the addition of a number of committees and we acknowledge that the involvement of the Joint Venture Partners helps to mitigate this risk to an extent. That being said, many of these committees are comprised of the same members, and thus do not have the level of independence that is possible for larger managers.

Growth ITS investors will benefit from the bespoke nature of the service, with investors retaining some control over their own company and able to make requests as to the proposed portfolio make-up, as well as insurance options for greater security (at additional cost). While the investment team has recently expanded to four individuals, it is arguably under resourced for the large amount of work involved with the Manager's three IHT products given the range of operating companies that are invested in. Overall, given the use of JVPs, the team appear to be well resourced and we accept that the Joint Venture Partner model provides access to sector specialists as required but this adds to costs. Key man risk is also a concern to us, specifically with regards the CEO, Jonathan Gain – despite appropriate insurance measures in place. While JVPs are not the services only source of deal flow, they likely contribute the majority. Even if many of those relationships are longstanding, which should be viewed as a positive, the long term success of the product hinges on the maintenance and quality of these arrangements and where those relationships are not delivering adequate returns it is not clear that the Manager has the resources to identify alternatives. We do accept that the use of specialist partnerships in each sector means that investors will benefit from niche expertise that may not be otherwise available from a generalist asset manager.

A 5% net return target is relatively high in the market, and arguably demonstrates the level of risk which these strategies may expose investors to. To counter that point, the Manager argues that it invests into the same sectors and similar types of assets to comparable managers, and that it returns more of the proceeds from those assets to investors.

It is worth noting that a number of the operating businesses (hotels and care homes in particular) will have been adversely impacted by COVID -19 although the Manager was able to provide us with a detailed plan of actions taken to mitigate the impact. Investors considering the Growth ITS need to bear in mind that the strategy is less liquid than some of its peers and accordingly there could be a significant delay before beneficiaries can receive a pay-out. Individuals looking for an asset-backed BR product with a higher total return may wish to carefully consider the Growth ITS Offer.

Positives

AT THE MANAGER LEVEL:

- Management at Stellar have significant experience in managing BR IHT focused products, not only during their time at Stellar, but also through their time at Close Brothers;
- The Manager has achieved respectable organic growth, with both turnover and assets under management both increasing in recent years, and this has enabled it to increase its headcount, and improve its back-office functionality;
- Despite some inconsistency in levels of funds raised, Stellar has managed to raise an average over £30 million per annum since inception;
- Senior management have a substantial ownership stake in the business, which aligns them somewhat with the success of their main products;
- Since our previous review of Stellar back in August 2018, it has made improvements to its overall governance and oversight functions, with a total of eight governance committees in place; however, we note that most of these committees are comprised the same individuals;
- Stellar has been forthcoming with data and information requests, providing us with a number of supporting documents for its compliance and business oversight processes.

AT THE PRODUCT LEVEL:

- All proposed investments receive a third party valuation from a specialist in the sector (independent from the Joint Venture Partner) and this is updated every six months;
- The operating businesses are generally backed by tangible assets (e.g. property).
- The Growth IHT Service has now been established for over seven years and the current portfolio has seen an unrealised gain of 22.09%;
- The Growth ITS holds a highly diversified portfolio of asset-backed operating businesses with arguably one of the broadest ranges of investments of any similar product;
- The Growth ITS portfolio is now relatively well established, and it could be argued a number of the operating businesses are only now reaching the point at which they would be expected to grow;
- The investment team has grown from two to four individuals since our last review. Jonathan Gain and Pierre Clarke have significant experience in the space, which leaves the team well equipped to manage the service; albeit still reliant on third parties in many instances;

- The Growth ITS is more bespoke in nature than many other offers in the market. Individuals will have their own company established and may specify whether there are certain sectors they specifically do or do not want exposure to;
- Optional insurance add-ons can provide greater security for investors into the Growth ITS (at additional cost).
- The Investment Committee papers provided by Stellar to evidence the investment process for the Growth ITS were detailed and informative, with quantitative and qualitative analysis of both the investment opportunity and the market;
- The Manager has informed us that it has worked with its Joint Venture Partners to implement plans which have mitigated the impact of COVID-19 on these services.

Issues to consider

AT THE MANAGER LEVEL:

- While the Manager's revenues and net assets have been increasing steadily for the past five years, the profit margins have narrowed in the most recent financial period, with the Manager just about breaking even in the 2019 financial year;

- While Stellar has a large number of committees, these are made up of most of the same individuals. The Manager does not have the resources to provide the level of independence on its committees that others can achieve;

- While we acknowledge that the business has made a conscious decision to focus on BR qualifying investments, and has built a depth of experience here, it does mean that it is heavily exposed to any potential legislative changes in this area;

- Jonathan Gain, the current CEO is the majority shareholder of the business, and along with this significant involvement in both the daily running of the business, and execution of the investment strategy, gives rise to a significant level of key person risk.

- By construction, the Stellar business model means that it is heavily reliant on a number of third parties in the execution and oversight of its investment strategies, which does give rise to a level of counterparty risk not associated with firms which have brought these functions in-house, although it does help to mitigate the degree of the key person risk present at Stellar, to some extent.

AT THE PRODUCT LEVEL:

- While we are glad to see recent expansion in the team, it does mean that three of the four team members have been with Stellar for less than eighteen months. Therefore, it is difficult to ascertain how well they work together as a team;
- The strategy for both the Service will be heavily reliant on the work undertaken by the JVPs, both for initial deal sourcing, and with regard to initial due diligence; as such the effective execution of the strategy may come under scrutiny should these relationships breakdown and it may be difficult to find an alternative if some of the JVPs fail to deliver performance, although we note that Stellar has demonstrated instances whereby JVP relationships have been terminated and replaced in a timely manner in the past;
- Although Stellar has a conflicts policy in place the existence of JVPs and the need to incentivise them to work with the Manager means there are a number of unavoidable conflicts which will need to be managed carefully;
- Although Stellar will generally avoid investing in trades which will subsequently take on debt in the course of trading activities, we understand that external debt is likely to be sourced when acquiring hotels. The Manager suggests that the debt holders' secured charge will have no recourse beyond the assets of the individual hotel and assures us that there is a policy of a maximum of 50% leverage, but the inclusion of leverage does, in our view increase the overall product risk;
- There is a significant level of administration involved for the Services, given that individual investors/companies may have specific investment restrictions and their own bespoke exposures, not to mention accounts and tax returns that each Company needs to file. Stellar argues that its use of Asset Management tool, Libris, should enable much of this to be automated, in terms of tracking etc., which in conjunction with its client services team should ensure that such burdens do not fall on investors themselves. It is also pleasing to note that these costs are included within the disclosed admin fee;
- The Growth ITS is designed as a long term investment product. Due to the nature of the underlying portfolio there is likely to be minimal income or options to realise ahead of time (even after point of death), aside from matched bargains – and then only on an individual underlying Partnership exposure level. Given that the timing of any exit is uncertain the service is likely only suitable as part of a more liquid portfolio;
- Although all Partnerships/trades have the same target/performance incentive return hurdles, Stellar and the Joint Venture Partner may qualify for a performance payment from one Partnership independent of the performance of the other Partnerships. We accept the logic in this from a Joint Venture Partner's perspective, yet from an investor's perspective it does mean that its possible payments could be made even if the broader investment in Stellar Growth underperformed on aggregate and it is unusual to be charged a performance fee on what is described as a capital preservation strategy; however, we note that returns to investors are uncapped and investors benefit in 80% of any upside where above target returns are generated.

