



Introduction

Thank you for joining us for our performance reports on the Stellar Inheritance Tax Service for the period ended 31st of March 2023. My name is David Stein and I am one of the investment managers here at Stellar Asset Management. The purpose of this video is to provide some commentary and some context focusing on the services' year to date performance, and delving into some of the key underlying activity within the service that drives that performance.

As always, your feedback is highly valued, we want to ensure that we are optimizing the service and providing you with all the information that you would like to receive. So please, if you do have any feedback on this reporting video or the valuation reports that you receive, please do feedback to our client services team and I will provide their contact details at the end of this video.

We are very pleased to report continued positive performance in the first quarter of 2023 in the Stellar inheritance tax service. This has been reflected in an uptick in net asset value of around 1% in the quarter, and this has culminated in the service achieving its target return for the financial year ended March 2023, generating growth of 4.3% versus target range of between three and a half and four and a half percent.

At the top of the target return range, we're very pleased with that positive outcome. As you see from the slide, the service has outperformed its target since inception with an annualized return of 6.3%. The sector allocation split is a snapshot as of the 31st of March 2023. We continue to actively deploy cash into the underlying partnership's, so this is likely to change each quarter.

I'm now going to touch on some of the key underlying partnerships that drive the services performance.

Commercial Development

This service currently holds two commercial development projects, which I will touch on over the course of the next couple of slides. There is a lack of supply, generally speaking, of good quality, well positioned commercial industrial units but the demand for these types of units remains.

We therefore have a strong belief that the projects within our service are both well placed to capitalize on this demand post construction. The first industrial development is located in Hoddesdon in Hertfordshire. The site itself is situated within an existing industrial estate and upon acquisition contained an existing industrial units. The time horizon for this project is anticipated to be three years, which included 12 month period to obtain detailed planning permission to demolish the existing units and to subsequently develop seven light industrial units.

We are very pleased to report that we have had a positive planning decision and work has therefore commenced. Demolition of the existing industrial units is complete and we will now proceed with construction of seven light industrial units which will take place throughout the course of 2023.



Location is a key point of consideration when evaluating commercial industrial development opportunities, as with Hoddesdon, we acquired the site in Tunbridge Wells in Kent, primarily because of its excellent transport links and a high demand for these types of units in the area. This is also a medium term investment expected to span between three and four years. This again includes an initial 12 month period whereby detailed planning permission will be sought by Tunbridge Wells and Hoddesdon were purchased without planning permission but there is a process to obtain detailed planning permission.

The difference with Tunbridge Wells is that the existing building in place already had a tenant in until April 2023. It has been a real positive for us as this meant that we've been able to benefit from rental yield you during that period whilst pursuing planning permission in the background and the yield that we have been able to achieve is in excess of the services target return.

Having purchased the sites in April 22, we are very pleased to have recently received a positive planning decision at Tunbridge Wells, and this is in line with our anticipated timeline. Now that planning has been approved, we will commence construction in Q2 2023 once the existing tenant vacates in April 2023. Both Hoddesdon and Tunbridge wells are expected to be active over the course of 2023 in terms of construction.

We have also had some very positive conversations with interested parties in the background, and we expect to be able to achieve a swift disposal across both sites. We will continue to update investors as these conversations progress.

Golf and Leisure

We now focus on one of our hospitality and golf assets, specifically Stellar Bramshaw LLP, and this LLP is one of the key underlying partnerships within the Stellar Inheritance Tax Service. The LLP contains two assets. It includes a four-star 30 bed country in the New Forest area called the Bell Inn with an adjacent golf club named Bradshaw Golf Club which includes a clubhouse, two golf courses and a club shop.

Since acquiring these assets in Q3 2021, there has been considerable amounts of transformative work across both businesses to enhance each asset's features and to reposition the assets. Whilst trading for the financial year ended to March 23 has fallen short of expectations, this has been impacted by macroeconomic challenges that have placed strain on businesses throughout the UK hospitality industry.

Specifically, there have been recruitment challenges that have hampered the hotel's hotel business's ability to deliver a consistent food and beverage service for large portions of the year. Profitability has also been impacted by cost inflation, which has been felt nationwide. That said, as we head into the next financial year, we now have a renovated assets which is fully staffed across both businesses.

This, coupled with a great sense of financial stability supported by the Government's predictions that inflation will come down throughout the course of the year, gives us confidence we are well-placed to generate much improved performance across the different elements of the business in the trading year to come. We remain very confident in our investment strategy at each of these assets we acquired, the assets of markets connected value and we have significantly improved the assets since acquiring them.



We remain confident in the management team and we expect improved trading performance throughout 2023.

Corporate Lending

Another area in which the service is active is in the corporate lending space. At the start of the year, we provided a corporate loan to support a business with their expansion plans, providing finance to assist with the acquisition of a new book of business. The decision to provide this funding was supported by robust business plan, a clear repayment strategy and security of a business with strong and recurring cash flows that vindicate their ability to make repayments on time.

We are very pleased with the terms that we have agreed, which affords good security and downside mitigation whilst also generating interest at a level with headroom above the service's target return. This is a medium-term investment with a maximum loan of four years with a reputable borrower. We will continue to update investors as this progresses throughout the course of the next few years.

