# Risk Management

STELLAR FAMILY TRADING COMPANIES

STELLAR

# Introduction

## Overview

Our asset backed services will invest across a diverse range of qualifying business activities each of which provide high levels of asset security.

A partnership will be created for each asset acquired by one of Stellar's Asset Backed services. The partnership will either be an English general partnership, a limited partnership or a limited liability partnership. Investors gain exposure to these underlying partnerships by investing in the Asset Backed service.

Stellar's risk management takes several forms. This paper outlines an overview of the key risks to be considered when managing asset backed businesses and the mitigation techniques that we use to manage such risk **at a service level**.

In addition, this paper outlines the risk mitigation techniques used to mitigate risk at the individual **business activity level**.

| Business Activities | Asset Security | | Status |
|---|---|---|---|
| Property Development | Freehold Land | Bricks and mortar | Active |
| Construction Finance | Freehold Land | Bricks and mortar | Active |
| Forestry | Freehold Land | Physical Crop | Active |
| Hotels | Freehold Land or Lease | Bricks and mortar | Active |
| Bridging Finance | Property 1st Charge | Loan to value <65% | Active |
| Care Homes | Freehold Land | Bricks and mortar | Active |
| Golf Clubs | Freehold Land or Lease | Bricks and mortar | Active |
| Secured Lending | 1st Charge over assets | Low LTV | Active |
| Farming | Freehold Land | Physical Crop | Paused |
| Sustainable Energy | Lease & Gov't Subsidy | Asset Vale | Paused |

## Risk Mitigation at the Service Level

Investors receive a diverse portfolio across a spread of Business Relief qualifying activities at outset.

The breadth of our sector coverage is a key differentiator to other BR services. At present, Stellar's asset backed services actively manage assets across nine different qualifying business activities. The processes that we have in place with our investment specialist partners ensure that investors can be confident that this diversification is not detrimental to the effective management of each partnership.

## Specialist Partners

Stellar utilises specialist asset managers ("specialist partners") for each of its qualifying businesses. Stellar has ultimate oversight of each of the business and the assets within each partnership and reserves the right to make investment decisions. This additional layer of management offers better oversight, an extra layer of due diligence, and protection against long term underperformance.

Stellar's specialist partners are bound by legal contracts and agreements to ensure that investors are always protected, and risks are always managed. Stellar exercises the right to terminate contracts with its specialist partners if a business is not performing in line with the service's expectations (i.e., not meeting the target return). For its development projects, Stellar uses contractors that are separate to the developers. This provides added protection if one of the facets were to encounter financial problems.

Return parameters are always set with our specialist partners at the outset of a project and will always be primarily contingent on performance targets being met. This ensures that the interests of all parties are aligned and that our specialist partners are incentivised to outperform the service's target without taking on additional risk.

Utilising specialist partners also enables us to mitigate market risk. Markets are cyclical by nature, and this is true of the qualifying activities that Stellar's asset backed services invest in. The use of external specialist partners enables Stellar to be nimble and adapt effectively to market cycles. If we do not perceive there to be value in certain markets, we can cease committing new capital to that area and focus on the activities where we perceive there to be more value for investors. This is a strength that many of our competitors do not have as they often focus on a narrower range of qualifying business activities and have internal teams that focus solely on one area.

## Priority Returns for Investors

For each qualifying business, Stellar has legal agreements in place with its specialist partners that protects investor returns. In each case, Stellar will ensure that there is headroom between the agreed priority return level and the net target return for each service (typically, Stellar will only consider projects that are expected to generate more than 7% per annum). This is an important form of risk mitigation.

Stellar also does not commit to businesses unless, following due diligence on the proposition, it is clear that the project can generate demonstrable returns in excess of the service's target.

## Monitoring of Partnership Performance

The performance of each business is monitored consistently. Stellar holds meetings with all of its third-party managers on either a monthly or quarterly basis. The frequency of face-to-face meetings depends on the term of the investment and the nature of the sector (e.g. Stellar hold quarterly meetings with its forestry manager but monthly meetings with hotel managers). As well as face-to-face meetings, Stellar's investment team are in frequent, daily communication with its external specialist managers via both telephone and email. Reports are provided to Stellar by the asset managers on a monthly basis for each project. Stellar's investment team also undertakes site visits on a regular basis to track progress wherever necessary (i.e. to view the progress of its development projects, to view the results of planting or felling exercises at its forests, to track refurbishment progress at any of its assets).

