

Consumer Duty Service Guide for distributors

Stellar AIM IHT Service including ISA (Transact platform)

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1. Background

This guide is designed to provide all the appropriate information to IFAs to enable them to comply with their obligations within the scope of Consumer Duty. It should be read in conjunction with the Brochure, Investment Management Agreement and the platform's Application Form in respect of the Stellar AIM IHT Service (the 'Service').

In compiling this report we have considered the Consumer Duty regulations including the following.

The new Consumer Principle: a firm must act to deliver good outcomes for clients.

The three Cross-cutting obligations which provide further clarity to FCA expectations under the new principle and help firms interpret four outcomes. The cross-cutting obligations require firms to:

- act in good faith toward clients;
- avoid foreseeable harm to clients; and
- enable and support clients to pursue their financial objectives.

The four Consumer Outcomes which represent key elements of the firm-client relationship which are instrumental in helping drive good outcomes for clients are:

- products and services;
- price and value;
- consumer understanding; and
- consumer support.

This assessment details the benefits (good outcomes) that Stellar Asset Management Limited ('Stellar') seeks to provide with the Service, the fees and charges and an assessment of the price of the Service and an assessment that the Service offers fair value for clients.

2. Benefits and outcomes

2.1 Benefits

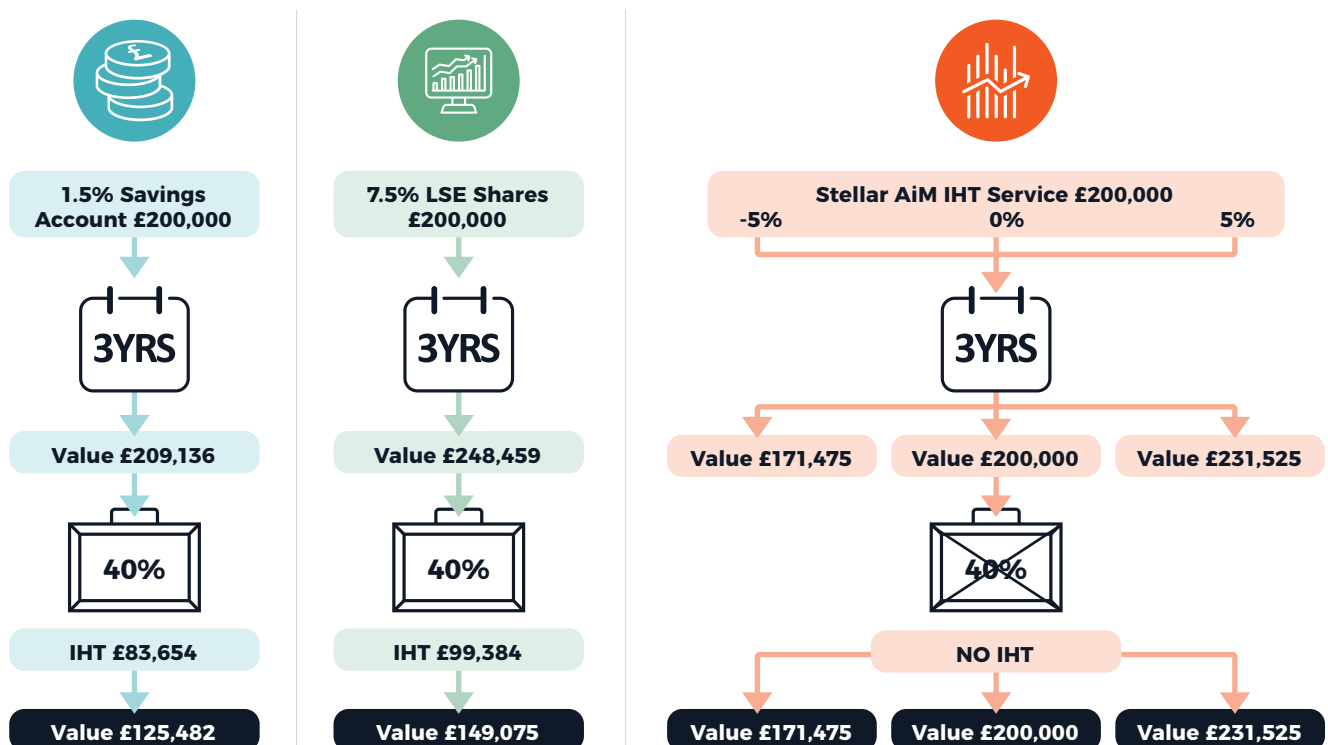
- a. **Reduction in inheritance tax payable** – currently 100% relief from inheritance tax (Business Relief) if the investment is held for at least two years and at death.

