MUSTARD SEED PROPERTY

Making space for vulnerable people to flourish in Cornwall and the Isles of Scilly

Mustard Seed Property Limited
Registered number 30293R

INVESTMENT PLAN
FEBRUARY 2024

Ethex: www.ethex.org.uk/mustardseed2024

MSP: www.mustardseedproperty.co.uk/invest

Capital-at-risk: By purchasing community shares issued by MSP you may lose some or all of the money you invest. Investors are not protected by the Financial Services Compensation Scheme (as you would be with a savings account), and do not have recourse to the Financial Ombudsman Service

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The need for homes for vulnerable people in Cornwall

A home in Cornwall has come to mean, in many circles, a bolt hole for the wealthiest in the UK. Cornwall in turn has become all too dependent on seasonal income through tourism on which to survive the whole year; a precarious financial existence for many. Cornwall is an amazing place and a national leader in food and farming, renewable energy, manufacturing, and a home for many tech-based entrepreneurs. But with its dispersed rural population, and its natural attractiveness as a retirement destination, it has also had to become a leader in social care. Cornwall's infrastructure can't easily cope with the increasingly disproportionate number of people who need support. There is an above average number of isolated retirees, people with learning disabilities and people with dementia, all in the context of fewer jobs, more disparate communities, and higher house prices.

Cornwall continues to have areas of extraordinary wealth with many second home owners living alongside communities with huge deprivation, where Cornwall is the 2nd poorest region in Northern Europe[1] with more than 25% of children living in poverty[2]. There continue to be major issues with housing, homelessness, mental health, education, access to services and inequality between rich and poor.

Housing market in Cornwall

The housing market in Cornwall is very challenging – largely because of the region's popularity as a tourist destination alongside a chronic lack of development. Land for development is limited often because of environmental and planning concerns. Prices are relatively high, and wages are low, making it very difficult for local people to afford to buy property and often in a situation where they are priced out of the local rental market as well. There is a shortage of housing in Cornwall and a shortage of affordable housing[3].

Property required by charities and social enterprises

Housing is a serious concern for people with a learning disability. Many continue to live in inappropriate housing; they remain on waiting lists for long periods of time and are being housed in local authority areas miles away from their families and support networks. As a result, there is a 'priority need' for appropriate homes and support for people with learning disabilities so that they can enjoy independent living within their local community.

Charities and social enterprises face significant challenges accessing enough property to house the vulnerable people they support due to a number of factors:

- High demand for property for residential and business use; particularly in popular tourist destinations – but also more widely
- High property prices
- Limited availability of property

[1] Eurostat, 2018
[2] Loughborough University for the End Child Poverty Coalition shows that just under 30 per cent (29.5%) of children in Cornwall were living in poverty in 2020/21.
[3] Cornwall Council

- Commercially focused landlords can be hesitant to rent to social sector organisations

These factors make it difficult for charities and social enterprises – often operating on limited budgets – to secure suitable premises at an affordable rent.

Solution

MSP is focused on raising and deploying capital and funds so that high quality property can be provided to its partners at an affordable rent in the long-term. Our support is needed more than ever.

Introduction to Mustard Seed Property

Background

Mustard Seed Property Limited (**MSP** or **the Mustard Seed Property**) was set up by people in Cornwall intent on providing the right support for individuals that need it. They might need a permanent home or a bedroom for a few weeks; somewhere to work or train; a place to connect with others or to access land where they can grow something. Through its partner charities and social enterprises, Mustard Seed Property acquires and develops properties which are leased to the partners that make them available as homes or workplaces for the most vulnerable in our society. When MSP was set up in 2007, it was in direct response to a call from people in their sixties and seventies who were trying to plan for a future for their autistic adult children, who were still living at home. MSP raised £300,000 from a few dozen people, a local charitable trust, and a bank, bought an old bed and breakfast and changed the lives of five families. Ten years on, this property has been through a number of iterations and is now used by St Petrocs as a supported house for formerly homeless individuals. Today MSP has three properties and a relationship with several amazing charities and social enterprises which are all growing and needing access to more property, both commercial and residential.

