

# AiM IHT Service

BROCHURE





# The Service

The Stellar AiM IHT Service is a discretionary managed service, which is designed for investors who wish to leave a legacy free from inheritance tax. Capital is invested in a diversified portfolio of between 25 and 40 companies which are quoted on the Alternative Investment Market (AiM) of the London Stock Exchange.

You and your beneficiaries should benefit from 100% inheritance tax relief - provided that the portfolio is held for a minimum of two years, and at the time of death.

Investors can also invest in the Service through an ISA wrapper. An ISA is one of the most popular ways to save and affords tax free income and tax free capital gains in addition to the IHT relief.

This brochure will introduce you to Stellar and our range of services. We will provide context to both Inheritance Tax and Business Relief, how the Service operates, and the important information you need to make an informed investment decision.

## Welcome to Stellar

'When I founded Stellar in 2007 my objective was to create a range of innovative and flexible inheritance tax services which allow investors to retain full control of, and access to, their capital. Rather than locking capital up in trusts and insurance policies, I want to give our investors more choice and the opportunity to retain ownership of their capital throughout their lifetime.

My team has managed tax-efficient services for investors who want to create a lasting legacy for their families since 1991. Drawing on our extensive experience, we have created a diverse range of estate and succession planning services, all of which seek to provide 100% relief from inheritance tax after just two years.

We pride ourselves on our level of knowledge and experience and our track record in developing and managing successful inheritance tax mitigation services.

A commitment to transparency is at the heart of our business - as well as offering real choice, delivering uncapped returns, and providing services which can be tailored to your specific needs.

Our helpful and knowledgeable team is always available to assist with any questions you have, and our website contains a wide range of resources and useful information to help you learn more about us and the ways in which we can help.

I look forward to working with you.'

**Jonathan Gain**, Chief Executive

### Key Features



#### Tax efficiency

Relief from IHT after two years



#### Diversified

The portfolio typically comprises 25 to 40 AiM listed companies



#### Transparent Fees

Our fees are competitive and transparent



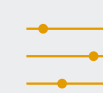
#### Reducing exposure

No more than 7.5% exposure to each individual company



#### Heritage

Long term track record



#### Control

Retain ownership of your investments, so you keep control



#### Choice

Available within GIA or ISA accounts and via wrap platforms



# About Us

We are the inheritance tax and estate planning specialists, with over three decades of financial services experience.

Our directors have been at the forefront of tax-efficient UK investment since the early 1990s, when they established the tax and property division of a major independent merchant bank. Over the next decade this company became one of the market leading investment houses in the market, with assets under management of some £3.5 billion at its peak.

Drawing on this previous experience, Stellar was formed in 2007, with the aim of helping investors to mitigate inheritance tax. Today we remain an independent firm, which is wholly owned by its directors and staff.

## Our Philosophy and Purpose

Our philosophy is simple. At Stellar, we put you first. We align all we do to produce the outcomes that you require. We strive to be the leading provider of intergenerational inheritance tax services. We work with you to provide services which allow you to retain ownership and control of your capital during your lifetime - as well as offering the potential for uncapped investment returns, and the reassurance that your legacy can be passed to your beneficiaries free from inheritance tax. This is central to our intent, our purpose. It's what drives us in all we do.

## What We Do

We provide clear, easy to understand and effective Business Relief solutions to any inheritance tax conundrum.

We do this by offering a wide range of services that provide you with relief from inheritance tax through a number of qualifying business activities - while ensuring that you continue to own, and have access to, your capital. These services are underpinned by Business Relief, a longstanding government legislation which seeks to provide you with 100% relief from inheritance tax after two years.

The business activities in which we invest are tailored to suit different objectives, and currently include Commercial Forestry, Hotels, Bridging Finance, Care Homes, Leisure Assets and Commercial and Residential Property Development - as well as AiM portfolio services, which are also available via an Individual Savings Account (ISA).

We are focused solely on services for inheritance tax mitigation, and our investors include individuals, trustees, business owners and those with Lasting Powers of Attorney. Our inheritance tax services are designed to create the right balance of flexibility and control - providing you with confidence and reassurance, today and in the future.

“Size is the enemy of returns. To preserve the future returns potential, we will cap the capacity of this strategy.”