Table 1 illustrates how an investment in the Service might compare (over a three-year period) to holding cash in a savings account and with an investment in a portfolio of stocks in the main market of the London Stock Exchange – assumed to return 7.5% per annum. A range of returns is shown for the Service. This table demonstrates the benefit of Business Relief for investors in comparison to other investments that do not benefit from Business Relief. The principal benefit is the saving of IHT.

Please note that an investment in the Service is higher risk than savings accounts or the main market of the London Stock Exchange. Under current tax rules, after two years, a holding in the Service should attract 100% relief from IHT, provided the investment is held at the point of death.

All returns in Table 1 are calculated using annual compounding of nominal returns and rounded to the nearest whole pound where applicable. The availability of Business Relief is subject to personal circumstances and the tax legislation and tax practice may be subject to change. If Business Relief was withdrawn the IHT benefit would no longer be available.

Table 1 - Comparison of investments demonstrating the benefit of Business Relief



Source: Stellar

2.1 Benefits (continued)

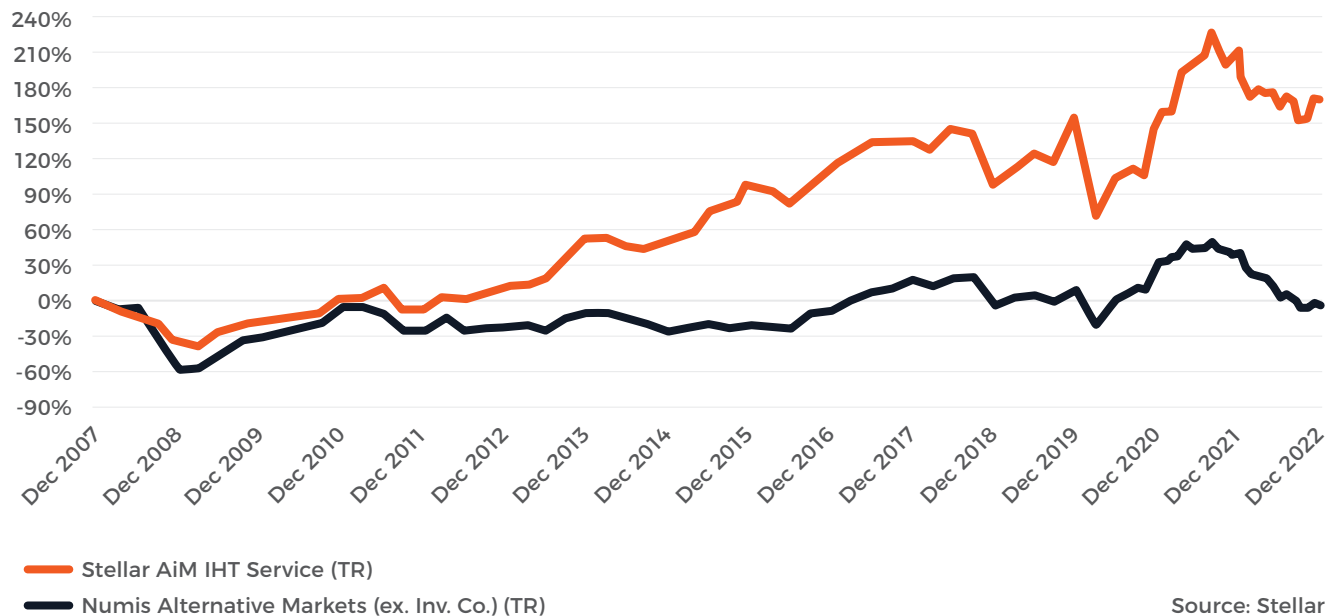
- b. **Performance above the Benchmark** – the Benchmark for the Service is the Numis Alternative Markets (excluding Investment Companies) Total Return. This benchmark was selected because it is the most relevant to the Service. Table 2 shows the performance of the Stellar AIM IHT Service since inception to 31 December 2022.