Manager Quality

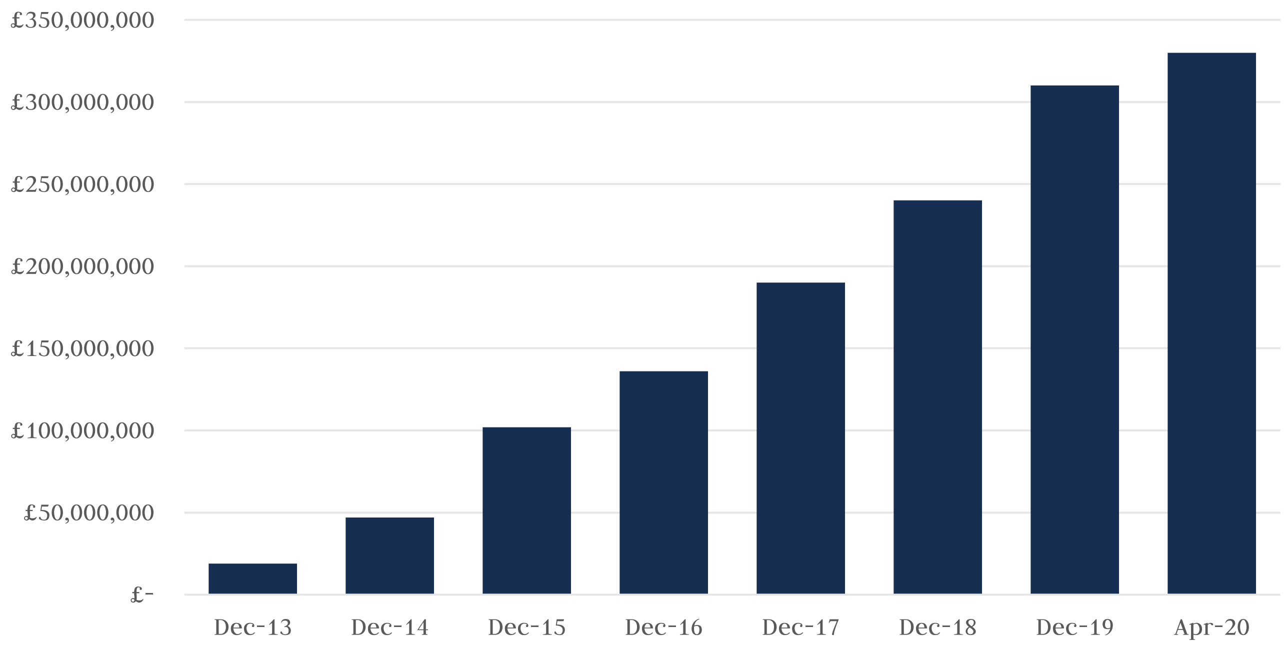
Manager Profile

Stellar Asset Management Limited ("Stellar" or the "Manager") was established in September 2007 by a group of directors who had previously worked together at Close Brothers Investment Limited, notably Jonathan Gain and Craig Reader - Stellar's current CEO and Chairman, respectively. We understand that Craig was the founder of Close Brothers Investment Limited, and Jonathan was its Finance Director. At its peak, Close Brothers Investment Limited had assets under management of £3.5bn predominantly spread across BR, EIS and VCT qualifying services and property investments.

In total, Stellar has 22 full-time staff, which has increased from 16 at the time of our last review in 2018. There are four individuals in the investment team, five in the finance team, four in operations, five in business development, three in marketing and one in administration. The Manager arguably also benefits from a broader resource base given its established relationships with third-party specialist advisers across its product offerings; although it could also be argued that there would be some benefit in bringing some of these functions in-house. Through our discussion with Stellar, we understand that it is looking to expand the team organically and in line with its growth in AUM and have acknowledged the possibility of additional office space accordingly.

Although only a small amount of funds were transferred from the former Close Trading Companies, the Manager has had substantial growth since its inception. As can be seen from the chart below, the AUM has grown consistently year on year for the last seven years, with a current AUM of £330 million.

CHART 1: FIRM AUM AS AT APRIL 2020



Source: Stellar; AdvantageIQ

Stellar is focused solely on estate and succession planning and offer a range of asset-backed investment services. Currently, the manager offers three BR products, an EIS service (which is currently closed to fundraising and will be wound down as assets are realised) and five other LP funds, invested across hotels, farms, and strategic land development. Stellar has stated that although it will continue to investigate the potential to launch new products and services, there are no immediate plans at this stage, with the current focused being placed on organic growth of its existing product offering.

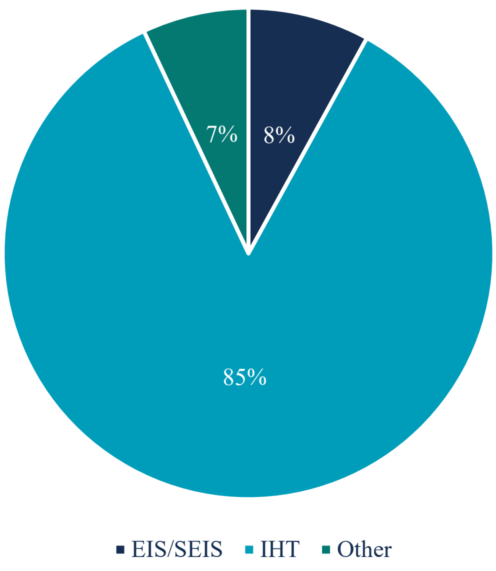
TABLE 1: STELLAR PRODUCT BREAKDOWN AS AT MAY 2020

(£'000)	AUM
Stellar Income (previously Stellar Estate Planning Service)	£21 million
Stellar Growth (previously Stellar Succession)	£97 million
Stellar ESP AIM Portfolio Service	£71 million
The Stellar Wind Energy EIS Fund	£7 million
First Stellar Farming Fund LP	£1 million
The Stellar Martineau Place LP	£35 million
The Stellar Dundee Hotel LP	£6 million
The Stellar Channel Tunnel LLP	£10 million
The Brandon Strategic Land Development LP	£5 million

Source: Stellar; AdvantageIQ

The Manager's current AUM breakdown is presented below, and as can be seen, its BR offering makes up the majority of the current overall AUM, at 85%, with 8% invested in legacy EIS investments and the remainder in the standalone LP funds. As a result, Stellar is largely exposed to the tax advantaged market, and in particular Business Relief; and as such as with all managers operating within this space, subjected to potential changes in regulation around these types of products.

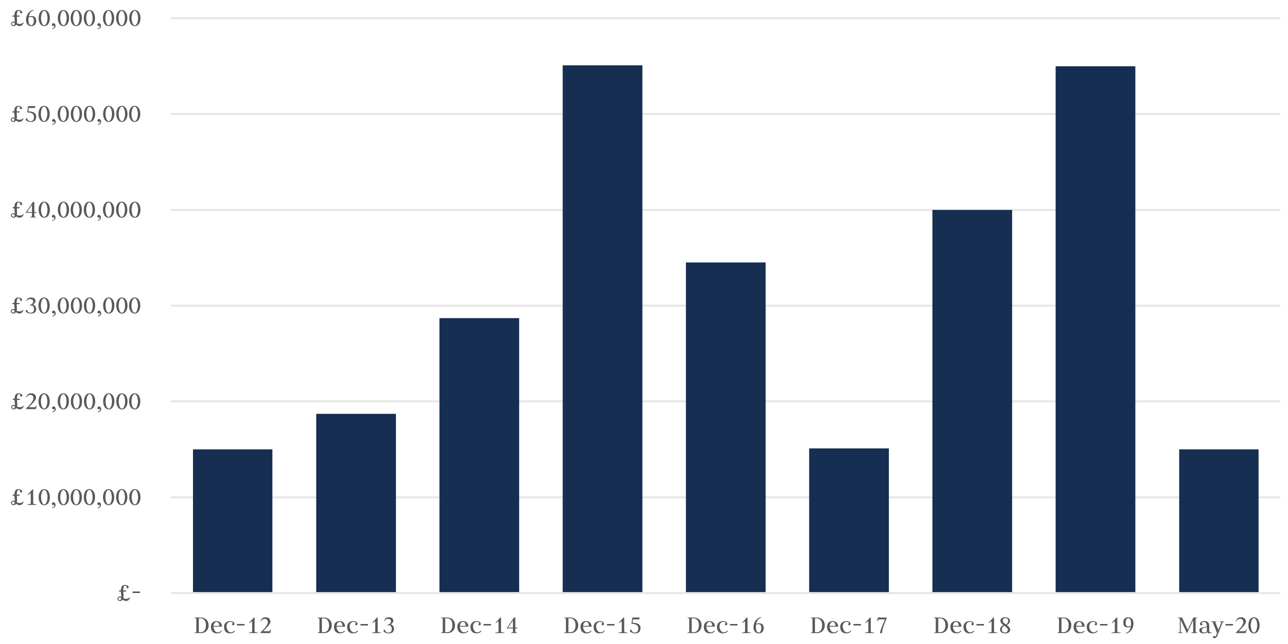
CHART 2: STELLAR ASSETS UNDER MANAGEMENT BREAKDOWN AS AT MAY 2020



Source: Stellar; AdvantageIQ

Below is Stellar's fund raising record to date, with an annual fundraise of £55 million in 2019. However, fundraising levels over the past eight years has been inconsistent, nonetheless fundraising levels, have been in excess of £10 million per annum, and in some instances substantially more than that, averaging over £30 million through the period of examination. Further, although we have been informed that that Brexit uncertainty had hindered fundraising in 2019, this has been the second highest fundraising year to date.

CHART 3: FUNDRAISING AS AT MAY 2020



Source: Stellar; Advantage IQ

Stellar employs its own client servicing team, and states that all advisers and clients are given access to an online portal where all reports, valuations and correspondence are saved. New investors and advisors will receive welcome packs, and investors will then receive quarterly valuation updates and commentary, and more extensive reports are issued on a bi-annual basis. Application processing, client money handling and nominee services are performed by Woodside Corporate Services Limited, with which Stellar has SLAs in place.

Stellar is an established manager operating within the tax-advantaged space, having been in operation almost 13 years. It has placed its focus on asset-backed investments, in the past primarily on commercial and residential property development investments and hotels; however, this has now expanded across a wider range of areas, including the AIM product currently under review. Unlike some other more established managers, Stellar relies upon a number of third parties to assist with the oversight and execution of many of its strategies. However, the internal team continues to grow in line with its AUM.

In conclusion, the Manager has been growing steadily in recent years, both in AUM and staff numbers. The Management team have significant experience in managing BR IHT focused products; however, as these account for 85% of the Managers Assets, they are heavily exposed to potential changes in regulation. Nonetheless, the manager has a good presence in this space, and has good back-office functions to support any future growth.