# Introduction to Inheritance Tax & Business Relief

## Inheritance Tax

IHT is charged on the value of everything you own after your death, in excess of the Nil Rate Band (NRB) - which is a tax-free allowance, currently set at £325,000 per individual and £650,000 for married couples and civil partners.

Legislation introduced in 2016 offered qualifying estates an additional tax-free allowance known as the Residential Nil Rate Band RNRB which was phased in over four years and now provides a further £175,000 per individual on top of the standard NRB. However there are limitations on which estates are entitled to this additional threshold, and the relief is tapered for estates valued at over £2 million.

Any value in excess of the NRB, and the RNRB if relevant, is taxed at 40% - and the nature of this tax means that your beneficiaries are left to pay the bill. Added to this, rising house prices mean that more families than ever before are falling into the inheritance tax trap - which underlines the importance of careful inheritance tax planning.

## Business Relief

Traditional inheritance tax planning strategies can help to reduce the final bill that your family will need to pay. However, in many cases it takes seven years before the assets which you pass on are entirely exempt from inheritance tax, and this usually involves a transfer of those assets during your lifetime. But there is an alternative, which takes advantage of legislation called Business Relief.

This was introduced in 1976 to allow a business owner to pass on their business to family members, without incurring inheritance tax. Our inheritance tax services seek to operate within this robust legislation.

Further details regarding taxation are provided in the Terms and Service Agreement. Prospective investors should also seek independent taxation advice prior to subscribing to the Stellar AiM IHT Service.

# Business Relief Opportunities



\*Either to be sold or sold in the last three years.



# Why Our AiM Service is Different

## 1. Performance matters

To maintain investment performance integrity, we are one of the very few AiM IHT managers who will cap the fundraising strategy. In the trade-off between maximising funds under management or investor outcomes, we are clear who takes priority.

## 2. Size matters

By limiting capacity we are able to target some of the most mispriced companies on AiM. Our 'sweet spot' is market capitalisations of £250m and below, where stocks are priced less efficiently more often and to a greater extent than larger stocks typically are. However, we are not dogmatic and can, and will, invest in larger-sized companies but only where the risks/ reward ratio in our view is compelling.

## 3. Tomorrow's winners, not yesterday's

By targeting the smaller end of companies on AiM, we believe we can benefit from a boost to returns. As a company grows both its earnings and market capitalisation, larger institutions can start buying the stock which typically increases the company's price/ earnings ratio. This re-rating plus earnings growth should help to deliver superior returns.

## 4. Excellent Value

There should be no compromise between fees and service. Our charges are transparent, highly competitive and specifically structured to maximise investor performance.

## 5. Rigorous risk control

We remain nimble because we are constantly mitigating the three key equity risks: earnings, valuation, and financial (balance sheet) risk. In addition, we run strict sector, factor and stock position limits to ensure robust diversification across the Service of up to 40 companies.

## 6. Founders' mentality

We target companies that are founder-led, who have the 'owner's eye' and run the business with a long-term view. There is no better alignment of interest than having management own a significant stake in the business.

## 7. Growth and Value factors

While the two common factors, Growth and Value, are intrinsically linked, they perform very differently depending upon wider economic, interest rate, and inflation cycles. We will always have a dual exposure to both factors which helps to reduce our portfolio volatility.

## 8. Institutional rigour, without the straightjacket

With a well defined and tested investment process, our specialist and highly experienced AiM team operate within a well-structured and proven framework, while retaining an independence of thought and unburdened by an overly bureaucratic approach. What matters is what works.

## 9. ESG

We believe sound ESG analysis should be looked at holistically, incorporating both quantitative and qualitative factors, to form the most rounded view. ESG is an embedded part of our investment process, identifying both 'strivers and drivers'.

## 10. Portal access

All investor reports are available to download or view on-line providing live valuations, transaction history, and historical portfolio performance.

“If your portfolio looks like everyone else's, you may do well, or you may do poorly, but you can't do differently. And being different is absolutely essential if you want a chance at being superior.”