Social impact

MSP serves vulnerable adults who are at risk of homelessness, and/or dealing with physical and mental health & wellbeing challenges, by leasing property to highly respected organisations that deliver the services direct to the individual tenants. Since 2007, over 60 vulnerable adults have been helped in this way, who would otherwise be in homelessness hostels, hospitals, care facilities or other unsuitable housing, or even in some cases, rough sleeping. There is also significant positive impact on those around them; whether as respite for parents coping with grown-up children with learning disabilities or the friends and families of those who would otherwise be in desperate need.

MSP's annual Social Impact Report (**SIR**) outlines the impact being delivered by the partner organisations. The 2022 report is available at:

www.mustardseedproperty.co.uk/impact/

Track record

MSP is a charitable organisation, but it is also a robust commercial investor; with over a decade of paying shareholders a financial return (every year except one during Covid-19) and honouring all requests for withdrawal of shareholder capital.

Growth and expansion

MSP's second property - St George's in Newquay – is used by the Newquay Lighthouse Project CIC to accommodate eleven men recovering from addiction. MSP is about to complete the refurbishment of its third property; Alma Place in Redruth where they will help their partners, United Response and Karrek Community CIC, house an additional five people.

As at March 2024, MSP will have three properties let to three operational partners. The enterprise should generate a healthy net surplus each year. With the model proven, the ambition is to now increase the scale and impact achieved substantially over the next two to five years.

MSP has also begun exploring additional acquisition opportunities with existing partners - as well as new partnerships which may include replicating the very successful men's Lighthouse project with a women's space. MSP is therefore building on a successful and impactful business model to substantially increase the scale of what MSP does well.

Future plans

We are constantly looking to create opportunities for our current partners whilst at the same time searching to generate a wider network of partners to join MSP and increase the much-needed provision of accommodation to vulnerable people across Cornwall. Our long-term ambition is to acquire circa £500,000 of property in Cornwall each year in the future and build a stable balance sheet that prioritises vulnerable people and the social enterprises that support them.

What you are investing in

What has happened since 2020

In 2020, Mustard Seed Property raised £610,000 in its last share offer. This money was used during 2021 and 2022 to acquire a property in Newquay - called St George's - and to refurbish it, spending a total of £612,000. This property is let to the Newquay Lighthouse Project CIC and houses up to 11 men recovering from addiction.

Prior to this, MSP had acquired another property called Alma Place. The re-development works were started in December 2022 and are expected to be completed by the end of February 2024. The property will then be let to United Response to house, and Karrek Community to support, five autistic adults with learning disabilities and mental health needs.

The project used c. £640,000 of short-term debt provided by an individual impact investor – NC Bailey Limited. This short-term investor needed to be repaid (during the project) so MSP therefore raised £1 million in debt from a community asset fund - Resonance Community Developers Ltd (**RCD Ltd**). This medium-term debt is structured over two to three years at a fixed rate; where the certainty on timing and price was advantageous to MSP. This investment provided cashflow to allow the project to be nearly completed as well as the full repayment of NC Bailey Limited and historic long-term mortgage debt with Triodos.

2024 Share Offer

We note that this share offer was originally launched in 2023. With debt subsequently secured on better terms (see above) and a more favourable financial environment, the directors are comfortable that they can now offer a higher target rate of return to community shareholders.

MSP is launching this 2024 share offer and planning to raise up to £1.8 million over the next two and a half years from February 2024 to September 2026 (comprising three financial years). This offer is structured over three phases, with three objectives. The figures set out below represent the increasing amounts of share capital required in each phase.

1. **Phase One**: Minimum of £100,000 and an optimum target raise of £300,000 to complete Alma Place and to bolster cash reserves.
2. **Phase Two**: Purchase and development of property number four as well as repayment of debt provided by RCD Ltd, with a minimum raise of £150,000 and an optimum target raise of £600,000; and
3. **Phase Three**: Purchase and development of property number five and repayment of the remainder of the debt provided by RCD Ltd, with a minimum raise of £150,000 and an optimum target raise of £900,000.