Financial & Business Stability

Stellar Asset Management is currently a standalone entity, but it has stated that it is considering incorporating a group structure in the business as it continues to expand, which could be complete as early as the end of Q3 2020. Like most investment managers, Stellar's revenues are derived primarily through fund management activities, and thus growth in revenues will be reliant on the Manager's ongoing ability to continue to increase its level of funds under management.

As can be seen from the table below, revenues have been steadily increasing over the last five years, generating a CAGR of 22.05%. However, the rise in costs through 2019 outpaced the growth in revenue, bucking the longer-term trend and resulting in a significant decline in profits. Stellar note that the slowdown in revenue growth was as a result of uncertainty around Brexit in 2019, having an impact on fundraising and therefore revenue; although fundraising figures provided to us suggest the contrary. Further, Stellar had invested in improving IT systems and increasing staffing levels, which it has stated will increase future long term profits and therefore growth.

Nonetheless, net assets continued to increase, albeit marginally for the 2019 financial year, and according to the 2018 financial accounts, there was over £230,000 cash in the bank, with no long term debt. Thus, while the firm has relatively low levels of profits, it appears to be relatively well capitalised, net assets increasing year on year, with a five year CAGR of 26.46%, and a net asset base of £549,000 in 2019.

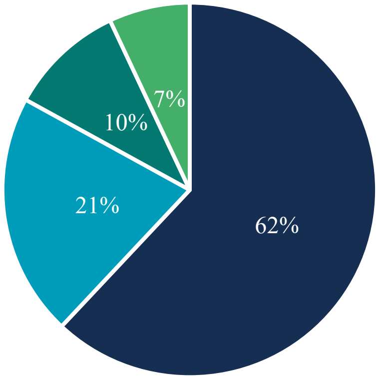
TABLE 2: KEY FINANCIAL METRICS SUMMARY OF STELLAR ASSET MANAGEMENT

	2015	2016	2017	2018	2019	5 YR. CAGR
Revenues	£949,441	£1,391,347	£1,892,341	£2,499,504	£2,571,442	22.05%
Costs	£934,291	£1,342,132	£1,814,764	£2,308,730	£2,559,733	22.33%
Cost to Income ratio	0.98	0.96	0.96	0.92	0.995	
Operating Profit	£15,150	£49,215	£77,577	£190,774	£11,709	
Net Profit	£13,955	£39,020	£65,033	£127,758	£10,662	-5.24%
Net Profit Margin (%)	1.50%	2.80%	3.40%	5.10%	0.41%	
Net Assets	£169,757	£345,641	£410,674	£538,432	£549,094	26.46%

Source: Stellar Asset Management Limited Financial accounts December 2016, December 2018, and Financial accounts December 2019.

The Stellar ownership structure is presented below and shows that Jonathan Gain owns a significant proportion of the business, with a 62% holding. Stellar Asset Management Limited has no subsidiaries or associates.

CHART 4: STELLAR OWNERSHIP STRUCTURE



Source: Stellar; Advantage IQ

Notwithstanding the decline in profitability through the Manager appears to be in a relatively stable, position. That being said, revenue and profitability levels are below many of its peers operating within this space. The ownership structure is simple, and we commend that it is majority owner-managed, and thus management can focus on the business with no external influence. However, we note an ownership concentration in Jonathan Gain's holding of 62%. Further, the fact that Jonathan Gain and Craig Reader have been the driving force of the business going back to the Close Investments days, and that between them they own 83% of the business, in our view presents a strong element of key man risk. Stellar says it has a key man insurance policy in effect, but nevertheless we consider that given the size of the investment team especially, and in view of his long standing relations with various Joint Venture Partners, at present Jonathan Gain represents an integral part of the team.

Quality of Governance and Management Team

Stellar's Board, the ultimate decision making entity, is made up of six Directors: Jonathan Gain (CEO), Craig Reader (Chairman), Matthew Steiner (corporate Development Director), Claire Taylor (Finance Director), and Daryl Hine (COO), These individuals also make up the Stellar Investment Committee, which covers all of Stellar's products. Claire Taylor and Daryl Hine are more recent additions to the senior management team, having joined the business in September 2019 and July 2019 respectively, with former Operation Director, Andrew Watson departing from Stellar in October 2018.

As can be seen below, the Manager has many governance committees. It is worth noting that since our last review of Stellar, in January 2018, it has expanded upon its governance and oversight structure. Thus, while some of the aforementioned directors have been with the business for less than one year, the expansion on these structures is encouraging, nonetheless.

TABLE 3: OVERSIGHT COMMITTEES/WORKING GROUPS

COMMITTEE	DETAILS
Management Committee Meeting	**Mandate:** To decide and agree long term strategic direction for Stellar AM. Review and sign off material business decisions / strategies and review other general management matters. **Members:** Jonathan Gain, Daryl Hine, Matthew Steiner, Claire Taylor **Frequency:** Weekly and Ad-Hoc

Stellar Investment Committee	**Mandate:** Sign off for each Investment across Stellar AM's product range. For EIS investments, any investment decisions are passed to the respective boards for ratification. Review and monitor transactions post investment. **Members:** Craig Reader, Jonathan Gain, Daryl Hine, Claire Taylor, Matthew Steiner **Frequency:** Monthly and ad-hoc
Anti-Financial Crime Committee	**Mandate:** To decide and agree long term strategic direction for Stellar AM. Review and sign off material business decisions / strategies and review other general management matters. **Members:** Jonathan Gain, Daryl Hine, Claire Taylor, Glen Halley **Frequency:** Quarterly
Risk Management Committee	**Mandate:** To conduct a more detailed periodic review of previously identified risks, and to identify and discuss new risks. This includes identifying appropriate actions to mitigate risk and reviewing progress against previously identified actions. **Members:** Jonathan Gain, Daryl Hine, Claire Taylor, Glen Halley **Frequency:** Quarterly
Conflicts Committee	**Mandate:** to conduct a more detailed periodic review of previously identified conflicts, and to identify and discuss new conflicts, as well as monitoring and refining policies and procedures. **Members:** Jonathan Gain, Daryl Hine, Claire Taylor **Frequency:** Quarterly
Compliance Committee	**Mandate:** The compliance of all products under Stellar in light of the continually evolving external regulatory environment. **Members:** Jonathan Gain, Daryl Hine, Claire Taylor, Glen Halley **Frequency:** Quarterly meetings with CCL, ad-hoc meetings for specific projects.
Team Leaders' Meeting	**Mandate:** To agree key priorities for the week ahead in each department, ensure they are aligned with, and reflect, main business objectives and to review risks and related actions. **Members:** Relevant Team Leaders, DH to chair **Frequency:** monthly

Remuneration Committee	**Mandate:** : To review staff and director remuneration and to agree any compensation based on company and individual performance. **Members:** Directors Remuneration: Craig Reader, Jonathan Gain Staff Remuneration: Jonathan Gain, Daryl Hine, Claire Taylor **Frequency:** Weekly and Ad-Hoc

Source: Stellar; AdvantageIQ

Though having a number of committees is impressive, we note that there are no independent members on any of these committees, and the same individuals appear to be on the majority of them. In particular Jonathan Gain, who is not only the majority shareholder, is also heavily involved in the investment process, and the ongoing management of the business. However, Stellar would like to point out that as it involves a third party within the investment process for a number of the services which it provides, including the one under review here, this does provide an additional layer of control.

Further, Jonathan Gain, is also the firm's Compliance Officer (SMF16), as well as the Money Laundering Officer (SMF17). We understand that while he has significant experience in such roles in our view this could also represent a potential conflict of interests and would suggest that it would be preferable if the CEO role and the compliance function were separated.

The Manager informs us that it aims to be more transparent than some rival managers in the industry. We acknowledge that it has been forthcoming with us in terms of sharing example documentation, including conflicts of interest, business continuity plan, complaints policy, and personal investment policy. We have reviewed these documents and find them to be detailed; however, arrangements with joint venture partners mean there is arguably less overall transparency than with similar services. Stellar states that it has provisions in place to protect against Key Man risk with Key man insurance cover for a value of £1 million in place for Jonathan Gain, and £500,000 for Matthew Steiner.

We have reviewed Stellar's complaints log for 2019, which showed twelve recorded complaints. However, none of these were referred to the FOS, and the log had outlined how these were resolved. Further, we are told that there are no complaints as of yet in 2020. Stellar Asset Management and any of its historical funds use RSM (formerly Baker Tilly) as auditors. Stellar's lawyers are Nabarro CMS and we understand it receives tax advice from Ernst & Young.

Overall, we are impressed by the number of governance committees that Stellar has in place, and by the supporting documentation that was provided to us. However, the Manager's governance could benefit from having independent members in these committees, and we note the potential conflicts, and indeed key person risk which Jonathan Gain presents due to his involvement in all operational and investment decision for the business.

Product Quality Assessment

Investment Team

Stellar's investment team comprises four individuals; Jonathan Gain, Pierre Cark (Investment Manager) David Stein (Investment Analyst), and Lawrence Wu (Investment Assistant), who are responsible for all of Stellar's IHT products. These services all rely on outsourcing to third parties, and so the investment team are largely responsible for overseeing the investment process and managing the relationships with subcontractors and the Joint Venture Partners ("JVPs") involved in these services. CEO Jonathan Gain, is also the senior team member, and along with other members of the team will oversee all aspects of Stellar's day to day investment management activities, including meeting and maintaining the relationships with Stellar's specialist Joint Venture Partners, analysis (due diligence), write up of investment proposals as well as portfolio monitoring.