HOWARD MARKS, OAKTREE CAPITAL



# Introduction to AiM

AiM is the most successful growth market in the world. Since its launch in 1995 over 4,000\* companies have chosen to join AiM. Powering the businesses of tomorrow, AiM continues to help growing companies raise the capital they need for expansion. Today there are around 760 companies quoted on AiM, with a combined market capitalisation of approximately £75 billion.\*

The AiM market includes new, ambitious and little-known companies that are keen to

grow; but not exclusively so. Some of AiM's larger and more familiar names include Jet2, YouGov and Fever-Tree. With a market capitalisation of approximately £2 billion\*, Jet2 is one of the biggest and most successful companies currently quoted on AiM.

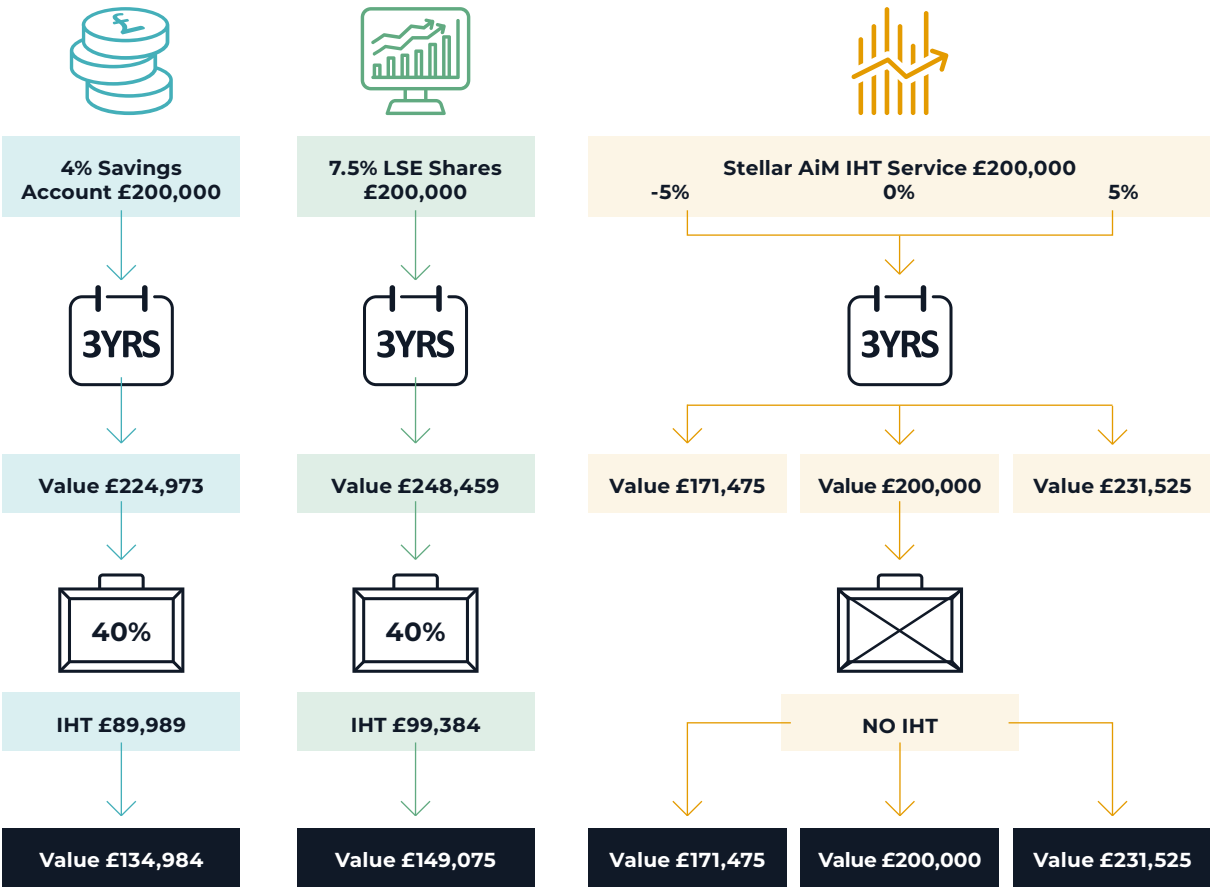
The nature of AiM means that the size of the companies quoted can vary quite dramatically, with 89% of the companies in the index valued at less than £250 million and only 1.3% with a value of over £1 billion.

\*Source: London Stock Exchange AiM Statistics, November 2023.



# Performance Comparison

The following table illustrates how an investment in the Service might compare over three years to holding cash in a savings account, or 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 potential annual returns is shown for the Service.



