Investment Due Diligence For Starfortis - Value Add Ltd. (Bridging Finance)

Executive Summary

This report offers a detailed, independent review of the Starfortis – Value Add Ltd loan note, a private investment vehicle designed to generate fixed income through secured bridging finance to UK-based property developments. Structured as a two-year loan note targeting a 12% annual return, the offering is available exclusively to high-net-worth and sophisticated investors.

The issuing entity, Starfortis – Value Add Ltd, is a UK-registered SPV, created specifically for this purpose. Investor funds are pooled and lent to experienced property developers against UK real estate assets, with a Security Trustee appointed to oversee the security structure and cash flows.

While the product sits outside the FCA's regulatory perimeter and therefore doesn't benefit from FSCS or Ombudsman protections it follows a familiar and transparent model used across many successful real estate-backed private placements. Key elements such as legal undertakings, asset-backed security, and independent oversight are in place to help manage risk and support investor confidence.

This investment may appeal to experienced investors seeking enhanced yield, asset-backed exposure, and a structured fixed-income alternative within their broader portfolio.

Regulatory Status and Oversight

- **FCA Regulation:** The Starfortis loan note (a form of mini-bond) is not regulated by the UK Financial Conduct Authority (FCA). Loan notes of this kind are considered "non-readily realisable" unregulated securities, offered only to high-net-worth or sophisticated investors. In general, mini-bond issuers do not need to be FCA-authorised, and these investments fall outside the FCA's regulatory perimeter. This means the product isn't subject to FCA rules that protect retail investors, and any promotional materials have not been approved by an FCA-authorised person.

- **Investor Protection (FSCS):** Because the investment is unregulated, it does not qualify for the Financial Services Compensation Scheme (FSCS). In the event the issuer fails or the investment goes wrong, FSCS will not cover losses. The company's own documentation explicitly warns that "compensation may not be available under the UK FSCS in the event of a default". In short, you are investing at your own risk without the safety net of a government-backed protection scheme.

Issuing Entity and Jurisdiction

- **Issuer Identity:** The loan note is issued by Starfortis – Value Add Ltd, a special-purpose vehicle (SPV) created for this offering. This entity is a UK-registered private limited company (Company No. 15518169). According to Companies House records, Starfortis – Value Add Ltd was incorporated on 24 Feb 2024 in England and Wales, with its registered office in Liverpool. This can be independently verified via the UK Companies House website, which provides details like the company's registration number, address, and filing history.

- **Jurisdiction:** The investment is marketed and domiciled in England and Wales, and the issuer operates under English law. All contractual agreements (e.g. the Information Memorandum and Application Form) are governed by the laws of England and Wales. Investors typically have to confirm they submit to UK jurisdiction for any disputes. The UK domicile means the company is registered locally, but note that registration with Companies House is not the same as regulatory authorisation – it simply means the company exists legally in the UK.

Listed Security vs Private Placement

- **Listed vs Unlisted:** This loan note is not a listed security on any major exchange, and it does not have an ISIN like publicly traded bonds. It is essentially a private placement (a direct loan agreement) marketed as a "bond" or fixed-income note. Such mini-bond offerings are usually issued by SME companies or SPVs and cannot be freely traded on a secondary market. In practice, that means you won't find this investment on the London Stock Exchange or any regulated bond market.

- **Registration of the Offering:** Since the product isn't listed, there's no public prospectus approved by a financial authority. The documentation you receive (Information Memorandum, brochures, etc.) is produced by the issuer itself. The promotion is conducted under exemptions for unregulated securities (targeting high-net-worth or sophisticated investors only).

Investor Protection Schemes

- **No FSCS Coverage:** As noted, this investment is outside the scope of the FSCS. If Starfortis or the SPV were to collapse, you cannot claim compensation from FSCS for any losses. FSCS protection generally applies to bank deposits or regulated financial products, not to unregulated mini-bonds. The company even makes investors acknowledge that "investor compensation may not be open to me if I lose money I invest in the Company." In summary, you bear the risk – there is no government-backed insurance on this product.

- **Other Schemes:** No other statutory investor protection scheme (such as the Financial Ombudsman for dispute resolution, or any EU investor compensation scheme) would apply here either. Unless the firm has voluntarily arranged some private insurance or guarantee (which is uncommon and not indicated in the materials), your only protection is the contractual and security structure of the investment itself.