Jonathan Gain is a former Director of Close Brother Investments Ltd (1993-2006) and claims significant responsibility for the establishment of its Close Trading Companies product that reportedly funded 129 developments since the mid-1990s. Pierre, who joined in February 2020, is a chartered accountant and has previously worked in the investment teams of both Close Brothers, and Downing LLP on their tax-advantaged funds. David and Lawrence have also joined Stellar in the last 12 months and have prior experience in tax consultancy and banking, respectively. Previously, Craig Reader, Chairman of Stellar had taken a more active role in the investments, and along with Jonathan were core members of the investment team. It is encouraging therefore to note the recent growth in the investment team; however, it should also be noted that the majority of its members have not worked together very long, and as such there is a limited track record for examination illustrating its ability to effectively execute the investment strategy as a team.

While we do consider an investment team of four individuals to be relatively small for a Service of this nature, Joint Venture Partnerships have been established with operators in the relevant trade, with these partners tasked with the outsourcing of the asset management in each trade for the Service. The Joint Venture Partners with which the Service works are listed below:

- Sky Bridging Limited (Bridging Finance)
- Homewise Limited (Bridging Finance)
- Tavis House Properties Limited (Commercial Development)
- Raer Construction Limited (Residential Development)
- Homegrown Group Limited (Residential Development)
- Interstate Hotels and Resorts (Hotels)
- Hetherley Capital Partners (Hotels)
- Manor House Farms Limited (Farming)
- Forestry Investment Consultancy Limited (Forestry)
- Silverline Care Limited (Care Homes)
- Ben Blackburn Golf (Golf Courses)
- Daytime Power Limited (trading as GreenNation) (Renewable Energy)

The JVPs are responsible for deal sourcing, and leveraging sector expertise to manage and monitor assets post-investment. The longevity of the relationships and their meeting target returns should be seen as a positive. It should also be noted that whilst Stellar says that it is not obligated to proceed with deals sourced via any of these specialists, and carries out its own due diligence to ensure that the investment is suitable and satisfies the mandate. We also understand that many of these relationships are based on years of partnership and given the reliance on the ongoing relationships, we expect it likely that a majority of deals sourced by the Joint Venture Partners will be backed by Stellar. The Stellar team members will work across all the various trades for these services to ensure that each member becomes knowledgeable on each, rather than becoming an expert in just one.

Overall, given the use of JVPs, the team appear to be well resourced, and Jonathan in particular has impressive past experience and expertise; however given the fact that many of the current team members have only recently joined, Jonathan does present an element of key person risk. Although the arrangements with the JVPs are not exclusive, and so Stellar are not bound to these partners, we feel that the services are reliant on them for deal flow, and are in effect an extension of the current team. Nonetheless, the use of specialist partnerships in each sector means that investors will benefit from niche expertise that may not be otherwise available from a generalist asset manager.

We present the biographies of key individuals in the appendix to this report.

Investment Strategy & Philosophy

The Growth ITS uses Joint Venture Partnerships for each sector it invests in. While Stellar retain ultimate control, it believes that these the investment strategy will benefit from involvement of sector specialists. The Growth ITS will aim for growth, and targets an annual return of 5% net of all fees.

Investors into the Stellar Growth ITS will each have a separate single private limited company (SPV), and will own 100% of its share capital, with an employees of Stellar; Jonathan Gain, Daryl Hine, and Claire Taylor, appointed as a directors of each company. Stellar will provide administration, accounting and taxation services for a small admin fee. While each investor will own 100% of the share capital, the Directors of each SPV will oversee the management of these companies. Each of these SPVs will become members of operating businesses constituted as partnerships which will operate as asset-backed businesses in a particular sector. Those partnerships will be operated by one of the JVPs listed above.

For the Growth ITS, unless the investor wishes otherwise, Stellar will look to allocate an investor's capital across multiple, sectors/business types to achieve diversification. Those investors who subscribe larger amounts of capital may gain exposure to more than one underlying business in a specific trade. Stellar states that no more than 50% of a shareholder's capital will be allocated to any one trade unless requested specifically. We understand that it would be unusual for an investor to receive exposure to all of the stated target sectors, but rather they act as a pool of trades which the Manager will invest in. Individuals can specify which trades they wish or do not wish to receive exposure to. Stellar expects to invest 80%-85% of funds within 12 months and says that it usually achieves this within 6-8 months. The Growth ITS is targeting capital preservation and growth as well as a net return to investors of at least 5% p.a. after costs (management and operating fees). The Manager has indicated that it expects that each SPV will invest over 90% of its cash into the operating businesses within four months of being funded.

Growth ITS will be offered to individuals, as a standard option as outlined above, or for high net worth individuals who may be able to fund an entire project with their own capital. The Growth ITS can also be offered as a corporate option to business owners. Further, the Growth ITS also has the option to provide insurance, arranged by AIG.

Investment for the Service will be made through the establishment of JVPs with established specialists within their respective sectors. These partners will be tasked with providing the Manager with a supply of viable projects for Stellar to consider. The JVPs are contracted to oversee and manage the underlying individual business on behalf of Stellar – often by appointing their own specialist sub-contractors to undertake operations.

An overview of the targeted sectors is outlined below.

TABLE 4: STRATEGY OVERVIEW – KEY SECTOR FEATURES

SECTOR	JOINT VENTURE PARTNER(S)	TARGET HOLDING PERIOD	DEBT/ EQUITY	SECURITY
Hotels	Interstate Hotels and Resorts Hatherley Capital Partners	5+ years	50% Levered	Freehold land
Residential Property Development	Raer Construction Limited Homegrown Group Limited	2 years	Equity	First charge
Bridging Finance	Sky Bridging Limited Bridging Finance Homewise Limited	1-2 years	Debt	First or second charge
Commercial Property Development	Tavis House Properties Limited	2 years	Equity	First charge
Forestry	Forestry Investment Consultancy Limited	8-10 years	Equity	Freehold land
Farming	Manor House Farms Limited	8-10 years	Equity	Freehold land
Renewable Energy	Daytime Power Limited (trading as GreenNation)	8-10 years	Equity	Freehold land
Care home	Silverline Care Limited	N/A	Equity	Freehold land
Golf course	Ben Blackburn Golf	N/A	Equity	Freehold land
Coffee Chain (EasyCoffee)	easyCoffee, a subsidiary of easyGroup	N/A	Equity	Priority return
Multi-development site	N/A[1]	N/A	Equity	Priority return

Source: Stellar

Stellar note that this is a this is a longer-term project which is still at planning stages. Stellar is executing the necessary planning applications first and then will instruct development teams.

Forestry

The Companies (via partnerships) will acquire freehold land with Sitka spruce conifer forests, which we are informed is the highest yielding timber crop in the UK. Ordinarily the forests will be acquired roughly half-way through the trees' 30+ year life-cycle. We understand that younger crops are more susceptible to damage, yet mature forests command premium prices. Investments will be made in equity and security is provided by ownership of freehold land. Annual inspections will be made and insurance against wind/fire damage will be reportedly in place. Independent forest valuations will be obtained twice yearly in June and December by a specialist such as TillHill Forestry or Bell Ingram. The expected investment timeframes are 8-10 years. Stellar states that investors benefit from timber income as well as capital appreciation from the asset. It also benefits from Scottish government grants and carbon sequestration opportunities, which Stellar believe therefore make it an attractive asset class.

Farming

In conjunction with the JVP (Manor House Farm Ltd), Partnerships will acquire freehold farms with the intention of managing them on a commercial basis. Where possible, the partnership will seek to add value by obtaining planning permission to develop parts of the land which will encourage healthier capital values. Security is provided by ownership of freehold land which underpins the asset. Stellar states that it has not made any investments into this sector since 2017, due to Brexit and the changes to subsidies that are available to the UK farming sector. This uncertainty, as well as lower than usual returns means that forestry is currently the worst performing of these sectors, according to Stellar. Independent valuations will be obtained bi-annually by a specialist such as Savills. The expected investment timeframes are 8-10 years.

Hotels

Stellar acquires hotels as existing freehold or long leasehold assets and, in Hotels which are open for business. The strategy will typically be to turnaround or improve the fortunes of under-valued or under-performing hotels in strategic locations outside of London, for example through refurbishment, repositioning and rebranding. While hotels usually change hands quite frequently, Stellar's specialist partner for this sector will be able to add consistent value, over a period of at least five years. Stellar aims to then exit these investments through sales to larger private equity firms, wealthy families or established branded hotel owners. Stellar states that there is an active market for these sales, and Stellar has previously made sales to Hotel Ibis and Holiday Inn. We note that investments into this sector will be levered at the asset level, amounting to a maximum of 50%; however, this is the only sector that will use leverage.