- Notes:**
- ★ The Service is higher risk than savings accounts and the main market of the London Stock Exchange.
  - ★ 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 are calculated using compounding of nominal returns and rounded to the nearest whole pound where applicable.



# Our Investment Process

We conduct rigorous due diligence when assessing companies both at inception and an ongoing basis across three multi-disciplines:

## 1. Quantitative

### Profitability

### Balance sheet strength

### (Free) cash flow generation

Our fund managers analyse each company's accounts, targeting only profitable and growing (recovering) companies, with an emphasis on cash generation and dividend paying ability.



## 2. Qualitative

This area concerns the more subjective aspects of an investment where our fund managers assess the culture, strategy, business model, competitive advantage, and growth runway. In particular, we seek out high quality management that are aligned ("3i's") and able to allocate capital well.

### 3i's

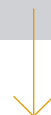
- ★ Integrity
- ★ Incentives
- ★ Intelligence

### Capital Allocation

- ★ Organic investment
- ★ Inorganic (M&A)
- ★ Debt
- ★ Dividends
- ★ Buybacks

### Long-term outperformance

- ★ Sustainable earnings
- ★ Rising free-cash flow per share



## 3. Psychological

We appraise investors' sentiment in a stock to identify where fear or greed has become excessive and, by extension, where a share price has deviated too far from its intrinsic value.

"We seek to build the portfolio to be robust against a range of unknowable outcomes."



# Risk mitigation

## Balance sheet

A strong balance sheet can enable a business to weather periods of weaker trading at the same as acquiring bargain assets in a downturn. Most of the companies in the portfolio will have a net cash position, or modest levels of borrowings with strong free-cash flow.

## Earnings

We target Growth companies that exhibit structural growth and ideally can reinvest earnings at high rates of return to compound

shareholder value. For Value companies, which are often cyclical in nature and/or in turnaround, we seek to identify self-help levers to improve margins, earnings, and cashflow to drive an improved valuation.

## Valuation

We always see to invest in companies at a discount to their intrinsic value. To us, risk is primarily a function of price and by not overpaying investors can both limit downside risk while maximising upside potential.

In addition we overlay strict limits:

- ★ Individual stock position size - max 7.5% for Growth and 5% for Value
- ★ Sector concentration - between 20-30% depending on intra-sector stock correlation
- ★ Factor exposure - Growth min/max: 60%/75% and Value: 25%/40%
- ★ Number of stocks- min/max: 25/40
- ★ Company ownership - target 3% average stake in an investee company (max: 5%)



# Portfolio Construction

By blending the Service with companies that perform at different points, this helps to both improve upside returns potential while minimising volatility.

Key to this performance offset is investing in both **Value** (typically 'cheap' companies

on low valuations) and **Growth** (typically faster growing and valued higher than average). Value and Growth companies react differently to changes in inflation, interest rates, and GDP which provides a natural hedge against each other, dampening overall portfolio volatility.



## Sell at fair value

- ★ Out of favour or a serial disappointment
- ★ Low return on capital (but scope to improve)
- ★ Discount to long-term valuation
- ★ Rating (P/E) main driver of returns

## Sell when expensive

- ★ Lower earnings volatility
- ★ High return on capital
- ★ Ample cashflow reinvestment runway
- ★ Earnings (E) main driver of returns

## Tomorrow's winners, not yesterday's

We see particular value in the smaller end of AiM (companies with a market capitalisation below £250m) which is less researched, owned, and offers more potential pricing anomalies to exploit.

We want to buy the best AiM companies, not nearly the biggest. By getting in before larger peers, we seek to acquire cheaply and as the company grows it attracts larger and

larger investors who typically push up the valuation. This provides a powerful boost to shareholder returns as they benefit from underlying earnings growth as well as higher Price/Earnings ratio.

While the bias of the portfolio will be to the sub-£250m segment, the Service can and will invest in larger stocks where a compelling opportunity exists.