The performance of the Service shown below was not taken from the Transact platform because the Service does not have the same longevity but is invested in the same model as the Stellar AIM IHT Service. However, the performance will differ because there are different trading processes and certain fees are specific to

the platform. These fees are analysed at section 3.

- c. **Transparent and competitive fees** – see section 3 below.
- d. **Diversification** – investment in between 25 and 40 AIM companies. AIM is the Alternative Investment Market, a market operated by the London Stock Exchange for small and medium size companies.
- e. **Anti-concentration** – no more than 7.5% of the Portfolio in any one AIM company.
- f. **Clear and concise product literature** – the product literature (including Stellar's website) describes the Service in a manner that makes it easy to understand.

Table 2 - Stellar AIM IHT Service Cumulative Performance



Past performance is not necessarily a good guide to future performance.

2.1 Benefits (continued)

- g. **Support for IFAs, Intermediaries and clients.** Client Service that meets their needs enabling them to realise the benefits of the Service and that act in their best interests. In addition Transact will provide support for administrative functions.
- h. **Investment of new cleared funds** in line with Transact's service standards.
- i. **Quarterly reports** – valuation reports are supplied by Transact.
- j. **Annual statements** – taxation report (where applicable) and costs and charges report supplied by Transact.
- k. **All communications** are undertaken by Transact.
- l. **Retain control of your assets** compared to Trusts or Gifts and timely disposals either before or after death – disposals in line with Transact's service standards.

2.2 Outcome monitoring

Stellar undertakes detailed monitoring of these benefits and whether they are achieved to enable it to plan its future strategy for its IHT services and distribution strategy.

3. Price value assessment

3.1 Fee levels and fee analysis

The Fees for the Service are as follows.

3.1.1 Fees charged by Stellar

Annual management charge 1% - this is payable on a quarterly basis over the life of the product.

There is no initial fee and there is no exit fee.

3.1.2 Third party fees

Annual platform fee:

The annual fee (plus VAT) is dependent on the value of the portfolio and payable in bands.

First £60,000	0.5%
From £60,000 - £100,000	0.26%

For portfolios of / above £100,000 the fee is calculated in bands as follows:

First £600,000	0.26%
From £600,000 - £1,200,000	0.17%
From £1,200,000 - £5,000,000	0.07%
Anything above £5,000,000	0.05%

If a portfolio is £1,500,000 the fee will be calculated as follows:

Portfolio Value	Fee rate	Fee
First £600,000	0.26%	£1,560
£600,000 to £1,200,000	0.17%	£1,020
£1,200,000 to £1,500,000	0.07%	£210
Total fee		£2,790
Plus VAT		£558
Total platform fee		£3,348

Please note that if you have other funds on Transact then the fee is calculated on the value of each of your client's total investments held on the platform.

Transact can facilitate both initial and ongoing adviser charges. Initial adviser charges are deducted from the investment prior to the purchase of AIM shares. Shares may need to be sold to pay ongoing adviser charges and capital gains will apply where relevant.