Residential Property Development

The partnership will purchase the freehold or long leasehold on land, with planning permission, and will provide the capital to fund construction, through equity investments. The JVP will use its expertise as an experienced developer and is expected to provide equity investment in order to ensure alignment of interests. The focus will be on multiple unit housing developments outside of London, specifically high demand affordable living accommodation in areas that offer value, thereby maximising investors returns which will be generated through sale proceeds of the units upon completion, within an expected timeframe of approximately two years. We are told that Investors have priority return from future sales to ensure that targeted returns are not compromised by any potential development delays.

Commercial Property Development

The partnership will work with experienced developers to provide equity with which to develop commercial sites, before selling them once construction has been completed. Stellar has agreements in place with the third-party property developers to ensure a priority return to investors from the sales of units. Stellar note that this market is currently experiencing a lack of supply in industrial units, and is seeing increasing demand for storage space from online retailers and local businesses. Stellar work with the developers to focus on the aspects of the commercial market that are showing the greatest scope for growth. To date, the focus is predominantly in the industrial sector, which Stellar expects to grow faster than any commercial asset class over the next five years. We are told that Investors have priority return from future sales to ensure that targeted returns are not compromised by any potential development delays.

Bridging Finance

In conjunction with the Manager's JVP, Bridgefast Finance Ltd, these investments will centre around short-term secured lending to individuals or SMEs – often to help fund property acquisitions. The security will typically be derived from a first or second charge over freehold property. We understand that loan durations usually range between six to eight months, while interest should be payable from the outset. The returns generated here will be derived from income rather than capital growth. The expected investment timeframes are one to two years. Stellar has stated that it does not offer bridging finance for development projects and will never extend the lending terms; always expecting to be paid at the end of the term. Stellar has a policy of a maximum LTV of 70%.

Renewable Energy

Historically, Stellar has invested in trading businesses which own and operate renewable energy installations with a particular focus on solar photo-voltaic panels and wind turbines. These assets would be owned by the trading business. However, Stellar has not committed capital to renewable energy since 2017. Stellar states that this is due to changes to the government subsidies that are available to renewable energy businesses.

Single Asset Sectors – These are solitary investments which are not within the sectors shown above. Stellar have suggested that if these investments deem successful, the sector may become more formalised in the future.

- Care Homes

In 2019, Stellar acquired a privately-owned, 80-bed purpose-built care home in Bradford, and the partnership seeks to add value by upgrading the facility, improving the quality of care and reducing staff costs, with the aim of achieving a restoration of the home's reputation and to maximise occupancy. We understand from the Manager that the care home has been impacted by COVID-19 but that the risks were actively managed so as to mitigate those impacts,

- Golf Courses

Stellar has acquired Paultons Park Golf Club, on which it expects to increase the value of the site by implementing a major refurbishment with the aim of attracting new audiences with new experiences. Security is provided by Stellar ESP Growths ownership of the freehold land which underpins the asset.

- easyCoffee

In partnership with easyGroup. Stellar are helping to fund the expansion of easycoffees unattended retail sites or vending machines. The partnership has an underwriting from the JVP prioritising returns to investors.

- Multi-Development site

Stellar acquired 17 hectares of land in Formby, Sefton, Merseyside. Stellar have stated that whilst the type of development anticipated today may change as a result of planning, it envisages the site to facilitate the development of a hotel, medical facilities, retail units and housing. The partnership has a priority return from future sales.

The Manager informs us that although it does not intend to borrow to finance any of the trading activities, it may sometimes source external debt to assist in the acquisition of business assets, e.g. hotels. In such instances the lender will take a senior charge over the asset. However, the Manager says that any debt will be as no more than 50% of an asset's cost of acquisition. In our view the presence of debt increases overall product risk, albeit we acknowledge that the use of leverage is limited.

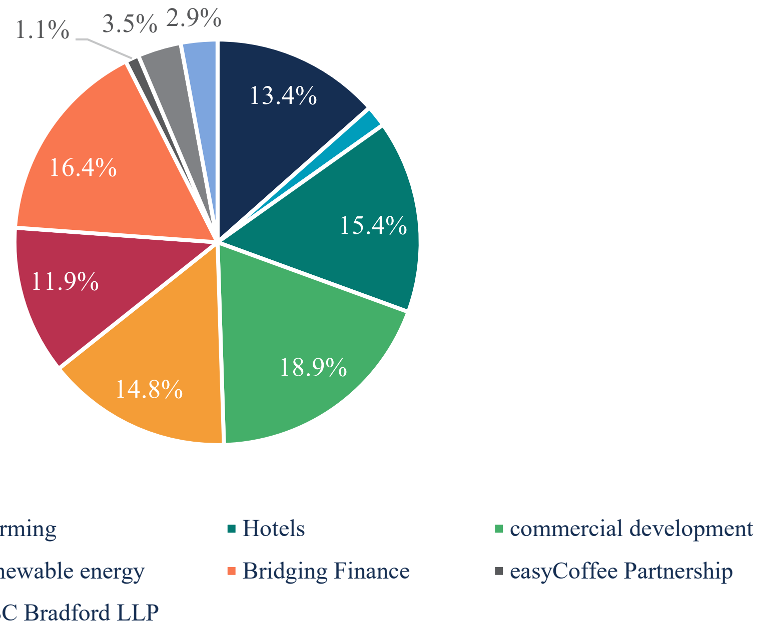
In terms of realisations for Growth ITS investors, on death the investment would be expected to be retained for the beneficiary and realised in due course as planned. No forced early sales or wind-up of the underlying projects will occur ahead of plan. Therefore, individual investor realisations prior to the underlying projects being sold will not usually be possible. However, Stellar says that investor realisations may be satisfied on a matched bargain basis. Prospective buyers and sellers will be identified by the Manager, although any transfers of partnership interests would be agreed between the two respective parties (buyer and seller) and not the Manager. We are assured that both parties would be aware of the Company or Partnership's latest NAV. A seller looking to fully realised their investment would need to agree separate disposals for each underlying partnership interest. With the assistance of financial advisers, prospective purchasers would make an offer for a partnership(s) existing participation in trading activities, and the seller/beneficiary would decide whether to accept or negotiate. Such transactions may take some time, and while we stress that there can be no guarantees, Stellar suggests that generally, providing the amounts aren't too large and there is no significant increase in disposal requests, then, during the period from death to probate being finalised, it would ordinarily expect to have a prospective buyer for the various participations lined-up. Investors should bear in mind that especially for the longer-term illiquid assets (forestry farming and hotels), these could take a long time – perhaps even years to eventually realise.

Overall, the strategy benefits from the expertise of the contracted JVPs, while having ultimate control retained by the Manager. However, while acknowledge that there is security and contracts in place across all strategies, there is arguably a degree of separation between the asset manager i.e. the JVPs, and the owner of the underlying assets. Given the bespoke nature of the Growth ITS, investors will have access to a wide range of potential strategies, providing a level of diversification across a number of sectors.

Pipeline/Prospects and Current Portfolio

The current Stellar Growth ITS portfolio consists of 37 partnerships totalling almost £91 million. Each partnership has one underlying deal, with the exception of those in bridging finance, with 67 deals across 6 partnerships. The total number of deals is therefore 98. The sector breakdown can be seen below and shows that there is no significant concentration into one trade. However, investors should be aware that this is a bespoke service, and so individual portfolio exposures are likely to differ.

CHART 5: CURRENT GROWTH ITS PORTFOLIO SECTOR BREAKDOWN (AS AT MAY 2020)



Source: Stellar

The table below shows a breakdown of the partnerships in each sector. Of the 37 partnerships, 30 have seen uplifts in valuations, four have remained valued at cost and three are valued at below cost, giving the portfolio a total uplift of 22.09%. In terms of size of individual partnerships, only six of the partnerships represent more than 5% of the entire portfolio, and only one of these, commercial development partnership, Tavis House Stellar (Haddenham) LP, represents over 10%, at 13.20%.

TABLE 5: CURRENT GROWTH ITS PORTFOLIO (AS AT MAY 2020)

SECTOR	NUMBER OF PARTNERSHIPS	PARTNERSHIP PERFORMANCE			TOTAL COSTS	TOTAL CURRENT VALUE	CHANGE IN VALUE (%)	% OF TOTAL PORTFOLIO VALUE
		ABOVE COST	AT COST	BELOW COST				
Forestry	9	9	0	0	10,000,000	12,226,000	22.26%	13.45%
Farming	2	1	0	1	1,560,000	1,560,000	0.00%	1.72%
Hotels	3	2	0	1	10,800,000	14,015,000	29.77%	15.42%
Commercial Development	2	2	0	0	10,200,000	17,200,000	68.63%	18.92%
Residential Development	4	1	3	0	12,950,000	13,450,000	3.86%	14.79%
Renewable Energy	8	8	0	0	8,605,000	10,780,000	25.28%	11.86%
Bridging Finance	6	5	1	0	13,813,000	14,893,000	7.82%	16.38%
easyCoffee Partnership	1	1	0	0	975,000	990,000	1.54%	1.09%
Stellar Paultons LP	1	0	0	1	3,160,000	3,150,000	-0.32%	3.46%
SSC Bradford LLP	1	1	0	0	2,400,000	2,650,000	10.42%	2.91%
Total	**37**	**30**	**4**	**3**	**74,463,000**	**90,914,000**	**22.09%**	

Source: Stellar

As mentioned previously, the majority of sectors are invested via equity, while bridging finance is purely debt and Hotels use leverage. All three of the partnerships in the hotels sector are levered; Stellar Murrayshall Hotel LLP is currently valued at £4.7 million and holds 33% leverage, Strathclyde Hotel LLP is valued at £3.7 million and holds 50% leverage, and HIEX Folkstone is valued at £5.6 million and holds 33% leverage.