Sources and uses of funds

The table below shows how this will work with the sources of funds (raised) and uses of funds (spent) in the last two financial years, current financial year and subsequent two financial years.

MSP: Sources & uses of funds (FYE2022-26)

Year ending 30 September		2022 A	2023 A	2024 E	2025 F	2026 F
Sources of funds						
Cash at start of year (from last share offer)	£	624,356				
Community Share Issue	£	0	0	300,000	600,000	900,000
Short-term development Finance: NC Bailey Ltd	£	330,000	312,000			
Medium-term debt facility: RCD Ltd	£	0	0	1,000,000	0	0
Long-term senior debt: new facility	£	0	0	0	0	650,000
Total capital raised p.a.	£	**954,356**	**312,000**	**1,300,000**	**600,000**	**1,550,000**
Cumulative surplus of sources>uses	£	*342,683*	*(67,317)*	*267,183*	*262,183*	*207,183*
Uses of funds						
Purchase & refurbishment of Property #2 (St Georges)	£	611,673	0	0	0	0
Refurbishment of Property #3 (Alma)	£	0	722,000	238,500	0	0
Repayment of NC Bailey Limited	£	0	0	642,000	0	0
Repayment of Triodos	£	0	0	85,000	0	0
Repayment of RCD Ltd	£	0	0	0	0	1,000,000
Purchase and refurbishment of Property #4	£				605,000	
Purchase and refurbishment of Property #5	£					605,000
Total investment & debt repayment p.a.	£	**611,673**	**722,000**	**965,500**	**605,000**	**1,605,000**

Source : MSP strategy & financial forecasts
Note : A = actual, E = expected, F = forecast

Sources of funds:

- MSP started the financial year to 30 September 2022 (FY22) with c. £624k cash in the bank (mainly the proceeds of the 2020 share offer);
- £642k short-term debt (raised over 2022-23 in two tranches of £330k and £312k) provided by NC Bailey Limited for refurbishment of Alma Place (now repaid);
- £1 million medium-term debt raised in current financial year (FY24) used to repay NC Bailey Limited in full (£642k), repay Triodos (£85k existing mortgage) in full and to largely complete Alma Place;
- Planned community share issue raising total of £1.8 million (in the period 2024-26) raising increasing amounts of £300k, £600k and then £900k respectively over the three phases; and
- Long-term senior debt of £650k expected to be raised in FY26 (mortgage from a social bank) to fund the new properties alongside community share capital.

Uses of funds:

- £612k spent in financial year 2022 on purchase and refurbishment of St George’s;
- £960k spent on re-development of Alma Place across 2023-24;
- New properties acquired and refurbished in subsequent years – 2025 and 2026 – using proceeds from community share raises in second and third phases of offer; and
- Share capital alongside additional long-term debt (where required) used to repay of £1m to RCD Ltd in FY26.

Summary historic and forecast information: property portfolio and financial position

The table below shows how MSP has grown to date with three properties expected to be fully operational by March 2024:

- Generating revenues of c. £142k with three properties from next financial year (i.e., from October 2024 to September 2025) and £240k from FY27 with five properties;
- Utilising approximately £3 million of member share capital (following the three phase of this share offer); and
- £3.5 million of fixed assets at FY27 representing the five expected properties on the balance sheet at that time.

MSP: Financial and property summary (2020-27)