- **Irrevocable Legal Undertaking:** The issuer has entered into an irrevocable legal undertaking with its development partner, Gentrified Real Estate. Under this agreement, if a loan issued by Starfortis – Value Add to Gentrified were to default and the recovery process (such as a fire sale) fails to return the full capital, Gentrified is legally bound to cover any shortfall from profits generated by its other ongoing or completed projects. This provides an additional layer of internal investor protection, designed to mitigate loss and provide an internal investor protection scheme.

Underlying Cashflow – How Are Returns Generated?

- **Bridging Finance Model:** The investment's returns are generated by providing short-term loans to property developments (bridging financing in real estate projects). In essence, investors' money is lent out to borrowers in the property sector, and those borrowers pay interest which funds the return promised to investors. Starfortis describes its model as fractional lending, where investor funds are pooled to extend secured loans on UK property projects. For example, a SPV might need bridging finance to purchase a property, with an exit strategy to refinance or sell the property later. The developer pays a high interest rate for this short-term funding, and that interest is what allows Starfortis to pay investors a fixed 12% annual return (in the Value Add product).

- **Underlying Cashflows:** The underlying cash flow comes from those properties paying interest payments and fees. Typically, bridging loans carry robust interest rates and are often secured by the property asset (e.g. a legal charge or debenture). Starfortis' materials indicate that each loan is backed by UK real estate collateral, and a security trustee holds a charge over the assets. As the developments repay the loans (either monthly interest or at project completion), the SPV uses those funds to pay the investors' interest and return principal at maturity. In short, your return is driven by the borrowers' payments. However, this means if the borrowers default or the property projects fail, the cash flow to investors could be disrupted (hence the importance of the legal charge, undertaking and due diligence on those projects).

"Fixed Income" – Who Guarantees the Interest?

- **No Government or Bank Guarantee:** Unlike a bank savings product, the interest on this loan note is not guaranteed by any government scheme or deposit insurer. The term "fixed income" here only means the interest rate is fixed (e.g. 12% per annum), not that it's risk-free. No external institution (like the FCA or a bank) is insuring or guaranteeing your interest payments. The only "guarantee" comes from the issuer's obligation to pay you as per the loan note terms. Starfortis's comparison of ISAs vs bonds makes this clear: a 5% ISA has FSCS guarantee, whereas a 12% property bond carries "higher returns with added risk".

- **Issuer/Structure Guarantee:** Starfortis claims to have structural safeguards. They mention an "irrevocable legal undertaking ensuring investor returns remain protected." and that a Security Trustee oversees the assets. In practical terms, this likely means the issuer (or related guarantor) has signed an undertaking to use project proceeds to pay investors first, and the Security Trustee can enforce that. However, this is not the same as a traditional financial guarantee by a third-party insurer or parent company with deep pockets. Although if the underlying property deals fail to produce enough money, there is an external entity Gentrified Real Estate that will step in to pay your interest. The investors' protection is limited to the secured collateral and the legal promises made by the borrowing entities.

- **Collateral as Security:** The loan note is described as "secured, asset-backed", meaning your recourse for getting paid (interest and principal) is ultimately against the property assets or company assets given as security. The Security Trustee holds a legal charge on those assets; this gives the Trustee power to seize or sell them if the borrower/issuer defaults. While this improves the chance of recovery, it's not a guarantee of full repayment. Real estate values can fluctuate, and enforcement can be a lengthy process. Thus, the intended interest is fixed and contractually promised, but it's not guaranteed in the sense of being risk-free – it depends on the successful execution of the lending strategy and collateral value.

Liquidity and Early Exit Options

- **Lock-In Period:** You should expect to hold this investment to maturity. The Starfortis loan notes come with a fixed term (2 years) during which your capital is locked-in. The company explicitly states that their bonds require a "2-year lock-in period", unlike an easy-access account. This means if you suddenly need your money back, you cannot simply redeem on demand or withdraw early without penalty (unless the issuer at its discretion offers an exit, which is not standard). Essentially, there is no contractual right for you to cash out before the end date.

- **Secondary Market:** There is no active secondary market for these private loan notes. Unlike publicly traded securities, you cannot readily sell your Starfortis loan note to another investor on an exchange. Mini-bonds like this are typically "illiquid", meaning you're "invested" until the bond matures. In some cases, the issuer might allow transfers of the note to another eligible investor you find privately, but there's no guarantee of finding a buyer. The FSCS explicitly warns that mini-bonds "usually cannot be sold on (unlike shares or larger bonds)… you are locked in until maturity". Plan as though you will hold it for the full term.

