

# Details of underlying investments

June 2018





Best Tax and Estate Planning  
Solutions Provider



## Before you start, please remember

For UK investors only.

- The Octopus Inheritance Tax Service invests in unquoted companies. The shares of unquoted companies could fall or rise in value more than the shares of companies listed on the main market of the London Stock Exchange. They may also be harder to sell.
- It is important to remember that the value of an investment, and any income from it, can fall or rise, and you may not get back the full amount you invest.
- The value of tax relief will depend on your personal circumstances and may change in the future. The availability of tax relief also depends on the portfolio companies maintaining their qualifying status.

We do not offer investment or tax advice. We require you to seek professional advice before deciding to invest.

All information in this document is correct at 31 December 2017 unless otherwise stated.

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# Introducing the Octopus Inheritance Tax Service

You don't have to be particularly wealthy to leave behind a large inheritance tax bill when you die. But there are ways to invest that allow you to pass on more of your wealth to your family.

Since its launch in 2007, the Octopus Inheritance Tax Service has helped thousands of people to plan for the future. At the same time, the investments made by the service are also having a positive impact, with the money being put to good use in sustainable and worthwhile sectors across the UK.

Traditional estate-planning solutions can be inflexible. For example, making gifts in your lifetime or settling assets into trust can both result in the loss of access to your hard-earned wealth and take seven years before becoming exempt from inheritance tax.

The Octopus Inheritance Tax Service can deliver a faster route towards inheritance tax exemption that is also flexible enough to adapt to your needs should your circumstances change.

When you invest in the Octopus Inheritance Tax Service, we'll invest your money in one or more unlisted UK companies. These companies meet the requirements to qualify for government-approved relief from inheritance tax after just two years, provided you still hold the investment when you die.

Each company carries out a range of trades in line with the investment objectives of the Octopus Inheritance Tax Service. **Companies are expected to:**

- Target sustainable growth of 3% a year over the long term for investors.
- Qualify for Business Property Relief.



## Talk to Octopus to find out more

If you are considering investing in the Octopus Inheritance Tax Service, you should ensure that you have first read the product brochure and the terms and conditions. You can find these on our website [octopusinvestments.com](https://www.octopusinvestments.com), or call us on **0800 316 2295** and we will send you a copy.

# About Fern



Fern Trading Limited (Fern) is an example of one of the portfolio companies that is held in the Octopus Inheritance Tax Service. Fern is managed by Octopus and is wholly owned by investors in the Octopus Inheritance Tax Service.

Fern began trading in 2010 and has grown to become the parent company of a large trading group. This group now comprises more than 200 companies, with business interests spread across the UK and France.

Fern has a diverse trading strategy but focuses its business activities in areas where Octopus has extensive experience, such as renewable energy, healthcare and property. These areas have been selected for their ability to generate predictable growth over the longer term.

In addition, these sectors make a valuable contribution by:

- Helping the UK to meet its targets for renewable energy production.
- Helping the UK economy to grow by releasing housing stock for redevelopment.
- Helping address the housing and care needs of an ageing population.

Like any trading company, Fern's business strategy has evolved since it was established. The chart on the right details Fern's current business, although this will change over time and may include sectors not shown here.

You can find out more about Fern by visiting [ferntrading.com](http://ferntrading.com).



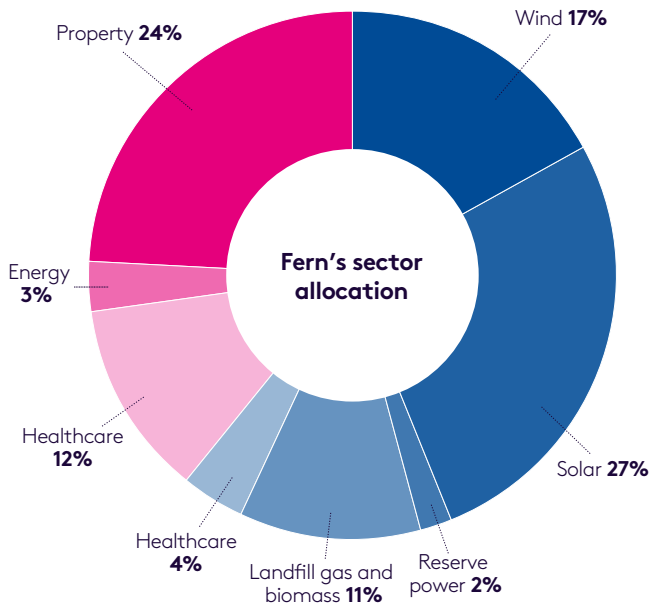
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Fern is the UK's largest producer of solar energy from commercial-scale sites. Fern has built on this expertise, and owns additional renewable energy sites such as wind energy, biomass and landfill gas.