Table 3 - Reduction in yield (per annum) based on performance of 7.5% per annum before all fees and charges

Assumed performance before fees and charges	7.50%
Effect of fees and charges per annum	(1.73%)
Performance net of fees and charges	5.77%

Source: Stellar

3.1 Fee levels and fee analysis (continued)

3.1.3 Fee analysis

These fees apply to all groups of clients who apply for the Service. There are no other applicable fees. Stellar discloses all fees payable and therefore considers these fees to be transparent. This fee analysis excludes adviser charges. Advisers may add their own charges to the illustration detailed at section 3.4.

Table 3 shows the overall effect of fees and charges to the returns of the Service. The total fee reduction caused by the fees and charges is 1.73% per annum.

Notes to Table 3

1. This table shows an assumed gross performance of 7.5% and the reduction caused by the fees and charges. This rate has also been used for the competitors to ensure that the comparisons are on the same basis.
2. These numbers are based on a five-year holding period with assumptions as detailed in the Notes to Table 4. Please note that the fees and charges are not uniform over the five years but the overall effect has been shown as such for comparative purposes.

3. The reduction in yield is the difference between the compound rate of growth per annum to achieve 7.5% before fees and charges and the compound rate of growth to achieve the performance net of fees. For the Service this is 5.77% giving a reduction of 1.73% being 7.5% less 5.77%.

3.1.4 Competitor fee analysis

Stellar has undertaken an analysis of the fees and charges of its competitors, also assuming a gross performance of 7.5% per annum. This shows a reduction of 2.49% per annum. This demonstrates that the Service has lower fees and charges compared to the average (mean) of its competitor set.

3.2 Benefits versus fees and charges

Table 4 compares the main benefits (the gross performance and the IHT saved on death) for a holding of £100,000 over a five-year holding period. It assumes that the Investor dies at the end of the five-year period to enable Business Relief to be claimed. We have assumed a cash balance of 2.5%. Other assumptions are provided in the Notes to Table 4.

Table 4 - Analysis of benefits compared to fees and charges for a £100,000 investment

Benefits	
Performance over 5 years	£41,814
IHT Saved	£51,624
Total Benefits	£93,438
Fees and charges	
Effect of fees and charges over 5 years	(£9,444)
Total Benefits over fees and charges	£83,994

Source: Stellar

3.2 Benefits versus fees and charges (continued)

Two further benefits are that the Investors retain ownership of their assets and that the relief from IHT takes two years. These benefits are not available with either gifts or trusts which are two alternative methods to reduce inheritance tax. Gifts and trusts require seven years to be fully free from inheritance tax and both involve losing ownership of the assets.

Notes to Table 4

1. The Performance over five years is gross of the fees and charges which are taken on a regular basis. This reduces the compounding effect of growth over the investment period.
2. The IHT benefit is 40% of the final value of the investment as shown in Table 4.1. Please note that we have assumed a cash balance of 2.5% so that IHT relief is on 97.5% of the portfolio.

3. The fees are affected by compounding. If you applied 1.73% to £100,000 for a period of five years you would calculate total fees of £8,650. The fees are £9,444 because of the effect of growth over the five years.
4. Annual dealing: 47% per annum of the portfolio during a 4.33 year holding period – which equates to 23.5% sold and new AIM shares acquired with the proceeds.
5. 18 transactions per annum.
6. The client does not have any other holdings on the Transact platform.

3.3 Price value assessment conclusion

The analysis of the benefits compared to the overall cost of all fees and charges shows a benefit of £83,730 in excess of the fees and charges. This assumes investment performance of 7.5% before fees and charges and the assumptions shown in the Notes to Table 4 generates the benefits and fees and charges shown in Table 5.

Table 4.1 - Analysis of the IHT saving

Original Investment	£100,000
Add: Performance over 5 years	£41,814
Less: Effect of fees and charges over 5 years	(£9,444)
Final Value after five years	£132,370
IHT saving (£132,370@97.5%@40%)	£51,624

Source: Stellar

Table 5 - Overall assessment of benefits over fees and charges

Investment Performance before fees and charges	Benefits	Fees and charges	Excess
7.5%	£93,438	£9,444	£83,994

Source: Stellar

3.4 IFAs assessment of price and value

Stellar provides a tool which allows IFAs to add their adviser charges to undertake their own price value assessment. Please contact your Business Development Manager to obtain a copy.