## Oversight

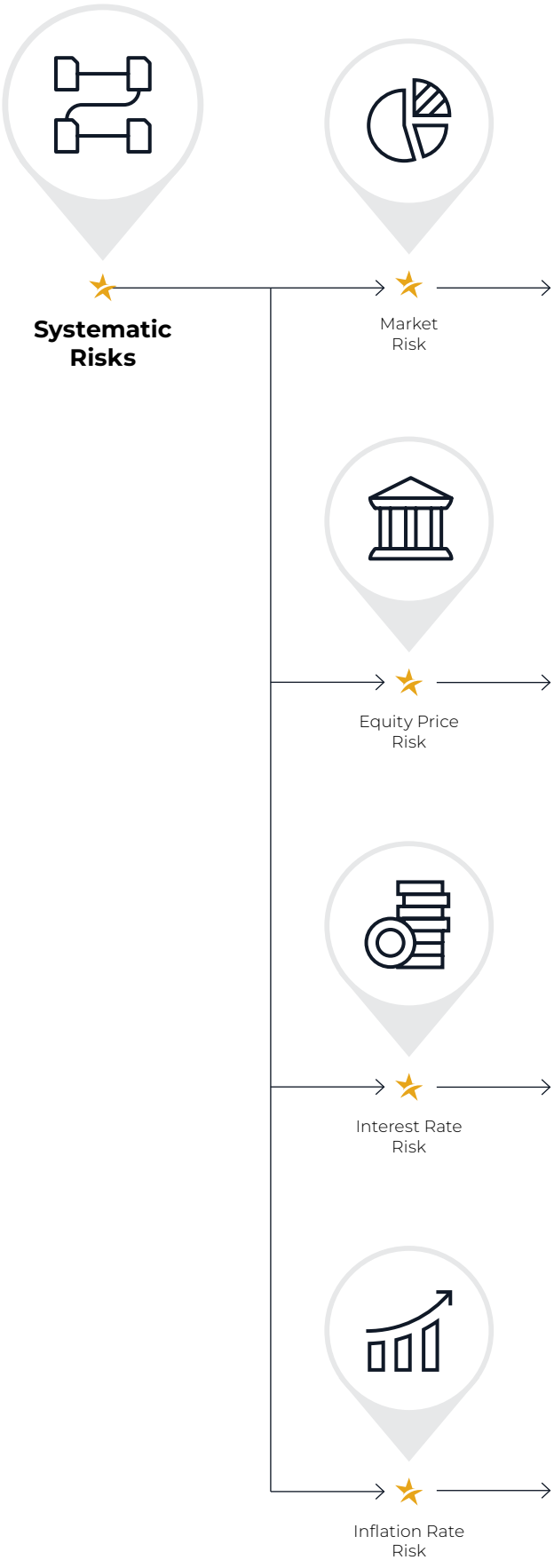
In addition to the performance monitoring outlined above, Stellar's investment committee meets on a monthly basis and reviews all ongoing businesses ensuring that they are managed in line with the service's mandate.

There is also oversight from non-investment staff. Stellar's risk and compliance committee meet monthly and review all investment management activity. Reports are provided to the board accordingly.

## Limited Use of Leverage

Typically, Stellar funds all its partnerships using investor capital. Stellar may occasionally recommend that debt funding be provided to increase its ability to complete an acquisition on a timely basis or to increase returns for investors. If utilised, we remain within the parameters stated in the respective service's terms.

# Systematic Risks




Market risk is the risk of loss resulting from factors that affect an entire market or asset class. The ability to diversify an investor's portfolio across a breadth of qualifying business activities (asset classes) means we can mitigate market risk on behalf of investors.

Our asset backed services provide investors with the opportunity to own tangible assets. As investment manager, we exhibit full control over these assets on behalf of investors and we are able to adapt our management approach to market changes. The underlying businesses within our asset backed services are not therefore as sensitive to market risk as traditional asset classes (such as, equities and bonds) in which fund managers have less ability to influence decision making.

Equity price risk is a market risk that relates to the risk of a decline in the value of an investment or a portfolio.