Bridging Finance

The Sky Chrome partnership was a bridging finance partnership, as at March 2023. This accounts for 8% of our inheritance tax service. Performance of this partnership has remained consistent throughout the quarter, with a number of redemptions taking place. Whilst deployment of capital in this partnership was originally not as quick as we budgeted for, we were diligent in terms of those that we committed to and we therefore remain optimistic of a positive outcome exceeding our budget expectations because of the quality of deals that we have committed to.

Partnerships committed capital has been deployed in full and no further loans are being provided. Partnership has provided 16 loans in total, of which eight have already redeemed. The majority of those loans redeemed on time or early. There were instances where some loans were deemed late, but in these instances, we have retained full day for interest for the interim period, which has had a positive impact on partnership performance.

There are currently three loans that are overdue, but they are not currently caused with concern. As in each instance there was a defined exit and a clear path to redemption in Q2 2023. We, along with our partner in frequent communication with the borrowers and we fully expect to benefit from redemption inclusive of full default interest in for the additional time period in the upcoming quarter, this remains five loans this amount scheduled to redeem until the end of the year.

As mentioned, we are not currently committing new capital to this partnership. However, once all loans have redeemed, we will reconsider whether to continue deploying new capital or whether to conclude this partnership and deploy capital elsewhere.

Hotels

Throughout the trading year to the 31st of March 2023, the Holiday Inn Express Folkestone has performed very well. We end the year upon budget from an EBITDA perspective, just shy of 50% and an average occupancy of 88%. This is significantly higher than last year and is more akin to pre-pandemic levels. The EBITDA that we achieved in the year prior to the pandemic was actually less than the EBITDA that we have achieved this year, so real positive signs at the Holiday Inn Express in

Folkestone.

As we previously reported to investors, there is remedial work required at the hotel and we are seeking to execute that work. The reason that work is not taking place yet is that it's a five month job and therefore we have taken the decision to enter into a build contract with a preferred contractor in April this year, but to postpone the start of the work to September.

The investors can benefit from the summer trading performance, which underpins the yearly performance of this particular assets based on its location just by the Channel Tunnel in Folkestone.

As we previously reported to investors, we are in a position where we are exploring exit opportunities and we are exploring a sale of this assets. The consensus is that we are best placed to sell the assets once we have completed the work, so that likely it therefore is that the work will be completed at the start of 2024 and we seek to dispose of the assets, providing the market in support of the disposal.

ESG and Sustainability

That brings to a conclusion the summary of some of the key activity within the Stellar inheritance tax service for the period to the 31st of March 2023. This slide is a new slide we have not reported to investors on this as yet, but it will become a permanent feature of our reporting.

Stellar became a signatory of the Principles for Responsible Investments in 2021. In doing so, Stellar has committed to adhering to these principles, which include ensuring that ESG and sustainability issues are incorporated into our investment analysis and our decision making process. This slide is an introductory slide which seeks to provide a brief summary of the steps that we take when considering the credentials of each underlying asset within the service from a sustainability perspective.

Generally speaking, ESG and sustainability are relatively new concepts as an investment consideration. They have certainly come to the fore, much more so in recent years, and there's a real lack of consensus in terms of best practice, particularly within the unquoted space. As an investment team, we've really taken our time to consider and formulate our ESG and sustainability approach, which we believe to be pragmatic and holistic.

We look at each underlying assets in the round and we seek to assess their credentials in the round. This slide briefly touches on how that process can be broken down into three key stages. The first is that our initial questionnaire, we establish questionnaires for each of the sectors in which we operate and we complete those questions for each new opportunity in each of those sectors. The questions are simple and unambiguous. We believe it's important for us to get clear data points on from both an environmental, social and governance perspective, and this enables us to measure and track process.

This drives through to further analysis, which we call the SOWTDOT phase. This is looking at strengths, weaknesses, opportunities, threats and direction of travel based on the answers to the questions within those questionnaires.

As a combination of those two phases, we end up in a position where we are able to assess each of the underlying assets and provide it with a score. We do have a hurdle rate in terms of assets having to meet or exceed that score in order for us to proceed with any new investments.



Final stage is an ongoing review, ESG sustainability continues to be a key feature of all of our investment committee meetings, and we will continue as an investment team to assess and monitor each of our underlying assets to review them on an annual basis and to ensure that they are not going backwards in terms of ESG and sustainability to ensure that that direction of travel remains positive.

Our process and our approach will continue to develop. It's inevitably an iterative process. We will continue to be guided by those institutions that are the flag bearers for ESG and sustainability, be it the Principles for Responsible Investments, the U.N. Sustainable Development goals, and any other bodies that can provide us with independent verification that we are heading in the right direction.

In the meantime, we will continue to report to investors on ESG and sustainability with instead of inheritance tax service. And as always, if you have any questions in particular around the issue and sustainability elements of what we are doing, and we will be more than happy to answer them.

Conclusion

Thank you very much for taking the time to listen to our performance review for the period to March 2023. As mentioned at the start of this video, if there is any additional information that you would like or if you have any queries off the back of this performance update or your quarterly evaluation report, please do not hesitate to reach out to our client services team. Their phone number and the email address for our client services team can be seen on the screen.

As always, your feedback is highly valued. We are really keen to ensure that we're optimizing our service to investors and that our reporting is providing you with the information that you need. Any feedback or suggestions for improvement in the future, very much appreciated and will be taken on board.

Thank you very much.