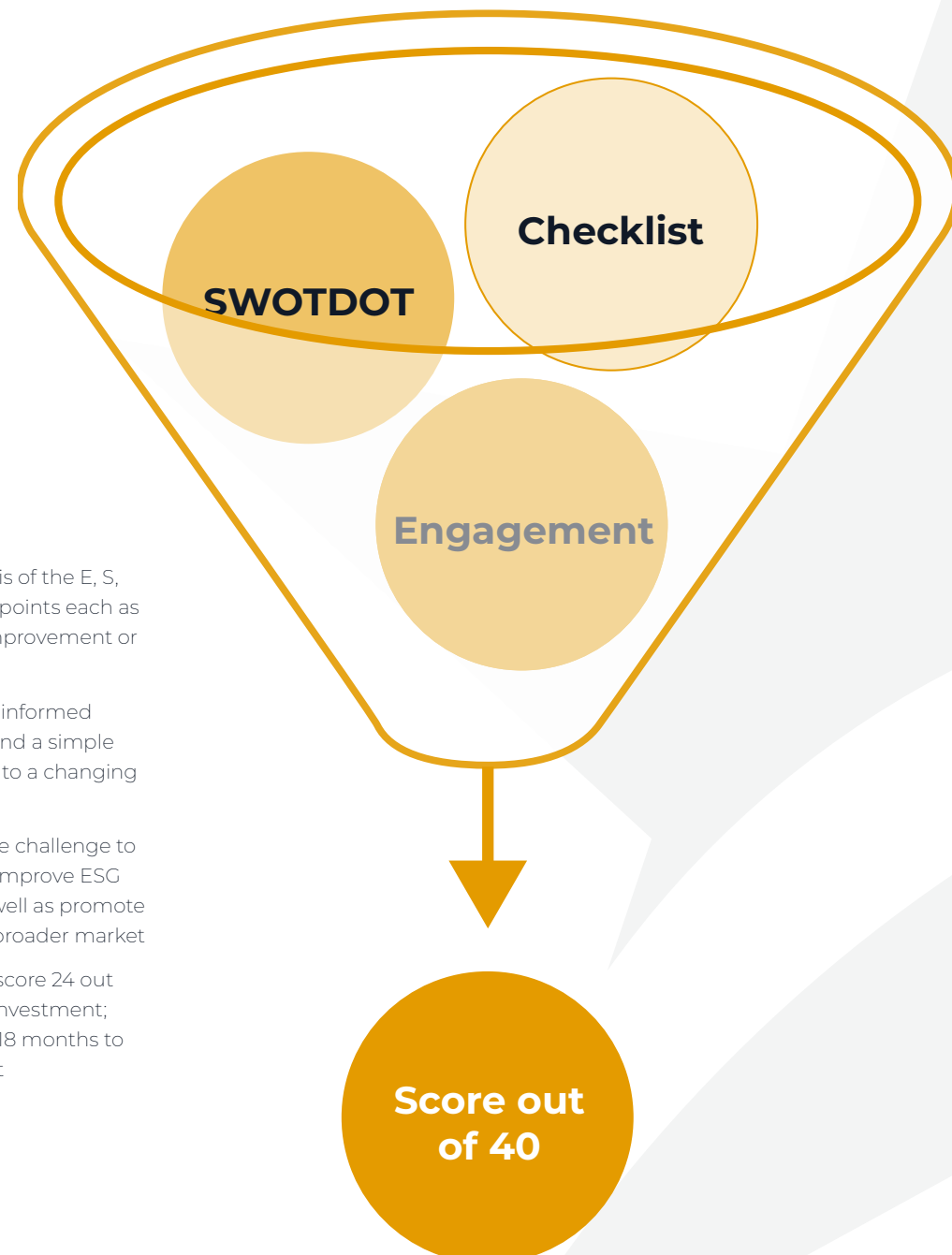


# Sustainability

Stellar became a signatory to the **Principles for Responsible Investment (PRI)** in 2021, the world's leading proponent for responsible investment. In doing so, Stellar has committed to adhering to the associated principles, with an absolute focus on ensuring we incorporate ESG issues into both our investment process and our decision making and seek appropriate disclosure on ESG issues in the entities in which we invest.

Our approach is inherently pragmatic, considering ESG "in the round" by incorporating both objective and subjective factors, all aimed at further improving risk adjusted returns.

Investee companies are analysed at the point of investment and at least annually thereafter.