Fern employs more than 350 people across its businesses, and provides employment for many more people indirectly through the contracts it places.

## Fern's business lines

Shown in management accounts for the period ending 31 December 2017.



■ **Owning and operating assets**      **61 %**  
■ **Lending**      **39 %**

## Owning and operating assets

### Energy

Fern owns and operates **164** solar energy sites, **25** landfill gas sites, **5** biomass plants, **9** windfarms, **3** reserve power plants.

### Healthcare

Fern owns a retirement accommodation developer called Rangeford Retirement Villages, which currently has three sites under development.

## Lending

### Property

Fern has lent more than **£1.2b** across more than **1,600** short-term loans. Fern has over **260** live property loans.

### Construction Finance

Fern has provided more than **£900m** of construction finance to build energy sites and has provided more than **£250m** of construction finance to build retirement living communities, care homes and hospitals.

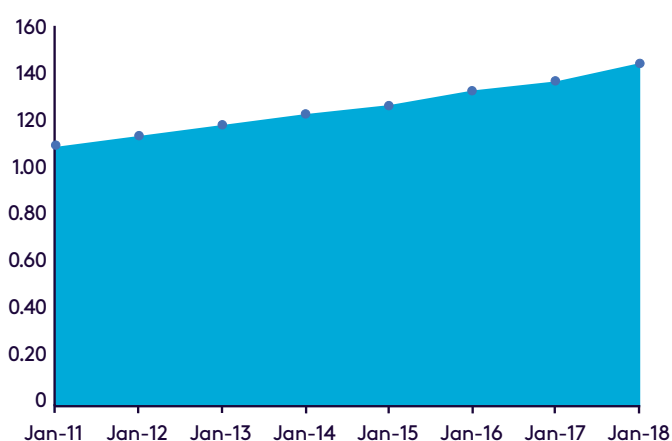


# Fern's performance

Fern targets modest growth for shareholders over the long term.

## Share price growth since inception: Fern Trading Limited

Share price (in pounds)



The performance data on this page shows Fern's share price only. It does not take account of initial fees, dealing fees or annual management charges associated with investing in the Octopus Inheritance Tax Service and should not be viewed as performance information for the Octopus Inheritance Tax Service. Performance is calculated based on the sale price for Fern's shares at 2 January each year. **Past performance is not a reliable indicator of future performance.**

## 12-month Fern share price performance

Financial year	Share price percentage change
Jan 17 - Jan 18	2.89%
Jan 16 - Jan 17	4.12%
Jan 15 - Jan 16	3.10%
Jan 14 - Jan 15	4.45%
Jan 13 - Jan 14	4.10%
Jan 12 - Jan 13	4.09%
Jan 11 - Jan 12	4.17%

Source: Octopus Investments, 2 January 2018

**Please remember: Fern's past performance is not a reliable indicator of future performance.**



### About the Octopus Inheritance Tax Service targets

The Octopus Inheritance Tax Service has an annual management charge of 1% (plus VAT) which is only taken after an investor instructs us to sell shares. And, most importantly, we will only deduct this charge from any growth of the Octopus Inheritance Tax Service above 3% a year, calculated over the investment period. Returns are not capped. However, the target of the Octopus Inheritance Tax Service is to deliver sustainable growth over the long term and investors should not expect to see returns significantly higher than 3% after fees (and of course it could return less).



# Owning and operating businesses

By owning and operating a range of energy-generating assets, Fern is helping the UK meet its target for renewable energy production.