Year ending 30 September		2020 A	2021 A	2022 A	2023 A	2024 E	2025 F	2026 F	2027 F
Number of operational properties	#	**1**	**1**	**2**	**2**	**3**	**3**	**4**	**5**
Revenue / total income (including revenue grants)	£	**45,206**	**29,156**	**41,659**	**70,455**	**103,430**	**142,063**	**190,343**	**238,842**
Operating profit (loss) before interest on capital and tax (EBIT)	£	10,939	(1,424)	22,995	67,289	92,507	124,129	169,927	220,926
Interest paid	£	(23,662)	(2,420)	(49,553)	(64,767)	(135,276)	(144,840)	(161,191)	(135,816)
Tax	£	0	0	0	0	0	0	0	0
Net profit (loss) after depreciation, interest on capital and tax	£	**(12,723)**	**(3,844)**	**(26,558)**	**2,522**	**(42,769)**	**(20,711)**	**8,736**	**85,110**
Fixed Assets (property & homes)	£	555,724	645,756	1,302,455	2,048,622	2,290,122	2,893,122	3,501,122	3,511,122
Member share capital	£	587,975	1,198,111	1,202,761	1,219,691	1,514,812	2,119,357	3,029,953	3,045,103
Debt	£	105,757	98,718	421,583	792,325	1,000,000	1,000,000	650,000	639,172
Share withdrawals	£	6,066	0	450	6,784	24,394	22,722	31,790	45,449
Share interest (paid / target)	£	20,581	0	41,982	33,891	29,273	40,900	63,581	90,899
Share interest (paid / target)	%	3.50%	0.00%	3.49%	3.50%	4.00%	4.50%	5.00%	5.00%

Source : MSP unaudited annual accounts to 30 September 2020, 2021, 2022
Note : A = actual, E = expected, F = forecast

MSP paid interest to shareholders at 3.50% in the financial years 2020 and 2022 (missing a payment for the first time since inception in FY21 due to Covid-19). For the 2023 financial year, with pressure on cash flows, the share interest payment was converted to additional shares for all shareholders with less than the maximum £100,000 investment (where the shareholders concerned agreed not to receive any interest or additional shares). The Board have set a target interest rate of 4.00% for the current financial year (to 30 September 2024), a target interest rate of 4.50% for the subsequent financial year (to 30 September 2025) and a 5.00% target thereafter. Please note that this is a target and is not guaranteed.

There were share withdrawals of £6k in FY20, nothing in 2021 (where there was a suspension due to COVID-19), £450 in FY22 and nearly £7k in the last financial year. There are forecast withdrawals of £24k this financial year after Alma Place is completed and the suspension on withdrawals is lifted.

Initial offer period

The initial offer period will run from 6 February to 29 March 2024 with a minimum target raise of £100,000 and an optimum target raise of £300,000.

If the minimum target of £100,000 is not reached by 29 March 2024, then the share offer will close and all monies will be returned.

Should MSP only raise £100,000 in the initial phase of the community share raise it will use the funds to finish the Alma Place project, bolster cash reserves and set the foundations for future growth and success.

The optimum raise of £300,000 will be used to complete Alma and start repaying the medium-term facility from RCD Ltd .

MSP will have a maximum target raise of £600,000 in this initial offer period. This would allow the purchase of a fourth property sooner than 2025.

Subsequent offer periods

1. MSP is planning to engage in three offer periods (with increasing optimum target raises in each phase). The exact timing for the second and third phases is flexible and will be decided following discussions with members including in the Annual General Meeting prior to each phase. February to March 2024 (Initial Offer period) with a minimum raise of £100k and a target raise of £300k;
2. February to September 2025 with a with a minimum raise of £100k and a target raise of £600k; and
3. February to September 2026 with a with a minimum raise of £100k and a target raise of £900k.

Funds raised in the second and third offer period will be used to acquire and refurbish the next two properties for our charity and social enterprise partners and to repay the medium-term debt from RCD Ltd.

The minimum and optimum raise amounts may be varied to reflect the amounts raised in previous phases. Should the three phases of the share offer only achieve the minimum raises, this will limit the ambition to grow the property portfolio from three to five homes over the next few years, as MSP will need to prioritise paying debt down to a sensible level. Should MSP over-raise in any phase of this offer the targets in subsequent offer phases will be reduced accordingly.

Investor engagement

The 2023 share offer (and growth plans for MSP) were introduced to existing members, shareholders, and stakeholders at the Annual General meeting on 22 February 2023. The members who attended gave their approval for the launch.

Existing members and new investors into the 2023 share offer have been kept informed by newsletters, Ethex and other direct communication. As part of the re-launch of the 2024 share offer, MSP is writing to all investors into the 2023 share offer to inform them about the of the revised offer, what has changed in the meantime and giving them the opportunity to withdraw their investment.