3.5 Competition benchmarking

We have identified 23 competitors that operate a portfolio of AIM companies on behalf of clients which offers 100% relief from inheritance tax. The Fees charged by the Service and by these 23 competitors have been analysed and the annual reduction in performance caused by the fees charged is shown in Table 6. This analysis was conducted during March 2023 and all data should be correct as at 12 March 2023. We will update this analysis at least once a year.

This analysis demonstrates that the fees and charges for the Service are competitive.

Notes to Table 6

1. The gross rate of return is also calculated at 7.5% for all competitors. The other assumptions used are listed in the Notes to Table 4.

2. The product providers of the 23 competitor funds are listed in the Appendix.

The Service provides fair value to clients in the Target Market.

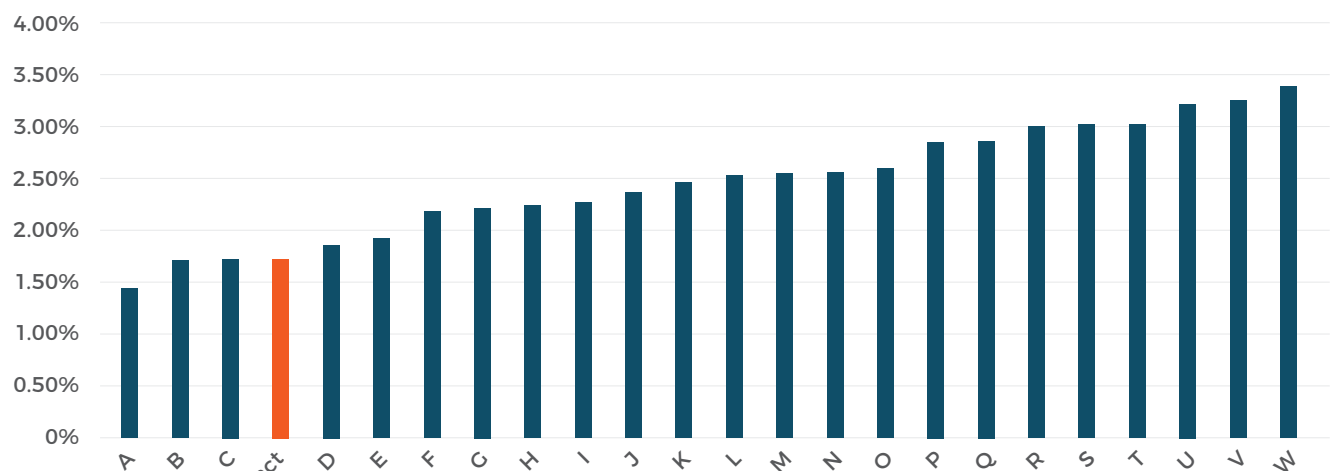
This assessment will be updated on an annual basis. Each quarter Stellar will review the detailed outcome testing to consider whether the Service continues to offer the benefits to clients in the target market and whether it offers fair value to clients. At that time Stellar will also consider whether there are any foreseeable harms.

3.6 Actual Service performance

The performance assessment detailed above shows that the Stellar AIM IHT Service seeks good performance over the last five years with an average achieved return of 7.6% per annum for the five years to 31 December 2022.

The assessment of the Pricing for the Service concludes that the fees are transparent and competitive. The benefits are being delivered to clients who apply for the Service.

Table 6 - Reduction in yield of the Service compared to competitors



Source: Stellar

4. Target Market

Stellar has identified the following common features, characteristics, needs and objectives of groups of clients which the Service is designed to meet.

4.1 Characteristics

We would expect a potential investor to be wealthy (with estates considerably in excess of the IHT nil rate bands) because the Service:

- a. provides protection from inheritance tax on the value of the investment in the Service at death if the investment has been held for more than two years.