## Energy-generating assets

Many forms of renewable energy generate some of their income from government incentives, as well as from the sale of the energy they produce either directly to customers or via intermediaries. Government incentives for renewable energy are 'locked in' for the expected life of each site once it is operational and accreditation has been granted. This means that any changes to subsidies that are announced after incentives have been accredited would not be expected to alter the revenues generated by each site.

The long-term predictability of the income offered by the government incentives, and the expected increase in consumer demand for energy supply into the future, make renewable energy an attractive investment. In recent years, improved technology has made renewable energy sites cheaper to build and more reliable. This has made the construction and operation of renewable energy sites more attractive, even without government incentives.

## Owning and operating energy sites

Fern owns more than 200 renewable energy sites, ranging from commercial solar installations, windfarms, biomass plants and landfill gas sites. Sites are either acquired when they are operational or when they are 'shovel ready', meaning they have been granted planning permission and construction can begin. Fern earns revenues from the sale of energy direct to end users or via intermediaries. Sites will also generate revenues from government incentives where they have qualified for them.

Fern has chosen to raise external project finance from banks and institutions, which is secured (like a mortgage) against its operational sites. Raising finance in this way enables Fern to acquire more sites, diversifying its business. Mainstream banks have provided more than £800 million of this project finance, a clear indication of the quality of our renewable energy sites.

Fern also owns three reserve power plants. These plants generally run during periods of high demand for electricity and therefore command a much higher price per unit of energy generated.

### Why does Fern operate in this sector?

**Predictability:** Fern's renewable energy sites have known upfront costs and many of them benefit from long-term inflation-linked government incentives.

**High-quality assets:** Fern owns commercial scale sites that are all constructed to the highest technical standards.

**Diversification:** Fern owns and operates more than 200 separate sites. These generate energy from different sources, including solar, wind, biomass plants and landfill gas.



### Solar energy: experience and scale

Through Fern, Octopus is one of the UK's largest investors in commercial-scale solar energy installations, and has invested more than £2 billion into solar projects since 2010.

Solar energy sites capture energy from the sun and convert it into electricity using photovoltaic (PV) cells. Our solar energy sites have been built on a commercial scale, so we don't own small solar panels such as those found on the roofs of private homes.

Today, Fern is one of the UK's largest producers of solar energy and with capacity in excess of 730 Giga Watt hours (GWh), our solar sites produce a similar amount of energy each year as consumed by every home in Bristol.



**The methane burned by Fern's landfill gas sites is equivalent to taking over 250,000 cars off the road each year.**

### Healthcare Infrastructure

As life expectancy in the UK increases, so does the need for suitable accommodation and services to support our ageing population. This means that there's a large and rapidly growing market in the UK for high-quality healthcare property, as well as a need for investment to make sure this growth continues.

### Supporting the construction of retirement accommodation

Fern owns Rangeford Villages Limited (Rangeford), which specialises in creating a high quality of living for people aged over 60. It builds contemporary retirement villages in which people can live long and healthy lives in attractive surroundings with a wide range of leisure activities on their doorstep.

Unlike the traditional care home concept, where people live in a home for just 18 months on average, Rangeford expects residents to move in much earlier in their lives, benefiting from progressive levels of care as their needs change over time. Each village has central amenities that offers levels of service equivalent to an upscale hotel. Residents can also access onsite healthcare services by subscribing to 'wellbeing' packages that can be tailored to their particular needs. Once a site is complete, Rangeford sells units to residents to live in and continues to manage the day-to-day activities of the retirement village. Rangeford currently has three retirement villages under development: Wadswick Green near Bath, Pickering in Yorkshire and Cirencester in the Cotswolds.

# Short-term property finance

## Helping the UK economy grow by releasing housing stock for redevelopment.

Bridging finance is a type of short-term loan, pending the arrangement of a larger loan or a loan with a longer term. It allows an owner or developer to acquire a new property before having sold one they currently own. It was traditionally provided by banks, but in recent years other lenders, like Fern, have entered the market to access the profitable, predictable and secure returns available.