An individual's portfolio will depend on the amount and timing of capital invested, as well as any sector preferences or restrictions specified. The Manager says that it will try to create portfolio incorporating a spread of sectors for each investor/company. The size of a typical Partnership investment – given that in most cases (aside from bridging finance) a Partnership will fund only one project, will depend on the amount of cash and the viable projects available at a time.

Stellar has noted that it no longer sees renewable energy and farming as business activities that are able to generate the target returns, and so are trying to concentrate on other asset backed activities that are capable of generating the target returns. Therefore, Stellar have made recent investments into these "single asset" sectors, such as the easyCoffee partnership, and the golf course. In terms of the immediate pipeline, Stellar state that it is reviewing a number of residential and commercial development projects, two forests, three golf clubs, two hotels. Further projects are being introduced weekly as a result of distress in the COVID-19 crisis. Currently, investors should expect to be invested within three months.

Investment Process

Stellar has described its lending process as follows in AdvantageIQ:

TABLE 6: INVESTMENT PROCESS

INVESTMENT PROCESS	DETAILS
Deal Sourcing and Origination	Deals are sourced either by Stellar or by external specialists, developers or brokers. Typically, Stellar will have existing relationships with the third parties that source these deals. If deals are presented by third parties that Stellar do not have an existing relationship with, then due diligence is carried out on the source of the deal as well as the deal itself. If a deal is sourced by third parties that Stellar has an existing relationship with, it is presented to Stellar with due diligence having been undertaken by these third parties. Stellar will then conduct its own due diligence and analysis on the deal to see whether it is a viable proposition that meets the ESP Income investment mandate (see question below for details). If the deal is deemed to be viable and in line with the mandate, the proposition will be presented to the IC by way of an IC paper prior to the monthly IC meeting. The paper will then be officially tabled at the meeting alongside independent valuations and other necessary supporting documents. The IC will have a discussion as to whether to proceed. Often, the board will request further information prior to agreeing the deal and the proposition may therefore roll on to the next IC meeting once further analysis has been conducted. A unanimous agreement is required amongst the board in order for a deal to proceed.
Deal Filtering and Selection	Prior to an acquisition, there is potentially two years' worth of due diligence. We actively: • Monitor business activities; • Undertake market research; • Meet with new external specialists; • Undertake extensive due diligence on new specialists and review their deal history; • Agree terms with specialists; • Undertake due diligence on potential acquisitions; • Undertake legal and accounting reviews of propositions. Only after all of the above has been carried out will a proposition be put to the IC. There must be 100% BR relief in all asset class deals, they must have the potential to grow at the target rate of 5% net, and they must be UK based. Dependent on the market conditions of each of the asset classes, some will be selected above others if there is a specific or expected downturn in that sector.
Due Diligence Process	All deals are subject to rigorous due diligence: • Parameters for new projects are issued to JV partners and new projects are reviewed against these parameters. • Extensive project research is undertaken. • Extensive sector and market research are undertaken. • Management teams are met and interviewed. • All asset purchases are approved subject to independent valuation which may also include cost and sale appraisals. • Robust legal process with respected lawyers encompassing all tax matters. • Initial review by company's auditors ahead of first audit. • Full investment committee review and approval is required for all deals.

Deal Approval	Stellar Investment Committee (IC), which consists of the board of directors (i.e. Craig Reader, Jonathan Gain, Matthew Steiner, Daryl Hine and Claire Taylor) ratifies all deals. All board members must agree unanimously in order for a deal to progress.

Source: Stellar; AdvantageIQ

The majority of deals are sourced through Stellar's existing JVPs. The manager assures us that it performs its own due diligence on its JVPs, getting to know them over a period of months, looking at their project history, deal flow, and other related matters. JVPs, in turn, are trusted to perform the bulk of due diligence as sector experts on the underlying proposals before submitting potential deals to Stellar. The Investment team will then review the proposals, perform their own due diligence, follow up queries and then commission a third-party valuation from a qualified sector valuation specialist for those opportunities that they are considering taking forward. These current third parties are outlined below; however, Stellar note that this is not an exhaustive list of the specialists that have been used in the past or will be used in the future.

TABLE 7: THIRD PARTY VALUATION SPECIALISTS

SECTOR	THIRD PARTY
Residential Development	Strutt & Parker
	Sanderson Weatherall
Hotels	Knight Frank
Construction Finance	Lambert Smith Hampton
Commercial Development	Jones Lang LaSalle (JLL)
Forestry	Tilhill Forestry
	Bell Ingram
Farming	Cruso & Wilkin
Golf	Christie & Co.
Care Homes	CBRE
Bridging Finance	Ashwick Chartered Surveyors
	Valuations UK

Source: Stellar

If the investment team decides that they would like to put a deal forward to the investment committee, there will be heads of terms and exclusivity agreements signed, and the team will prepare a summary document to be used in the investment committee. If required for clarification, the JVP would be called to the IC meeting or beforehand. The investment committee, which is comprised of the Stellar board of directors, will then require unanimous sign-off for a deal to go ahead.

In terms of investment process documentation, Stellar have provided us with an example investment committee paper, and IC top up paper for the Growth ITS. We found the documents to be detailed and comprehensive, with both quantitative and qualitative information. The IC paper outlined the members of the management team and their backgrounds, the background on the company, business plans including detailed financial planning, and any inspection and ratings made on the site or company. The top up paper outlined an updated overview of the sector, including sector demand, performance statistics, risks and other trends.

In summary, while the JVPs are not the services only source of deal flow, they likely contribute the majority, if not all, of the current deals. Therefore, the manager relies on its JVPs to provide deal flow and ongoing management of portfolio investments. Stellar has its reason for outsourcing its deal sourcing and management processes which we have touched on previously. These relationships are therefore of utmost importance and we acknowledge that some of them (but not all) are many years old. However, there is some concern as to what may happen should any of these relationships sour or cease for whatever reason, both in terms of future deal flow and also the existing portfolio in that sector.

Risk Management

Risks relating to the default of the investee companies are partly mitigated during initial due diligence undertaken before an investment decision is made. Stellar's internal team is arguably under resourced to carry out full due diligence on underlying investments across all of its products. However, to augment its due diligence capabilities, it relies on its specialist JVPs to thoroughly screen business investment opportunities according to Stellar's pre-defined criteria before submitting them to the Manager. While this means that much of its due diligence process is outsourced, we appreciate Stellar's perspective that most of these relationships are long-standing and they are experienced in their respective industries. Further internal due diligence is performed by Stellar before a project is recommended to its Investment Committee, which we are assured always involves a third-party valuation from a specialist valuer.

One of the main ways that Stellar seeks to manage risk is through diversity of the underlying trades. Certainly, in Stellar's Growth ITS product we note the considerable diversity in terms of variety of trades under consideration. Further, there will be an element of construction risk across some of the underlying trades. Nonetheless, the security of having a first charge on many of the underlying investments does somewhat mitigate the risk of loss. We are also told that Investors have priority return from future sales to ensure that targeted returns are not compromised by any potential development delays and this too mitigates construction risk to an extent.

We acknowledge Stellar's assertion that its range of sectors for the Growth ITS (currently totalling twelve, including four single asset sectors) considered for inclusion gives investors a wide choice of potential investments. However, individuals will likely not receive exposure to all of the proposed trades – Stellar aims for a diverse range but says at least four of them, while we understand that most investors tend to specify which trades they prefer. Stellar have an allocation policy, in the sense that there are target weighting caps for each sector, as outlined below. However, it should also be noted that these are maximum allocations and leave room for flexibility within sector weightings. Also, these are not strict limits, as renewable energy in the portfolio currently accounts for 11.8%, which is more than the 10% cap.

- 20% Bridging Finance
- 25% Commercial Development
- 10% Farming
- 15% Forestry
- 25% Hotels
- 5% EasyCoffee
- 10% Care Homes
- 10% Renewables
- 25% Residential Development
- 10% Golf Courses

Stellar has stated that where Debt is utilised, the Manager intends that this will be no more than 50% of an assets cost of acquisition and investors can choose not to participate in the projects in which debt has been utilised. Stellar have stated that debt is currently less than 6% of the portfolio's total value.

We note that the target sectors appear to be generally uncorrelated, with the exception of Residential property development and commercial property development which are exposed to the property market. Nonetheless, the security on many of the assets mitigates the risk of loss, which includes land underpinning, freehold property or other asset backing.