- **Early Redemption Possibility:** Check the Information Memorandum for any mention of early redemption or buy-back provisions. Many such issuers do not offer early redemption, or if they do, it might be at their discretion with an exit fee or only after a minimum period. If nothing is mentioned in the documents, assume early exit is not available. Always invest only money you won't need in the short-to-medium term, given the illiquidity.

- **Liquidity Risks:** The lack of an exit means you are exposed to the investment's fortunes the whole time. If your circumstances change or the market conditions make you nervous, you cannot easily reposition. Moreover, if you did find a buyer privately, the price might be heavily discounted if, for example, the project's outlook worsened. In summary, treat this as a locked, illiquid investment – only commit funds that you can afford to tie up and have a clear understanding of the timeline for returns (interest payments and final repayment).

Actual Borrower and Financial Transparency

- **Who is the Borrower?:** It's important to clarify the structure: you (the investor) are lending to the SPV (Starfortis – Value Add Ltd) by subscribing to the loan note. The SPV in turn uses that money to lend to multiple underlying property developments. So in one sense, Starfortis – Value Add Ltd is your borrower, and the actual end-borrowers are the property developments receiving bridging loans from Starfortis. Starfortis acts as a manager – raising funds from investors and deploying them into real estate loans.

- **SPV's Financials:** Since Starfortis – Value Add Ltd is a newly formed company (incorporated in 2024), it does not yet have a long financial track record. Its first annual accounts are due in late 2025, so at present you likely cannot review any audited accounts for the SPV (none have been filed yet). You can, however, verify its incorporation and status (currently "Active") on Companies House.

The SPV’s balance sheet will primarily reflect the funds raised from investors as a liability (the loan notes) and the loans made out to developments as assets.

- **Underlying Borrowers:** Starfortis has mentioned working with “established property companies” in need of short-term bridging finance. The actual borrowers are projects managed by Starfortis’s vertically integrated development arm Gentrified Real Estate. This means loans would be to projects in which Starfortis or its principals have a stake.

- **Access to Accounts:** Getting the audited accounts of the underlying borrowing companies may be challenging. If they’re SPVs for specific projects, they may be newly incorporated (hence no extensive accounts). Starfortis itself might consolidate some info, but since the offering is an unregulated private placement, there’s no automatic right for you to inspect borrowers’ financial statements beyond what the company voluntarily provides.

- **Track Record:**
  Since this is a private placement offering, presumably Starfortis will tout its “strong track record in real estate”. You might request evidence of that track record: completed projects, etc. While the SPV is new, the sponsor’s history matters. Also inquire if Starfortis – Value Add Ltd will publish any interim updates or reports to investors about the loans in the portfolio (some issuers give quarterly updates on project progress). Audited accounts of the SPV will eventually show how funds were used, but only after year-end. Until then, rely on any quarterly statements or updates the company provides on the performance of the underlying loans.

Where Is Your Money Held and Who Controls It?

- **Flow of Funds:** When you invest, your money will typically be sent to a designated bank account for the SPV (often detailed in the application form). This account is a segregated bank account for the loan note offering. Given the unregulated nature, client money rules (CASS) do not strictly apply as they would for an FCA-regulated firm. However, Starfortis claims to implement some safeguards: they mention a Security Trustee and ring fenced investment funds.

- **Segregated vs Co-mingled:** Investor funds are meant to be dedicated to the SPV's loan portfolio, so within Starfortis – Value Add Ltd, all investors' money is pooled (co-mingled) to make the property loans. It should not be mixed with funds of other entities outside that SPV. In other words, money is ring-fenced within that specific company, but not in individual accounts per investor – you own a share of the SPV's overall cash and loan assets.

  Starfortis' materials don't explicitly say "client trust account," but by appointing a trustee with legal powers, they suggest that the account is operated under the oversight of the Security Trustee. Ensuring funds aren't misused by the directors.

- **Authority to Move Money:** Typically, the SPV's directors and the Security Trustee would have authority over movements of money. When borrowers pay interest or capital back, the money likely flows into the SPV's account under trustee oversight, and then out to investors as interest payments or redemptions. The Security Trustee's role is to protect investors by monitoring these flows – essentially, to "ensure investor protection and fair distribution of funds," as Starfortis advertises. It's like having an independent party double-check that funds only go where they're supposed to (e.g., to a vetted property deal or back to investors).