**SWOTDOT** - SWOT analysis of the E, S, and G are scored out of 10 points each as well as the year-on-year improvement or 'Direction of Travel' (DOT)

**Checklist** - The analysis is informed by company information and a simple checklist that is adaptable to a changing regulatory environment

**Engagement** - We provide challenge to all investee companies to improve ESG quality and disclosure, as well as promote acceptance of ESG in the broader market

**Score** - Companies must score 24 out of 40 points to qualify for investment; those that fall below have 18 months to improve or risk divestment

# Investment Options





## Stellar AiM IHT Service

The Service is a discretionary managed portfolio. We invest in a diversified portfolio of 25 to 40 companies quoted on the Alternative Investment Market of the London Stock Exchange. After two years the value of your Portfolio should qualify for

full relief from inheritance tax, provided the investments are held at the time of death.

The Service is available to investors both inside and outside an ISA. We also accept both portfolio and ISA transfers.

## Individual Savings Accounts (ISAs)

ISAs allow you to invest in either stocks and shares or cash, while benefiting from tax-free income. In addition, any capital growth is not subject to capital gains tax. An ISA is a wrapper in which you can shelter your savings before transferring existing investments from tax

However, you may not be aware that the value of investments and cash held in ISAs are usually counted as part of your taxable estate - so if you want to pass these ISA

assets to your family when you die, it may be subject to inheritance tax a 40%.

Since 2013, companies' quoted for AiM have been eligible to be held in an ISA. You can transfer part or all your existing ISA or open a new ISA when you chose to or invest in the Service. This means you can derive even greater tax benefits by sheltering your investments from income tax, capital gain tax and IHT.

## Transferring an existing ISA

The minimum initial subscription to the Service is currently £20,000. This means you can use this year's annual ISA allowance to set up your Stellar AiM IHT Service. You can also transfer any existing ISAs you hold, however it can take up to six weeks for transfers to take place. You should also note that other ISA providers may charge penalties or fees for transferring money. Please check before you transfer.

If you hold existing ISAs that do not qualify for IHT relief, these can be transferred to the Service while keeping all the ISA benefits. For IHT relief, the two-year qualifying period will only start once your funds are invested in the underlying AiM companies. Until we invest your funds, you won't be exposed to the market, so any rises or falls during this period will not affect your investment. Each

year you may subscribe up to the maximum ISA limit or transfer that amount from a GIA account to an ISA account within the Service. The minimum top-up is £1,000.

## Additional Permitted Subscriptions for ISAs

The additional permitted subscription was introduced in 2015. It allows a surviving spouse or civil partner to inherit an ISA allowance and make further subscriptions alongside their own ISA allowance. These can be up to the value of the deceased's ISA at death, or when the ISA stopped as a continuing account if death was on or after 6 April 2018.







# Fees and Charges

We do not charge a subscription fee. There is a dealing fee of 0.25% of the amount dealt and the annual management fee is 1% (plus VAT) per annum of the market value of your Portfolio, charged on a quarterly basis.

The Custody Administration fee covers the costs of the provision of safe custody administration to your Portfolio and is 0.225% (plus VAT) per annum of the market value of your Portfolio. It is charged on a quarterly basis.

All fees are expressed as a percentage of the market value of your Portfolio and are applicable to investors with advisers. We do not charge an exit or performance related fee. Further details of the fees charged and the timing of payments is provided in the Terms which includes information on fees and charges for applicants where commission

Fees and Charges	
Initial Subscription Fee	Nil
Dealing Fee	0.25%
Management Fee	1% plus VAT
Custody Administration Fee	0.225% Plus VAT

is payable on their investment (e.g. by those investing on an execution-only basis). We are able to facilitate both initial and ongoing adviser charges from your Portfolio. You and your financial adviser will need to complete the relevant section of the Application Form.

# Investor Updates

We produce quarterly factsheets showing our latest performance, our allocations and up to date market commentary. In addition we provide monthly company spotlights providing further information on individual holdings within the Service. These documents are available on our website at [www.stellar-am.com](http://www.stellar-am.com) and will also be published on our online portal for investors and advisers.



# Key Risks

The key risks associated with the Service are outlined here - please refer to the Terms and Service Agreement for a full list.

### Your capital is at risk

The value of your portfolio, and any income derived from it, may go down as well as up and you may not get back the full amount you invested.