In terms of post-investment monitoring, we understand that this is still largely the responsibility of the JVPs, with which Stellar stays in regular direct contact in order to monitor the portfolio, as well as to be up to date with deal flow opportunities. This involves monthly face-to face meetings between the Stellar team and the JVP team, as well as ad-hoc verbal meetings, which can be as often as daily. Stellar also use third-party contractors to monitor the performance of the developer, including reviewing weekly revenue information and monthly audited financials of the partnership. This creates yet another degree of separation between the manager and the underlying asset. Stellar have stated that it is aware of this, and points to the SLAs in place, as well as the fact that site visits are undertaken by the Stellar investment team. Further, third party valuations are undertaken on the underlying assets either annually, or semi-annually, depending on the trade.

The risk of loss can be mitigated further by investor's themselves taking out option insurance that the Manager facilitates. For additional fees, three separate levels of cover for losses crystallised on death can be arranged. While this is not unique to Stellar, and does come at an extra` cost, it may provide further peace of mind to investors.

In terms of oversight structures, we note that the directors on all of the companies within the Growth ITS strategy are also employees of Stellar. In our opinion, it would be beneficial to have independents involved in the oversight and governance process of the underlying companies.

Overall, we acknowledge the Manager's argument that its believes it has access to greater levels of specialist expertise across multiple trades via the JVPs than may have been possible by significantly building up its own investment team (at substantial cost), yet outsourcing deal origination and ongoing project management functions to third parties remains unusual compared to most other rival Managers.

Key Features

Investors in the Service will be charged a 1.5% initial fee on the total amount invested, and a 1% annual management charge on the sum invested into the underlying trading company, as well as a 0.5% annual admin fee. There is a 1.5% dealing fee charged to the partnerships.

There is a performance fee of 20%, over a performance hurdle of 1.05x net of fees. Annual returns above 5% will be divided between the Manager and JVP, and the Investor's underlying trading company, with the Investor's company receiving at least 80% of the excess over the 5%. Stellar informs us that performance fees will only be taken once a Partnership has reached the end of its life cycle and realised (or recycled in the case of bridging loans) the underlying assets for cash. However, for accounting purposes anticipated fees may be provided for on a year-to-year basis. There are no other fees charged to investors.

We have some reservations that this structure applies to each individual Partnership/trade, rather than on an aggregate Company return (i.e. across an investor's wider portfolio of trades). It is conceivable that performance incentive payments could be triggered for select trades/Partnerships which have exceeded the target, despite the overall blended returns across all Partnerships that an investor has exposure to falling short of the aggregate Company target. However, we accept that it could be otherwise unreasonable to tie individual JVPs rewards to the performance of others in different sectors. On the positive side, we note that there is no cap on the returns available to investors.

TABLE 8: FEES PAID BY INVESTORS

FEE (Excluding VAT)	CHARGED TO:	
	INVESTOR	INVESTEE COMPANY
Initial Fee	1.5%	-
Custodian Fee	-	-
Arrangement Fee		-
Annual Management/Monitoring Fee	1%	-
Annual Service Fee	0.5%	-
Dealing Fee	1.5%	-
Director's Fee	-	-
Exit Performance Fee	20%	-
Exit Performance Fee Hurdle	1.05x	-
Execution Only Fees	-	-
Direct Application Fees	-	

Source: Stellar; Advantage IQ

Performance

The Growth ITS was launched in 2013, and since then has created 37 partnerships. Stellar target a 5% per annum net return, as well as setting quarterly NAV forecasts for each of its partnerships. When looking at the performance to date for the Growth ITS, it is important to clarify its basis. Given the product's bespoke nature it is appropriate to look at the performance on an aggregated and weighted partnership level.

The tables below show each partnership forecast NAV as at March every year, compared with its actual NAV for that period. Investors should note that as we have represented the NAV on an annual basis, rather than quarterly as recorded by Stellar, performance could differ in between these data points, which are only showing a snapshot in time. Further, as all of the partnerships have different track record periods, compound annual growth has been calculated based on the number of years since that partnership's inception. Each partnership has its own return profile, so each does not produce 5% per annum linearly. Stellar manage each partnership to a budget over its holding period and expects to achieve 5% per annum over this holding period.

Of the nine partnerships for commercial forestry, seven have a compound annual growth of over 5%, and more than the forecast. It can be seen that over time, these partnerships are usually below forecast in the first one to three years, and then surpasses forecasts. Forestry No 1 partnership, and the Panmure Forestry Partnership are underperforming, although the latter has not been active for more than a year. Overall, the partnerships in this sector had an average annual compound growth of 7.27%, therefore exceeding the 5% target.

TABLE 9: COMMERCIAL FORESTRY: NAV OF PARTNERSHIPS SINCE INCEPTION

PARTNERSHIP		MAR 2016	MAR 2017	MAR 2018	MAR 2019	MAR 2020	COMPOUND ANNUAL GROWTH
Forestry No 1 Partnership	Forecast NAV	1.039	1.071	1.116	1.172	1.231	3.44%
	Actual NAV	1.019	0.929	1.035	1.092	1.198	3.30%
Forestry No 2 Partnership	Forecast NAV	1.078	1.212	1.219	1.255	1.413	5.56%
	Actual NAV	0.995	1.136	1.162	1.372	1.462	8.01%
Forestry No 3 Partnership	Forecast NAV	1.093	1.177	1.216	1.227	1.284	3.26%
	Actual NAV	0.998	1.164	1.213	1.386	1.531	8.93%
Forestry No 4 Partnership	Forecast NAV	-	1.062	1.104	1.148	1.199	3.08%
	Actual NAV	-	1.024	1.110	1.150	1.260	5.34%
Forestry No 5 Partnership	Forecast NAV	-	-	1.026	1.076	1.128	3.21%
	Actual NAV	-	-	0.974	1.016	1.168	6.26%
Forestry No 6 Partnership	Forecast NAV	-	1.013	1.063	1.116	1.172	3.73%
	Actual NAV	-	1.039	1.097	1.127	1.346	6.70%
Invergaunan Forestry Partnership	Forecast NAV	-	-	-	1.055	1.080	2.38%
	Actual NAV	-	-	-	1.000	1.131	13.06%
Succession Auch South Partnership	Forecast NAV	-	-	1.044	1.159	1.128	2.61%
	Actual NAV	-	-	0.992	1.083	1.203	6.61%
Panmure Forestry Partnership	Forecast NAV	-	-	-	-	1.179	-
	Actual NAV	-	-	-	-	1.102	-

Source: Stellar; AdvantageIQ

The farming partnerships have underperformed and have actually decreased in value overtime. These assets are expected to be held for between eight and ten years. Therefore, it could be a considerable amount of time before Stellar would have exited these investments, and it remains to be seen whether they can product a positive return. We acknowledge that Stellar does not intend on undertaking any further investments into this sector.

TABLE 10: FARMING: NAV OF PARTNERSHIPS SINCE INCEPTION

PARTNERSHIP		MAR 2017	MAR 2018	MAR 2019	MAR 2020	COMPOUND ANNUAL GROWTH
Farming No1 Partnership	Forecast NAV	1.014	1.070	1.127	1.185	3.98%
	Actual NAV	0.978	0.988	0.990	0.943	-0.91%
Farming No2 Partnership	Forecast NAV	-	1.014	1.070	1.130	3.68%
	Actual NAV	-	1.054	1.051	1.027	-0.85%

Source: Stellar; AdvantageIQ

Hotels are similarly underperforming, though one is making a positive return, it is still well below the targeted 5% annual return. We were not provided with the Net Asset Values of the third hotel in the portfolio, HIEX Folkestone, but we can say that in terms of current value, it has seen an uplift of 119.61% since inception.

TABLE 11: HOTELS: NAV OF PARTNERSHIPS SINCE INCEPTION

PARTNERSHIP	MAR 2018	MAR 2019	MAR 2020	COMPOUND ANNUAL GROWTH

Stellar Murrayshall Hotel LLP	Forecast NAV	1.031	1.089	1.144	3.52%
	Actual NAV	1.000	1.000	0.981	-0.64%
Strathclyde Hotel LLP	Forecast NAV	1.000	1.050	1.103	3.31%
	Actual NAV	1.000	1.100	1.065	2.13%

Source: Stellar; AdvantageIQ

Commercial property development has seen one partnership increase in value, and above its target at 4.61%, while the other partnership has seen no growth since its inception over a year ago. The Manager has noted that returns for its development projects are only generated post-construction from the sales proceeds of the constructed units. The project at Haddenham is still in the construction phase.

TABLE 12: COMMERCIAL PROPERTY DEVELOPMENT: NAV OF PARTNERSHIPS SINCE INCEPTION

PARTNERSHIP		MAR 2018	MAR 2019	MAR 2020	COMPOUND ANNUAL GROWTH
Tavis House Stellar (Haddenham) LP	Forecast NAV	-	1.000	1.060	6.02%
	Actual NAV	-	1.000	1.000	0.00%
Tavis House Stellar (Ashford) LP	Forecast NAV	1.00	1.052	1.143	4.54%
	Actual NAV	1.00	1.025	1.145	4.61%

Source: Stellar; AdvantageIQ

Similarly, to hotels, we have not been provided with the NAVs for one of the four partnerships, Milton Keynes development partnership, which has seen a value uplift of 16.67% since inception. The three partnerships below have not yet been active for 2 years and have not seen a growth in NAV since inception.