There is a nil-rate band (NRB) of £325,000 (therefore there is no IHT to pay on estates worth less than £325,000) and a residential nil-rate band (RNRB) of £175,000 available to those with estates of less than £2 million and who are leaving their home to direct descendants.

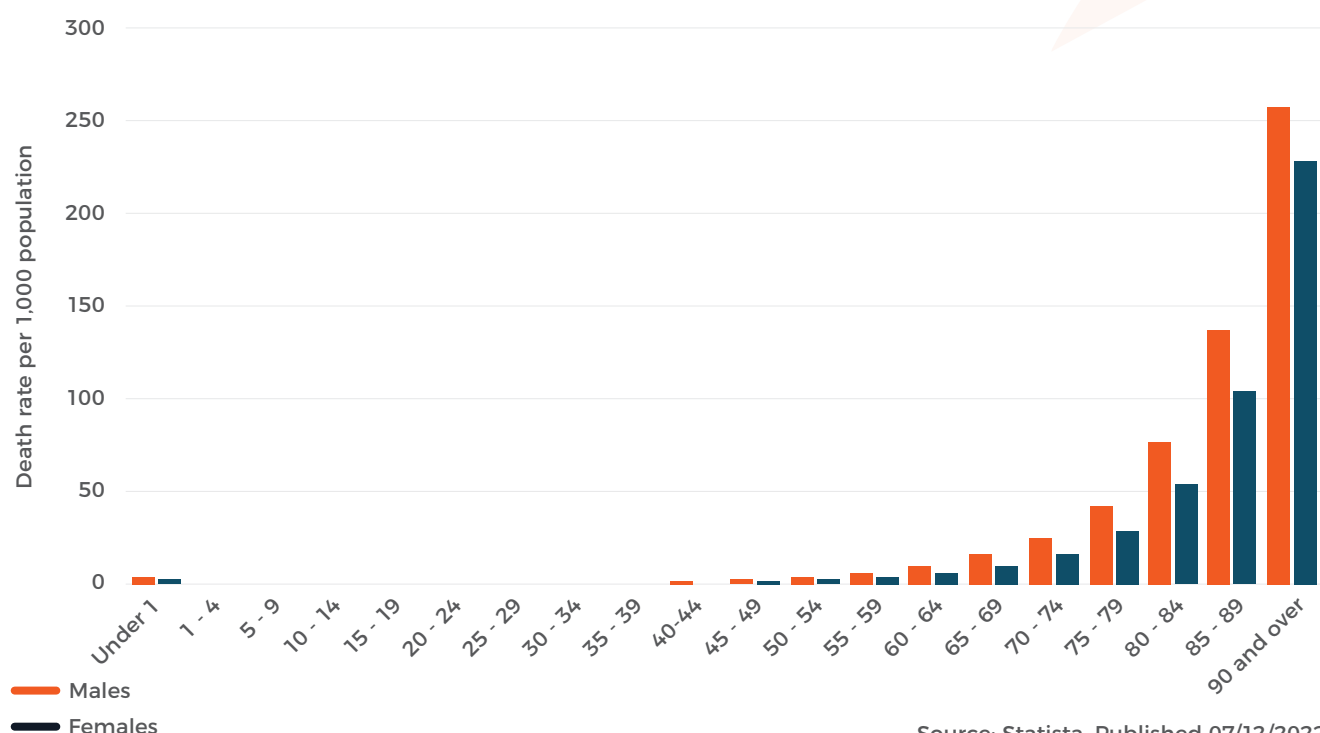
Any unused proportion of either of the NRB and the RNRB when the first of a couple dies, can be transferred to the estate of the surviving spouse or civil partner. As such, the NRB and the RNRB combined would equate to £500,000 for individuals who qualify for the RNRB and £1,000,000 for couples who qualify for the RNRB;

- b. is an investment which needs to be held until death to realise the principal benefit of the Service being relief from IHT at death. As such we would expect a potential investor to have other sources of wealth and income to enable them to hold the investment in the Service until death; and
- c. is a higher risk investment which invests in smaller companies on the AIM which historically have been more volatile when compared to larger companies such as those on the main market of the London Stock Exchange.

