

Quarterly update

5 April 2020

The outbreak of COVID-19 has created significant challenges for most investments and investors. Despite these difficult times Fern was able to deliver growth for investors in the Octopus Inheritance Tax Service over the last year, albeit slightly behind our target.



Rob Skinner is the Investment Director of the Octopus Inheritance Tax Service

Operationally, Fern's group of businesses performed in line with expectations. However, a reduction in Fern's share price in April (see reasons below) resulted in performance of a modest 0.33% growth over the 12 months to April (see performance table on page 3).

As the Octopus Annual Management Charge for the Service is contingent on performance targets being met and deferred until withdrawal, it means for the majority of investors this short period of underperformance has no impact to their net investment value, with the drop in share price effectively being absorbed by Octopus.

Fern's property lending business, which accounts for around 25% of Fern's activities, started the quarter positively as activity in the lending market picked up pace following the conclusion of the General Election and Brexit vote. This rise in activity was brief and demand for new lending considerably slowed as the COVID-19 pandemic unfolded. Downside mitigation has always been paramount in Fern's lending criteria, and this has been further enhanced recently with the criteria for new loans moving to a more cautious set of conditions until the market becomes clearer. Fern's loan book is well diversified with over 200 loans in issue, and due to its average loan to value of 62%, has not suffered any material reduction in value.

Roughly half of Fern's business comprises renewable energy generating assets such as solar parks and wind farms, which should provide predictable and long-term revenue streams for Fern. At the end of March, long-term energy price forecasts were reduced by independent forecasters in the sector. As a result,

the valuations of Fern's renewable energy assets were reduced which was reflected in a 2.5% drop in Fern's April share price.

Plain and boring might not be for all investors but we understand that targeting predictable returns and access to investment is immensely important to the investors in the Octopus Inheritance Tax Service. Fern's blended strategy of asset-backed lending and owning and operating real assets is designed to be predictable and resilient throughout the entire market cycle which is holding true. While there are no guarantees, we expect Fern's businesses will continue to generate consistent revenues throughout this pandemic and beyond.

We are pleased with how the Fern Group is currently performing and are confident looking forward. Fern's pipeline remains healthy and an intended benefit of operating a diverse business is that it isn't limited to one sector. Fern can and will choose to divert capital towards sectors that are most attractive at any time and has a sensible amount of capital for these opportunities. However, Fern will remain prudent, only opting to pursue the most attractive opportunities.

You can read more about Fern's business at ferntrading.com.

In this quarterly update, you'll find information on the Octopus Inheritance Tax Service and Fern Trading Limited (Fern), a company selected by the service that the majority of investors hold in their portfolios. Please note that Fern's performance should not be viewed as performance information for the Octopus Inheritance Tax Service. Please see [page 3](#) for the key risks associated with the Octopus Inheritance Tax Service.

Fern's business strategy

Fern is a £2 billion trading group that operates in sectors where Octopus has extensive experience. The Group comprises more than 200 subsidiary companies with its business split across 10 sectors and 450 assets. By carefully selecting a blend of businesses that work together, Fern can target long-term predictable growth for investors. 63% of Fern's group is focused on owning and operating assets directly to generate revenues, while 37% of its business comprises secured lending.

Owning and operating assets (63%)

23% Wind



106

Wind turbines

21% Solar



164

Solar sites worldwide

8% Landfill/Biomass



22 Landfill gas sites

5 Biomass sites

5% Reserve Power



9 Sites

4% Healthcare



2 Hospitals

3 Retirement villages

2% Fibre



2 Fibre broadband companies

Lending (37%)