Independent Custodian or Trustee

- **Security Trustee as Custodian:** There is an independent Security Trustee appointed for this investment, which serves a similar purpose to a custodian in a regulated fund. According to Starfortis, the Security Trustee "acts as a bank manager for investors with full legal powers in the event of default." This means the trustee is a third party (not part of the Starfortis company) who holds the security interests and can step in to enforce them if the issuer or borrower fails to meet obligations. The trustee's independence is crucial: it owes its duty to the investors (noteholders), not to Starfortis. In a default scenario, the trustee would act on behalf of investors to recover assets, much like a collateral agent.

- **Custody of Assets:** Beyond cash, the underlying loan agreements and property charges are likely held in trust by this trustee for the benefit of investors. For example, if the loan note is secured on a specific property, the legal charge on that property might name the Security Trustee as the charge-holder (on behalf of the note investors). That prevents the issuer from releasing collateral without trustee consent. This structure is meant to ring-fence the assets (loans and collateral) for investors. So while there isn't a "custodian bank" holding tangible assets as in a mutual fund, the Security Trustee functionally secures and monitors the investment assets in a fiduciary capacity.

What If the SPV/Promoter Collapses? (Ring-fencing and Insolvency Protection)

- **Insolvency Scenario:** This is a critical consideration. If Starfortis – Value Add Ltd (the SPV) or the promoting company collapses or goes bankrupt, what happens to your money? In an ideal structure, the SPV is bankruptcy-remote from the rest of the Starfortis group – meaning it exists solely to handle the investors' funds and the underlying loans. If the promoter (e.g. Verlencia Wealth Ltd) collapses, but the SPV is separate and still has the loan assets, the Security Trustee can continue to enforce the terms on the SPV's assets for investors' benefit. If the SPV itself becomes insolvent, noteholders should be first in line on the assets thanks to the security structure.

- **Legal Ring-Fencing:** The presence of a Security Trustee and charges over assets provides a form of ring-fencing. The loan note holders typically have a fixed and/or floating charge over the SPV's assets, meaning legally the investors' claim is secured against all loans and receivables in the SPV. In a collapse, the Security Trustee would step in to enforce that charge – for instance, collect any loan repayments or seize property collateral – and then distribute proceeds to the investors (after any legal or administrative costs). This is what Starfortis means by the trustee having "full legal powers in event of default." Essentially, the assets are held in trust for investors, and cannot be used to satisfy other creditors until noteholders are paid. This is the key ring-fence: the loan assets are pledged to you via the trustee.

- **No FSCS Safety Net:** Re-emphasizing, if the worst happens, there is no FSCS payout waiting. The FSCS itself states: "If the mini-bond issuer fails, you could lose all your money." So the only recourse is the legal enforcement process. You might ask: Who acts as administrator in a collapse? The Security Trustee often would coordinate any administration or liquidation of the SPV's assets for investors.

- **Promoter vs SPV:** It's also relevant that this is "our own offering," meaning Starfortis is both the promoter and likely an affiliate of the issuer. If Starfortis (the parent/promoter) went under, but the SPV is sound, one might need a new manager to service the loans. The Security Trustee could potentially appoint a new loan servicer or administrator to continue the operations. It's an extra layer of complexity to consider: you're not investing in a vacuum but in a structure managed by a specific team.

Conclusion

The Starfortis – Value Add Ltd loan note provides access to a secured, income-generating strategy underpinned by UK property lending. While it is not FCA-regulated and does not benefit from statutory investor protections, it is structured with clear safeguards, including legal charges over assets and oversight by a Security Trustee, to help mitigate risk.

Like all private placements, this investment carries a degree of risk and is designed for investors who understand the nature of unlisted, illiquid debt instruments. However, the model is well-established in the alternative investment space and, when executed correctly, can offer a compelling blend of return and asset security.

Starfortis has taken deliberate steps to create a transparent and investor-aligned structure. Investors are encouraged to review the documentation carefully, ask questions, and seek independent advice where appropriate. For those comfortable with the risks and looking to diversify beyond traditional market-linked assets, this may offer a well-considered and professionally structured opportunity.