Fern lends directly to experienced property professionals and receives all of the revenues generated from each of its loans, including arrangement fees, interest and early repayment fees. A typical property loan made by Fern will be between three and 36 months in duration, against a residential property based in a prime London postcode and secured via a first legal charge. This means Fern will be the first lender to be repaid by the developer when the property is sold or remortgaged.

Loans are only made after an independent valuation from a Royal Institution of Chartered Surveyors (RICS) member has been commissioned. This means that Fern can be confident that the property against which each loan is secured is worth significantly more than the value of the loan. So, if one of its loans cannot be repaid by the borrower, it can apply to have the property sold, which should generate sufficient sale proceeds to recover the loaned amount.

### Case study: Chelsea redevelopment

In January 2013, property developers approached the Octopus Property team to discuss their redevelopment of the former Kensington and Chelsea College, a Grade II listed building in an affluent residential area of London. The developers had been given planning consent to convert the building into residential apartments, which were valued at seven-figure sums. However, the planning consent was granted with a number of restrictions, and as a result, the developer was unsure whether the expensive flats would appeal to buyers.

The developer had approached a number of banks, but they wouldn't lend without revised planning consent, which was likely to take time. Needing funding quickly, the developer approached Octopus. By working with valuation experts, the Octopus Property team was able to satisfy itself that if the planning consent wasn't granted, Fern's loan could be covered by the value of the property, even if the building were to be re-let as a school. By taking a flexible approach, the Octopus Property team was able to issue a £10 million loan over an 18-month loan period, at a low loan-to-value (LTV) of 30%.

### Why does Fern operate in this sector?

**Asset-backed:** Loans are secured against a property, and Fern lends at conservative loan-to-value (LTV) ratios. The current average LTV is 63%.

**Liquidity:** The average loan length is 21 months, giving Fern a healthy level of regular cash flow.

**Diversification:** There are currently more than 260 live property loans issued to independent borrowers.

## An established and award-winning property lending business

Our Octopus Property team specialises in short-term lending to professional property developers and experienced landlords. Of 5,400 loans issued, over 3,800 have been repaid, to a value of more than £2.1 billion. Capital losses across this loan book have been less than 0.1%.

The team has won several industry awards for product innovation, service excellence and overall performance. These include:

- Business Moneyfacts 'Best Bridging Finance Provider' winner: 2015, 2014, 2013, 2012 and 2011.
- Business Moneyfacts 'Best Development Finance Provider' winner: 2017, 2016.
- Mortgage Strategy 'Best Short Term/Bridging Lender' winner: 2014, 2012 and 2011.
- B&C 'Development Lender of the Year' winner: 2017.

Past performance is not a reliable indicator of future results.



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The property finance team at Octopus was established in 2009. The team of 58 specialists has lent more than £2.9 billion to date.



# Construction finance

## Helping address the housing and care needs of an ageing population.

### Healthcare

As life expectancy in the UK increases, so does the need for suitable accommodation and services to support our ageing population. This means that there's a large and rapidly growing market in the UK for high-quality healthcare property, as well as a need for investment to make sure this growth continues. Fern lends to companies that own land on which they have been granted planning permission to build top-quality facilities, including retirement communities, private hospitals and care homes. These loans fund part of the cost of construction and are typically due for repayment once each site is complete, expected to be between three and five years from the date the loan is made. In addition to the commercial benefits of making loans secured against high-quality assets of this nature, Fern is providing funding to areas of the UK economy that require investment in order to meet our needs as a society.

### Renewable energy sites

Fern also provides loans to companies that own renewable energy sites. To date, Fern has provided £900m of finance to help build and operate 192 commercial-scale solar sites. Instead of having its loan repaid, Fern may decide to acquire the completed site itself to own and operate for the longer term.

### Case study: Aura Care Living

Aura Care Living (Aura) specialises in designing and constructing premium care homes and top-quality retirement villages suitable for people from their mid 70s. Aura is committed to setting the very highest standards, both for the quality of its residential care and the environment for its residents. Discreet care and support is provided by highly trained staff, and Aura's care homes and retirement villages are built to the highest specification, with spas and therapy rooms, superb dining facilities and spacious well-equipped activity areas.