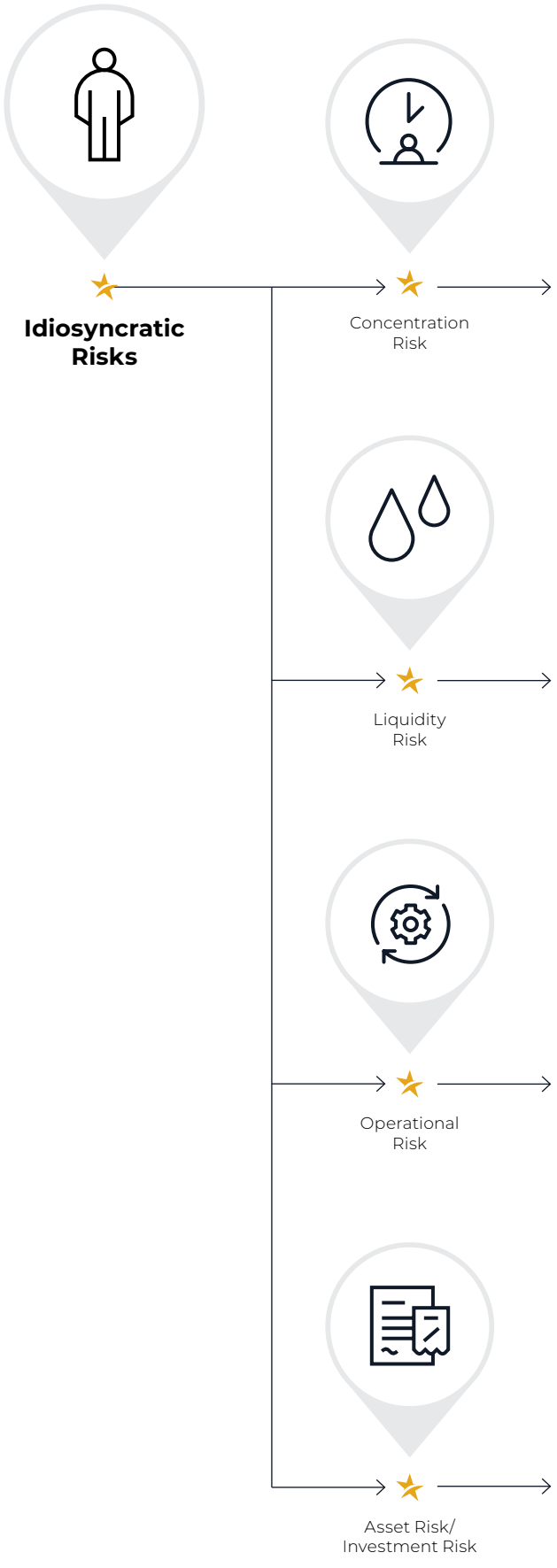
We seek to mitigate this risk through our management approach and investment strategy. Our strategy includes acquiring under-valued, underperforming businesses that provide significant opportunity to add value. We actively manage this business in line with a clear business plan, striving to improve the business and increase its value.

Interest rate risk is the risk of increased volatility due to a change in interest rates. Our asset backed services predominantly invest in equity investments that are funded entirely by equity. Stellar only utilises leverage on occasion for our hotel investments or our commercial development projects. In both instances, interest rate risk is mitigated by limiting the LTV ratio. For commercial development projects, further protection is provided by the fact that the interest rate is fixed and agreed with the bank prior to a deal commencing. This provides us with sufficient protection against interest rate rises. If interest rates were to fall, we would be paying a higher interest rate than market. However, the deal is structured based on the fixed interest rate at outset and will only proceed if it is viable with this interest rate applied.

Inflationary risk is the risk that the future real value (after inflation) of an investment, asset, or income stream will be reduced by unanticipated inflation.

The businesses held within our asset backed services are naturally protected against inflation risk as the prices of the goods and services sold by the businesses typically move in correlation with inflation. In addition, the risk that the value of the property will be worth less as a result of inflation is offset by the active management techniques deployed to add value to the properties.

# Idiosyncratic Risks




Concentration risk is the potential for a loss in value of an investment portfolio when a group of underlying investments move together in an unfavourable direction. The implication of concentration risk is that it generates such a significant loss that recovery is unlikely.

The primary mitigant of concentration risk is diversification. The breadth of sector coverage within our asset backed services is a key differentiator to other BR services in the market. Stellar has a track record of adding value across nine business sectors and is currently active in seven.

Our asset backed services invest in real assets which are typically illiquid and subject to liquidity risk. This is specified clearly in our investment mandate. As business relief qualifying investments, an investor's objective is to hold their portfolio until death in order to successfully transfer their wealth without suffering an IHT liability. Liquidity is provided to investors on a matched bargain basis. If this option is not feasible, investors may be required to wait until the conclusion of an asset's investment horizon to realise their final return.

That said, our services invest across a diverse range of qualifying business activities each of which have different return profiles and investment horizons. Some of the business activities represent short term investments and will conclude naturally, whilst other business activities represent medium- or long-term investments that require disposal in order to realise an exit.

Investors may receive capital repayments throughout the life cycle of an investment. They have the option to withdraw this capital upon receipt or for this capital to be reinvested into different projects.

Operational risk summarises the uncertainties and hazards that a business faces when undertaking its day-to-day business activities.

This risk is mitigated by our utilisation of industry expertise and a multi-layered oversight approach that comprises our specialist partner as the day-to-day manager of an asset's operations with Stellar as the ultimate oversight function to ensure management aligns with our investment mandate.

Each underlying business activity present their own asset risks which are documented at the outset and managed through the use of our specialist partners and our regular monitoring and oversight.

# Get in touch

We’re here to help

## 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

For further information, please visit www.stellar-am.com

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