Please see the revised 2024 Share Offer document for detail on MSP's community and membership.

We note that this offer is not eligible for any tax relief.

Property management

Summary

Mustard Seed Property brings:

- A track record of working with charities and social enterprises in Cornwall which work with vulnerable adults;
- A track record of raising capital and of paying a return to community shareholders in conjunction with social impact investment specialist, Resonance Limited (**Resonance**);
- A supply of properties from a willing 'landlord' which shares the ethos of partners;
- A cost-effective governance structure that is transparent and democratic and built from a Christian Ethos;
- An opportunity for operational partners to influence the running of MSP, including the setting of rent levels and investor returns; and
- A tried and tested route for partners to be free from the need to raise debt or capital grants for property; channeling all donations and fundraising efforts more effectively to the mission and achieving social impact.

MSP Business Model

MSP buys, refurbishes, and leases properties so that its operational partners (charities and social enterprises) can provide space for vulnerable people to flourish across Cornwall and the Isles of Scilly. MSP's Acquisition Strategy is to buy properties - which are then refurbished to a pre-agreed specification for its partners - and to lease those properties to them on internally repairing and insuring (**IRI**) leases.

Currently MSP owns three properties:

1. ***Property number one - Godolphin***: Since 2007, working with our partners, MSP has provided a home for over 40 vulnerable adults with learning disabilities or at risk from homelessness.
2. ***Property number two – St George's***: which (based on average stay of 12 months) houses and supports an additional 11 people recovering from addiction and changing their lives.
3. ***Property number three – Alma Place***: which is nearly refurbished, meaning from March 2024 MSP expects to house and support an additional five people each year. In some cases, this will be a first move towards further independence, but for others this could be their home for life.

Operational partners

Mustard Seed Property currently has five operational partners; all of which provide support to the most vulnerable individuals in Cornwall. The first is **Mustard Seed**, a small café based out of Helston, Cornwall that supports local individuals with learning disabilities.

Mustard Seed was the first operational partner to lease a property from MSP - they don't currently need any further properties, but they still remain an important partner and offer MSP great support.

St Petrocs, is a homelessness charity working to end street homelessness in Cornwall; providing support, advice, training, accommodation, and resettlement services to homeless people. MSP has leased a property to St Petrocs for over a decade, providing accommodation and a base from which to support their clients.

Newquay Lighthouse Project CIC is a social enterprise building on the success of the Lighthouse Projects in Bideford and Plymouth and providing supported accommodation for men seeking to maintain abstinence-based recovery from addiction using mutual aid fellowships.

Karrek Community CIC (**Karrek**) provides domiciliary support to people all over Cornwall. MSP hopes to help Karrek provide multiple properties to support the people they work with as they have identified a strategic need for new accommodation with supported living, for around 20 people with learning disabilities in both St Austell and Camborne / Redruth.

United Response – the newest operational partner - is a charity that supports autistic people and adults with learning disabilities and mental health needs, at home and in the community.

Property management

MSP leases properties to its partners using an Internally Repairing and Insuring (**IRI**) lease, therefore the partners are responsible for any internal repair and MSP is responsible for the structural state and repair to the property itself.

MSP charges the partner a rent that is equivalent to the Local Housing Allowance (**LHA**) for the property in question (relative to the area and the bed space type). The target net initial yield is a minimum of 6.0% for all properties purchased by MSP. In the case that the LHA rent value does not provide the desired net initial yield the rent will either be increased, or further review of the property will be made to determine if it is financially suitable. Rent reviews are carried out on the 1st of April each year with rents typically increasing in line with CPI (published in January each year) although MSP can reduce this if inflation is excessive. If the property acquired on behalf of the partner is not a residential unit, the initial rent will be set at an agreed market rent providing equal to or more than a 6.0% net initial yield.

If the property manager is eligible for housing benefit, the property manager will typically also charge a housing management fee and a service charge to Cornwall Council. The service charge value will be an apportionment of the utilities, maintenance, and management of the property in question.