Whilst any investor of any age can be concerned about an inheritance tax liability on their beneficiaries' inheritance, we would expect more elderly clients to be more concerned about the impact of inheritance tax than younger clients who may be focusing on other financial objectives. Therefore, elderly clients are more likely to be pursuing a strategy of protecting their beneficiaries from Inheritance Tax.

The propensity of a person to die increases with age as shown in Table 7. This shows a consistent increase in the death rate once individuals reach the age of 40.

Table 7 - Age-specific death rate per 1,000 population in the United Kingdom in 2020, by gender



4.2 Financial objectives

The Service has been designed for potential clients who are:

- seeking relief from inheritance tax for their estate after holding the investment in the Service for two years;
- willing to take additional risk by investing in smaller companies on the AIM to benefit from Business Relief. Business Relief provides relief from inheritance tax of up to 100% for qualifying property held for more than 2 years;
- seeking to hold the investment until their death to reduce inheritance tax liabilities.
- seeking diversification by spreading investments between 25 and 40 AIM companies;
- seeking some income and capital returns to help offset the effect of inflation and fees charged for the Service (both management and advisory); and
- who are able to withstand the loss of some or all of what they invest.

4.3 Financial advice

We would expect that most potential clients would utilise the services of a financial adviser to help them meet their financial objectives.

All potential clients need to fully understand the Service, including its risks and how the Service relates to their financial objectives. They are likely to have experience of a variety of previous investments such as FTSE 100, FTSE 250, smaller quoted, AIM quoted and unquoted investments. They would understand how the product operates and what factors drive the value of the investment.

4.4 Limitations of the Service

We have identified two potential groups of clients who may not realise the principal benefits of the Service, being:

- a. clients who do not live for more than two years following investment in the Service; and
- b. clients who realise their investment in the Service prior to their death.

As such it is important that Investors live for a minimum of two years following investment in the Service and that they are then able to hold the investment in the Service until their death. We appreciate that it might not be possible to identify all possible outcomes at the point of investment.

4.5 Foreseeable harms

Stellar reviews all outcome monitoring and other management information designed to help it meet its obligations under Consumer Duty. This occurs on a quarterly basis. At this meeting, the Consumer Duty committee considers whether there are any foreseeable harms and ensure that actions are taken to avoid such. The first of these meetings was held in April 2023.

In addition, every decision made by Stellar's Board and its Investment Committee are reviewed against the Consumer Duty rules to ensure that it is compatible with achieving the cross-cutting rules and consumer objectives.

5. Distribution strategy

5.1 Advised

Stellar provides support to IFAs to find clients who fall within the Target Market detailed above. To ensure that this is the case the advised application form contains a confirmation from the IFA. Stellar actively markets to IFAs.

5.2 Direct (including Intermediaries)

Stellar will respond to queries from potential investors who wish to invest in the Service and fall within the target market. The suitability assessment contains questions to ensure that this is the case. Stellar does not undertake direct marketing activities to investors; however direct investors may see the Service on the Stellar website.

5.3 Distribution channels

The Service is currently distributed by IFAs and, to a very limited extent, by Stellar. We use IFA confirmation (for advised clients) and suitability assessments (for all other investors) to ensure that these distribution channels are appropriate for the Service.

5.4 How Stellar seeks to deal with vulnerable customers

Stellar provides all clients with information in the format that they request. An online portal (The Stellar Hub) is available to clients to provide access to reports, valuations, and

transactional information. Formal valuation reports can additionally be posted on request. Any reasonable requests will be actioned by Stellar. Clients can ask questions to the Client Services team by phone, email, online or by post. Stellar maintains preferred communication for any client who requests it.