TABLE 13: RESIDENTIAL PROPERTY DEVELOPMENT: NAV OF PARTNERSHIPS SINCE INCEPTION

PARTNERSHIP		MAR 2019	MAR 2020	COMPOUND ANNUAL GROWTH
Barker Building Development Partnership	Forecast NAV	1.000	1.076	7.58%
	Actual NAV	1.000	1.000	0.00%
Formby Development Partnership LLP	Forecast NAV	-	1.000	-
	Actual NAV	-	1.000	-
Great Oakley Development Partnership	Forecast NAV	1.000	1.024	2.41%
	Actual NAV	1.000	1.000	0.00%

Source: Stellar; AdvantageIQ

The single asset sectors are newer investments for Stellar. Regardless, the SSC Bradford has a NAV higher than forecast. Easy Coffee has seen an increase in NAV, but only at 1.52% compared to 5% forecast. Paultons Golf Club has a much lower NAV than forecast.

TABLE 14: SINGLE ASSETS: NAV OF PARTNERSHIPS SINCE INCEPTION

PARTNERSHIP		MAR 2019	MAR 2020	COMPOUND ANNUAL GROWTH
Easy Coffee Partnership	Forecast NAV	1.037	1.089	5.00%

	Actual NAV	1.000	1.015	1.52%
Paultons Golf Club	Forecast NAV	-	1.020	-
	Actual NAV	-	0.998	-
SSC Bradford LLP	Forecast NAV	-	1.013	-
	Actual NAV	-	1.079	-

Source: Stellar; AdvantageIQ

There are six bridging finance partnerships, and we were provided with the information for four. The other partnerships, Bridgefast Ash and Bridgefast Four, have made an unrealised gain of 23.81% and 12.65% since inception respectively. All four presented below have made positive returns, and three have significantly exceeded the forecast, with Sky Bronze partnership growing by over 50%.

TABLE 15: BRIDGING FINANCE: NAV OF PARTNERSHIPS SINCE INCEPTION

PARTNERSHIP		MAR 2018	MAR 2019	MAR 2020	COMPOUND ANNUAL GROWTH
Bridgefast Beech Partnership	Forecast NAV	1.013	1.076	1.130	3.73%
	Actual NAV	1.025	1.159	1.037	0.40%
Secure Sale Partnership	Forecast NAV	-	1.031	1.089	5.64%
	Actual NAV	-	1.027	1.108	7.94%
Sky Amber Partnership	Forecast NAV	-	1.031	1.089	5.64%
	Actual NAV	-	1.019	1.114	9.25%
Sky Bronze Partnership	Forecast NAV	-	1.013	1.076	6.26%
	Actual NAV	-	1.014	1.545	52.31%

Source: Stellar; AdvantageIQ

Lastly, renewable energy has been the longest standing trade for this service, and it now has eight partnerships dating back to as far as 2013. All six presented below have seen significant increases in NAVs, although only two are currently above forecast, which happen to be the two youngest partnerships. There are also two wind farms for which we have not been provided NAVs, Lowca Wind farm and Askam wind farm, and these have made unrealised gains of 30.95% and 17.39% since inception respectively.

TABLE 16: RENEWABLE ENERGY: NAV OF PARTNERSHIPS SINCE INCEPTION

PARTNERSHIP		MAR 2013	MAR 2014	MAR 2015	MAR 2016	MAR 2017	MAR 2018	MAR 2019	MAR 2020	COMPOUND ANNUAL GROWTH
Stellar (Green Nation) Partnership	Forecast NAV	1.006	1.063	1.116	1.172	1.230	1.292	1.357	1.424	3.98%
	Actual NAV	1.000	1.010	1.170	1.193	1.274	1.323	1.352	1.405	3.32%
Stellar Second (Green Nation) Partnership	Forecast NAV	-	-	1.031	1.089	1.144	1.201	1.261	1.324	3.98%
	Actual NAV	-	-	1.100	1.135	1.206	1.253	1.273	1.316	3.02%
Stellar Third (Green Nation) Partnership	Forecast NAV	-	-	1.031	1.089	1.144	1.201	1.261	1.324	3.98%
	Actual NAV	-	-	1.090	1.122	1.190	1.231	1.263	1.318	3.28%
Stellar Fourth (Green Nation) Partnership	Forecast NAV	-	-	1.006	1.063	1.116	1.172	1.230	1.292	3.98%
	Actual NAV	-	-	0.998	1.052	1.117	1.144	1.171	1.220	3.02%
Stellar Fifth (Green Nation) Partnership	Forecast NAV	-	-	-	1.006	1.063	1.116	1.172	1.230	4.11%
	Actual NAV	-	-	-	1.000	1.037	1.107	1.153	1.244	4.47%
Stellar Sixth (Green Nation) Partnership	Forecast NAV	-	-	-	-	-	1.031	1.089	1.144	3.52%
	Actual NAV	-	-	-	-	-	1.021	1.077	1.166	4.53%

Source: Stellar; AdvantageIQ

The average annual growth rate of all the partnerships provided above is 5.8%, which would therefore suggest that the service is meeting its 5% annual growth target. On the other hand, there is a great divergence in performance between the partnerships and sectors, and this growth is largely driven by the Bridging Finance and commercial forestry partnerships. We acknowledge Stellar's explanations that performance in some sectors for new businesses may initially be negative – for example with a hotel there may be a performance lag while a refurbishment is undertaken to allow for a turnaround. The Manager remains confident of returns over the longer expected lifecycle of the investments.

Appendix 1: Key Personnel

Key Investment Professionals

NAME	JOB TITLE	START DATE	BIOGRAPHY
Jonathan Gain	CEO and Compliance Officer	2007	Jonathan is the founder and Chief Executive and was previously a director of Close Brothers Investment Limited (1993-2006). He has responsibility for the management and strategy of the business and is a qualified accountant. He is also a member of the PFS and the EIS Association.
David Stein	Investment Analyst	Jun-19	David joined Stellar in June 2019. Having worked for a tax consultancy prior to joining Stellar, David developed a keen interest in tax-efficient investments and has made the transition into the investment management sector. In his current role, David is tasked with assisting the Investment Manager in making preliminary assessments on deal flow, financial analysis and producing investment reports, as Stellar's AUM continues to grow. David graduated from The University of Nottingham with a First-Class BA Honours degree in History and is currently studying towards his IMC qualification.
Pierre Clark	Investment Manager	Feb-20	Pierre Clarke is a recent recruit for Stellar joining in February 2020. Pierre trained as a Chartered Accountant with Deloitte qualifying in 1997. Pierre spent seven years (Director for five years) at Close Brothers Investment Limited, leading the EIS team and overseeing new product development across the firm. In 2008, Pierre joined Downing LLP where he spent 11 years (Eight years as a partner) during a period of expansion into new areas such as EIS and IHT products. Pierre has been a director of many companies and sat on many investment committees.
Lawrence Wu	Investment Assistant	Jul-19	Lawrence joined the investment management team in July 2019. Lawrence graduated from Kingston University with a First-Class BSc Honours degree in Actuarial Science. He is a student member with the Institute and Faculty of Actuaries and currently holds exemptions for Financial Mathematics (CT1), Finance and Financial reporting (CT2), Probability and Mathematical Statistics (CT3). Prior to joining Stellar, Lawrence has worked for the commercial bank CGB in China and the global insurance company AXA in Hong Kong as an Account Manager and Financial Consultant, respectively.

Craig Reader	Chairman	2007	Craig founded Close Brothers Investment in 1991 and was its managing director from inception until early 2006. His tenure saw the workforce grow to more than a hundred and over £1bn in capital raised from private investors. He was a key figure in building Close Brothers Investment Limited's reputation for innovative tax and property-based investment products. Craig is a qualified accountant and is also a non-executive director of Homewise.
Daryl Hine	COO	-	With over 30 years business experience and a proven track record in financial services, Daryl has provided both strategic insight and operational leadership across a range of businesses. He has experience with multinational PLCs and start-ups but has a passion for SME's – particularly the people side of the team. He enjoys getting to the essence of any problem, whether it is team building, lead generation or product development related, and working with the right person to come up with the right solution. His qualifications include holding a Diploma in Neuro Linguistic Programming (NLP) as well as an MBA in Business Administration and Management from Lancaster University – one of the UK's top 3 business schools.
Claire Taylor	Finance Director	Sep-19	Claire joined Stellar in September 2019. Claire spent 3 years at Avison Young (GVA) and qualified as a Chartered Certified Accountant during this time. Prior to joining Stellar, Claire spent 5 years at Greencoat Capital LLP, a £5bn AUM renewable energy infrastructure manager, firstly as a Management Accountant before assuming becoming the company's Financial Controller. Claire is also a member of the Investment Committee.
Matthew Steiner	Business Development Director	2011	Matthew heads up the Sponsor's business development team and has overall responsibility for AUM and key adviser relationships. He leads the Sponsor's intermediary focused communications and marketing strategy. Prior to joining the Sponsor, he spent more than seven years raising funds in the property investment division of Close Brothers promoting tax-efficient investment and wealth management services which included EIS, VCT, IHT and ISAs. Matthew has been in the financial services industry since 1998, having originally trained as a financial adviser.

Source: Stellar

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