26% Property



200

Short-term property loans

6% Energy



27 Loans in the renewables sector

5% Healthcare



2 Loans to retirement villages

13 Loans to special needs schools



Beinneun Wind Farm
Scotland



Mill Hill Solar Site
Isle of Wight

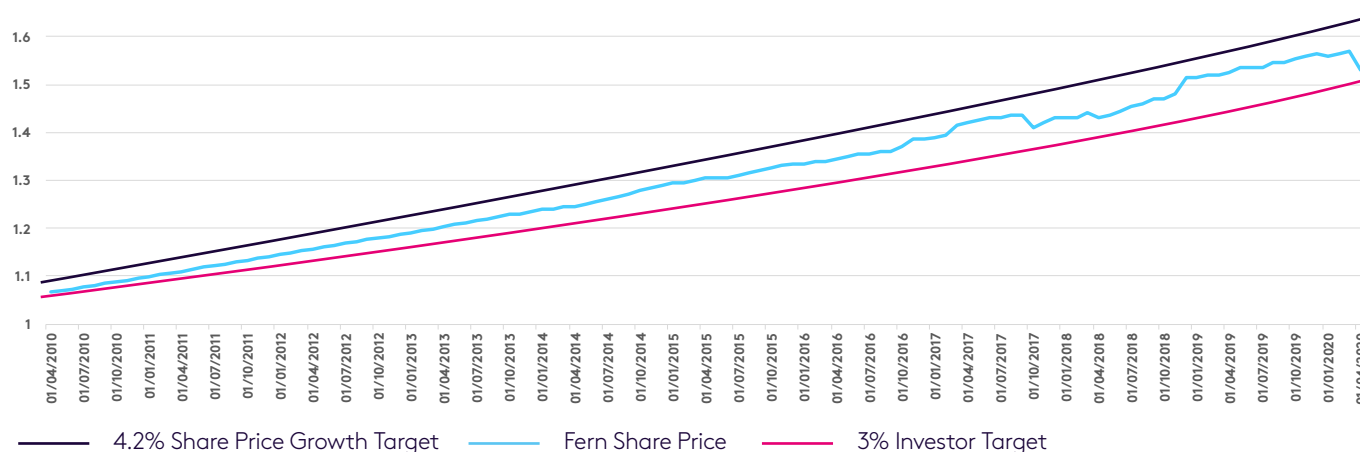
Performance



The mandate of the Octopus Inheritance Tax Service is to invest into companies that qualify for Business Property Relief (BPR), generate 3% annual growth for investors, and liquidity, should investors request to sell their investment.

	This quarter	Since inception
Length of Service	-	12 years
Investor withdrawals facilitated	£50m	£750m
Longest time taken to provide liquidity	4 weeks	4 weeks
Estates entitled to claim BPR	100	3600
Number of investors	12,500	16,000

Fern share price since inception (£)



Fern discrete annual performance

2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
0.33%	6.64%	0.70%	5.58%	3.06%	4.82%	3.48%	4.07%	4.13%	4.13%

Fern average annualised performance

Since inception: **3.68%**

1 year	2 year	3 year	4 year	5 year	6 year	7 year	8 year	9 year	10 year
0.33%	3.43%	2.52%	3.27%	3.23%	3.49%	3.49%	3.56%	3.63%	3.68%

Performance is calculated based on the share price for Fern's shares at 2 April each year. The performance data in the table and graph here show Fern's share price only. They do not take account of initial fees, dealing fees or annual management charges associated with investing in the Octopus Inheritance Tax Service. They should not be viewed as performance information for the Octopus Inheritance Tax Service. For more shareholder information please [visit Fern's website.](#)

Past performance is not a reliable indicator of future results.

Impact

Fern has been trading for ten years and has 350 employees. It also provides employment for many more people indirectly through the contracts it places.

Spotlight on a Fern business: Melton Renewable Energy

One of the companies Fern owns is Melton Renewable Energy (MRE), which has been pioneering new ways to produce renewable energy since 1992.

MRE generates electricity from biomass like chicken litter, straw, meat and bone meal. It provides an invaluable service to local industry by way of a secure year round outlet for the disposal of waste matter. In addition to electricity generated, combustion ash is sold as fertiliser to the British agricultural industry, making this a truly sustainable business model.

MRE's five power stations include the first in the world to be powered by poultry litter, as well as the UK's first straw-fuelled power station. Together, they make up the largest

independent biomass power station portfolio in the UK and generate a combined energy output that's equivalent to taking 98,500 cars off the UK's roads every year.

MRE also creates electricity from the methane created by decomposing waste deposited across 22 landfill sites. Extracting and managing landfill gas fulfils an important role in helping councils and waste management companies meet their environmental obligations.

MRE has been an integral part of local economies in which it operates for almost three decades, creating 250 jobs and generating investment in local supply chains across the UK.

As a key player in the climate change strategy that's helping to reduce the UK's carbon footprint, it's a company that's positively impacting the quality of life for individuals not just today, but for generations to come.

The renewable energy sites owned and operated by Fern have the annual capacity to power every home in Northern Ireland



Fern is providing 60 additional hospital beds to the NHS during the COVID-19 crisis



Key risks of the Octopus Inheritance Tax Service

The value of an investment, and any income from it, can fall as well as rise. Investors may not get back the full amount they invest.

Tax treatment depends on individual circumstances and could change in the future.

Tax relief depends on portfolio companies maintaining their qualifying status.

The shares of unquoted companies could fall or rise in value more than shares listed on the main market of the London Stock Exchange. They may also be harder to sell.



0800 316 2067
support@octopusinvestments.com
octopusinvestments.com



Octopus Investments,
33 Holborn,
London EC1N 2HT