Stellar keeps a record of any vulnerabilities it is aware of for each client and seeks to act in a manner that helps the client to understand any decisions that they need to make and support them to pursue their financial objectives.

Stellar has a vulnerability policy which is reviewed annually and is available to all Stellar employees. Stellar also has a vulnerability plan to assess and review vulnerabilities across its client base. Reviews of vulnerability are predominantly focussed on direct (non-advised) investors. However, advised investors, where a vulnerability has been identified by the adviser or adviser firm, are also noted in our records. Stellar provides regular training to all client facing support staff regarding vulnerabilities, including online and in person sessions. Stellar has reviewed the FCA's four key drivers of vulnerability (see Table 8) and has identified key events in relation to Stellar services where vulnerability can be readily identified. These are as follows: physical and mental disability, deteriorating health, bereavement, relationship breakdown, moving into a care home or supported living environment and income shock. Stellar has assessed its systems and processes to ensure that they meet the needs of vulnerable clients.

Table 8 - The FCA's four key drivers of vulnerability

Health	Life events	Resilience	Capability
Physical disability	Caring responsibilities	Low or erratic income	Low knowledge or confidence in managing financial matters
Severe or long-term illness	Bereavement	Over indebtedness	Poor literacy or numeracy skills
Hearing or visual impairments	Income shock	Low savings	Low English language skills
Poor mental health	Relationship breakdown	Low emotional resilience	Poor or non-existent digital skills
Low mental capacity or cognitive disabilities	Having non-standard requirements such as ex-offenders, care leavers, refugees	Lack of support	Learning impairments

Source: FCA

6. Conclusion

This guide for IFAs has provided details of the benefits (good outcomes) that Stellar seeks to provide with the Service, the fees and charges of the Service and an assessment of the price of the Service against the benefits that Stellar seeks to provide with the Service. We believe that we have demonstrated that the Service offers fair value for clients.

If you have any queries in relation to this document or require support, please do not hesitate to contact our Client Services team on **020 3195 3500** or email **enquiries@stellar-am.com**.

Appendix

Competitor Set

The competitors which have been analysed in this document are as follows.

Alpha Real Capital LLP
Amati Global Investors Limited
Blackfinch Investments Limited
Blankstone Sington Limited
Brooks Macdonald Asset Management Limited
Schroder & Co Limited trading as Cazenove Capital
Close Asset Management Limited
Dowgate Wealth Limited
Downing LLP
Fundamental Asset Management Limited
GBIM Limited
Hawksmoor Investment Management Limited
Investec Wealth & Investment Limited
Octopus Investments Limited
Pilling & Co Stockbrokers Limited
Progeny Asset Management Limited
Puma Investment Management Limited
Quilter Cheviot Limited
R.C. Brown Investment Management PLC
Redmayne Bentley LLP
Sarasin & Partners LLP
Unicorn Asset Management Limited
Vermeer Investment Management Limited

Please note that the competitors have been set out above in alphabetical order and the order does not relate to the references from A to W in Table 6 in section 3.5. There are also a number of other product providers in this market for whom we have not been able to establish a fee structure from the information that is publicly available.



Call: **020 3195 3500**

Email: **enquiries@stellar-am.com**

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Important Information

This document has been prepared for investment professionals only.

The Stellar AIM IHT Service places invested capital at risk. The value of an investment, and any income from it, can fall as well as rise and investors may not get back the full amount invested. The shares of smaller companies could fall or rise in value more sharply than shares in larger, more established companies. They may also be harder to sell.

Tax reliefs, legislation and practice may be subject to change and the availability of tax reliefs will depend on personal circumstances. Tax reliefs are also based on the qualifying business activities maintaining qualifying status, which is not guaranteed.

Past performance is not a reliable indicator of future results.

The investments described in this document are not suitable for everyone. This document does not constitute advice on investments, legal matters, taxation or any other matters.

Investors should base an investment decision on the relevant product literature for the Service and take financial advice.

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