### Qualifying investments are not guaranteed

Although it is intended that the Service will be operated such that Investors will qualify for IHT relief after two years, there is no guarantee that this will be achieved or maintained. The level of IHT relief may be restricted if any investment becomes non-qualifying for Business Relief purposes. For example if the company becomes listed on a stock market so that the shares are no longer unquoted for tax purposes.

### Target returns are not guaranteed and you cannot rely on past performance

Please remember that past performance is not a reliable indicator to future performance, and there is no guarantee the target return objectives will be met.

### Tax reliefs are not guaranteed

The rates of tax, tax benefits and tax allowances described in this brochure are based on current legislation and HMRC practice. They are not guaranteed, are subject to change and depend on personal circumstances. In addition, any changes to the investments that qualify for Business

Relief may have a material adverse effect on the value of your Portfolio or the ability of Stellar to achieve the objectives of the Service.

### Investments are long-term and high risk

Investments must be held for at least two years, and held at death, to benefit from Business Relief. Portfolios will be invested in companies quoted on the AiM market, which may be significantly more volatile, carry higher risk and be less liquid than many other investments - particularly in comparison to larger companies traded on the main market of the London Stock Exchange.

### Your portfolio may be difficult to sell

Although you can request a withdrawal from your Portfolio, there may be a delay because the interests in the AiM companies are not liquid, and these shares tend to be harder to sell than those of larger companies. This means you may not be able to sell the shares immediately and you may have to accept a price that is less than the value of the shares.

### Conflicts of interest

Instances may arise where the interests of one group of investors will present a conflict with the interests of another group, or an interest of Stellar. In the event of a conflict, Stellar's investment committee will work to ensure that this is resolved fairly and in accordance with its conflicts policy.

If you have any questions, please consult your adviser or call us on 020 3195 3500. Please note that calls to this number may be recorded.

# How to invest

We are committed to making it simple for you to invest with us. You can invest in the Service by transferring existing equity portfolios, ISAs or investing capital directly.

Upon acceptance of a completed and signed Application Form, your money will be held in a bank account pending investment, with each investor's investment clearly and separately identified. The shares in which your monies are invested will be beneficially owned by you, but held by a nominee on your behalf.

Upon the death of the investor, the securities are included in the deceased's estate for probate purposes and revalued as at the date of death. However, if the securities were held for two years or more, then 100% Business Relief is available - which should mean that no IHT will be payable on the market value of the securities at the time of death.

If the investor dies within two years of investment, then the Portfolio will not benefit from Business Relief and the assets will be liable to IHT as part of their estate. However, if the investor has a surviving spouse, the assets may be transferred without triggering an IHT liability, and without the requirement of a new two year qualifying period.

## Withdrawing Money

You can request for any shares in your Portfolio to be sold and then withdraw monies from the Service at any time. Withdrawals will usually be satisfied within 10 days of your withdrawal request being received by us.

Investors should note that liquidity in some companies quoted on AiM may be limited, making it difficult to accommodate sudden large orders for sales or purchases of investments.

Where the shares to be sold, and the withdrawal, amounts to £30,000 or more, we will use reasonable efforts to raise the entire amount within the timescale requested. However, we reserve the right, in your own interest, to take longer if necessary to, ensure the orderly disposal of investments. The timescale for any withdrawals or transfers will also comply with the ISA Regulations where appropriate.

Money withdrawn from the Service will come back within the estate for IHT purposes. Money withdrawn from an ISA will also no longer be eligible for the ISA-related capital gains and income tax benefits. This does not include transfers from one ISA to another, which continue to receive these tax benefits.

# Important Notice

Any individual who is in any doubt about investing in the Stellar AiM IHT Service should consult an investment adviser that is authorised by the Financial Conduct Authority, or an appropriately qualified taxation adviser.

This brochure, together with the Stellar AiM IHT Service Terms and Service Agreement ('Terms') which includes ISA, and the corresponding Application Forms, constitute a financial promotion in relation to Section 21 of the Financial Services and Markets Act 2000. It is issued by Stellar Asset Management Limited ('Stellar'), 20 Chapel Street, Liverpool L3 9AG, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom (RN: 474710). This brochure is dated December 2023.