So far, Fern has provided a loan to fund the construction costs of two sites, in affluent and spacious locations in England. Kings Lodge, in the Surrey town of Camberley, features a 64-bed care home set in a 15-acre site and opened this summer. Stratton Court Village, in the heart of the Cotswolds, opened this summer and will include 31 retirement apartments and a 74-bed care home with a vibrant village centre. With a loan-to-value of around 70%, the loan is secured against both sites and is expected to be repaid when the care homes are refinanced and the retirement apartments are sold.

### Why does Fern operate in this sector?

**Asset-backed:** Fern typically has a first-ranking legal charge against the properties it funds.

**Predictability:** Loans are made in stages. This ensures the amount of each loan can be maintained at a conservative loan to value.

**Scale:** Fern makes loans in sectors where Octopus has significant investment expertise, to companies that we expect to work with over the long term.

## An established and award-winning healthcare business

The Octopus Healthcare team invests in and develops healthcare property, as well as partnering with healthcare operators and entrepreneurs to grow and support their businesses. Octopus acquired leading healthcare real estate investment manager MedicX in 2014. The team currently manages more than £1 billion, invested across a number of healthcare property assets including GP surgeries, care homes, retirement housing and private hospitals.

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Since 2014, Fern has provided over £250m of construction finance to companies in the healthcare sector.



# Fern's Board of Directors

Fern's experienced Board of Directors is responsible for determining the strategy of the business. It is also responsible for accounting for the company's business activities to shareholders.



**Paul Latham**  
Chief Executive

Paul is chief executive of Fern Trading. He is also a managing director of Octopus Investments, where he has worked since 2005. Octopus Investments is a key supplier of resource and expertise to Fern. Paul's dual role ensures that this relationship works well and always operates in the best interests of Fern's shareholders.

Paul has had various general management and internal consulting roles across a number of sectors and brings with him a wealth of industry and business experience, including building key elements of the infrastructure for Capital One Bank (Europe) plc as it grew from a start-up business to a company with 2,000 employees.



**Keith Willey**  
Non-Executive Chairman

Keith is an associate professor of strategic and international management and entrepreneurship at London Business School as well as a senior lecturer at University College London. He also holds various non-executive directorships and advisory roles.

His career has spanned academia, consulting, investing and hands-on operational roles within industry and the venture capital world.



**Peter Barlow**  
Non-Executive Director

Peter has almost 30 years' experience in international financing of infrastructure and energy. As the director of finance/corporate finance for International Power, Peter was responsible for fundraisings, bank relationships and treasury activities.

He has spent over 20 years working in Europe, the US, Australia and Asia for HSBC, Bank of America and Nomura, financing acquisitions and greenfield projects in the energy and infrastructure sectors. He is also a non-executive director of InfraCo Africa, a donor-funded infrastructure development company.

# How to invest

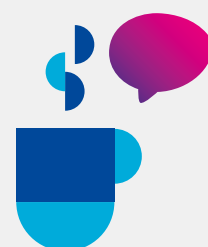
Fern is managed by Octopus on behalf of investors in the Octopus Inheritance Tax Service. The only way to buy shares in Fern is through the service.

## The Octopus Inheritance Tax Service

Full details of the risks and benefits of the Octopus Inheritance Tax Service are contained in the product brochure, which we recommend you read in full before making any investment decisions. You can view a copy online at [octopusinvestments.com](https://www.octopusinvestments.com). Alternatively, call our **Client Relations team on 0800 316 2295** and they can send you a copy in the post.

## Speak with your financial adviser

We require you to take financial advice before making or adding to your investment. Your financial adviser will be able to help you decide whether the investment is suitable for you, and they can also help you to complete an application. If your adviser has any questions, they can visit our website or call our **Business Development Managers on 0800 316 2067**.



## We love talking to our customers

"At Octopus, we try to communicate information as clearly and simply as possible, but our clients can always call us if they have any questions and we'll happily talk things through with them. We don't offer financial advice but we'll do whatever we can to help."

**Sunil Patel, Client Relations**



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