It is important that investors and their advisers read the whole brochure and associated documents, including the key risks on page 22 and the service agreement, which is in the Terms and forms part of any decision to invest in the Stellar AiM IHT Service. Nothing in this brochure or any associated documents constitutes investment, legal, tax or other advice by Stellar.

This brochure is provided on a confidential basis. You may not copy, reproduce or further distribute this brochure or any of its content to any other person at any time, nor discuss with any other person the proposal in this brochure without the prior written consent of Stellar.

An investment in the Stellar AiM IHT Service may expose you to a significant risk of losing all of the money invested. There are significant other risks associated with an investment, which are set out in the Terms.

This brochure should not be communicated outside of the United Kingdom. Significantly, the tax treatment for investors who are based outside of the United Kingdom will differ from that set out in this brochure, and they may not receive the reliefs available to United Kingdom investors.

The information contained in this brochure makes reference to the current laws concerning Business Relief. These levels and bases of relief may be subject to change. The tax reliefs referred to in this brochure are those currently available to certain persons and their value depends on individual circumstances.

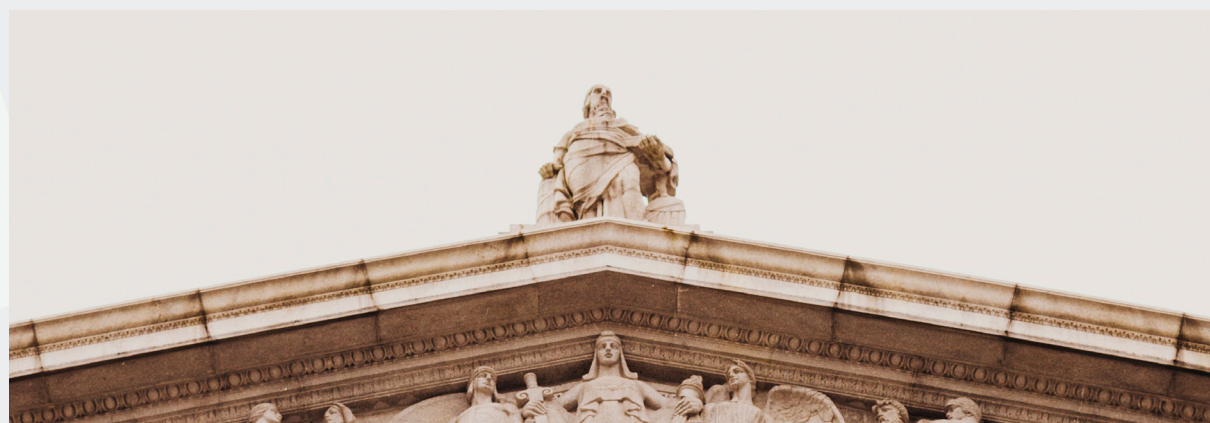
Stellar has taken all reasonable care to ensure that all the facts stated in this brochure (as at the date of publication) are true and accurate in all material respects, and that there are no other material facts or opinions that have been omitted, which would make any part of this promotion misleading.

However, where information has been obtained from third party sources, Stellar cannot accept responsibility for the completeness or accuracy of that information, and potential investors must form their own opinion as to the reliance they place on that information. Neither delivery of this brochure, nor anything stated within it, should be taken to imply that any information in this brochure is correct as of any date after the date of publication.

No representation is made or assurance given that such statements, views, projections or forecasts are correct or that the objectives of the Stellar AiM IHT Service will be achieved. Prospective investors must determine for themselves if such statements, views, projections or forecasts are reasonable and no responsibility is accepted by Stellar or any other person in respect thereof.

Prospective investors will need, and be expected to make, their own independent assessment of an investment in the Stellar AiM IHT Service and to rely on their own judgement (or that of their independent financial adviser) in respect of any investments they may make through the Stellar AiM IHT Service, and the legal, regulatory, tax and investment consequences and risks of so doing.

If you have any questions, please consult your adviser or call us on 020 3195 3500. Please note that calls to this number may be recorded.





# Get in touch

We're here to help

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## Investors

We recommend you speak to a Financial Adviser in the first instance, as we cannot offer investment or tax advice.

If you have any other questions please contact us on 020 3195 3500 or email us at [enquiries@stellar-am.com](mailto:enquiries@stellar-am.com)

For further information, please visit [www.stellar-am.com](http://www.stellar-am.com)

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