The properties are managed by the partner or another external property manager and this will be agreed with the partner before the lease is completed. Where an external property manager is used, the partner and property manager must come to a mutual agreement as to the nomination rights of the property and how this may change in the case of a void tenancy.

Lease arrangements

The partner organisations decide prior to the lease being written if they will manage the property themselves or if an external property manager will be used. MSP does not manage any of the properties that they purchase on behalf of their partners.

All properties are refurbished by MSP (the Landlord) to the agreed specification, which is based on the needs of the individuals being supported by the partner. The specification may be altered at any time by mutual consent, but changes must be set out in writing with clear justification.

The Partners agree to enter into the lease immediately for any property that is purchased on their behalf and is available for occupation at the agreed specification:

- The leases are an Internally Repairing and Insuring (**IRI**) lease;
- Landlord retains responsibility for the superstructure of the building; and
- The lease shall be for a minimum of 5 years.

Godolphin (Helston):

- commenced 30 April 2021,
- term of 5 years; 1 May 2021 to 30 April 2026,
- break date of 30th April 2024.

St George's (Newquay):

- commenced 30 March 2022,
- term of 6 years; 1 May 2022 to 30 April 2028,
- 3-year break date of 30 April 2025.

Alma Place (Redruth):

- Under final negotiation (as at January 2024) for a ten-year lease (Heads of Terms agreed),
- Lease expected to be signed in early March with United Response and rents starting in May after a 2-month rent free period.
- United Response will have a service level agreement with Karrek to provide the support on site.

Property returns

The target Net Initial Yield on all properties is 7.5% with a floor of 6.0% in order to provide a comfortable margin for operational costs, investor liquidity and financial returns to shareholders and lenders alike. The Return on Investment sought for renewable energy installations (on the properties) is at least 8.0%.

MSP intends to acquire a diversified property portfolio with different types of property, leased to a variety of different partners operating across different towns in Cornwall. Whilst all properties are acquired with a view to holding them in perpetuity, the board also pay attention to potential alternative uses. The board believe this helps to reduce the risk to investors and enables MSP to be responsive to need across the county. However, MSP also has to be pragmatic and focus on acquiring properties with partners that are ready to expand.

Environmental

We are well aware of the environmental issues we are all facing and are looking at renewable energy sources both for their environmental credentials as well as to protect our partners from unstable energy prices. We are also mindful of our responsibilities when developing our properties and re-use and re-cycle as much as we can.

Our current construction partner Irebuild are “eco conscious” builders and also offer employment opportunities to local vulnerable people.

Social impact of partners

MSP require their partners to report regularly on the impact generated from the support that they deliver. MSP seeks to strengthen each partner through championing all of the impact they deliver and then presenting this in turn to the investors in MSP. Each year a Social Impact Report (**SIR**) is created in which MSP promotes all of its partners' impact, with infographics setting out key facts and achievements from delivering support to the most vulnerable individuals in Cornwall. (2021 and 2022 SIR available on website & on request).

MSP Board and governance

Governance

Overview

Mustard Seed Property is registered as a charitable Registered Society meaning the surplus generated is re-invested directly into the enterprise, to help transform the communities MSP operates in and make more property available to the partners and vulnerable people across Cornwall. The Board of Directors is made up of those with a passion for helping the less fortunate in society. We aim to ensure the board represents our community and partners: with half the Board composed from representatives of our operational partners and half who are independent. The social mission is defined in the governing documents. All members and partners are invited to attend and participate in the Annual General Meeting (AGM) where all new director appointments must be proposed and seconded by existing members. MSP fosters a collaborative culture whereby the members and investors are encouraged to get in touch at any time to discuss any thoughts, ideas or concerns they may have and to stand for election to the Board.

Board of Directors

The Board of Directors of MSP is composed of Non-Executive Directors and meets at least quarterly each year to review key risks to the business and to make strategic decisions. These roles are voluntary. The Chair position is currently rotated amongst the Directors. The Board aims to ensure that the decisions taken are realistic and practical, while also harnessing the expertise of a diverse range of people with very different skillsets and expertise.

In addition to attending board meetings, directors use their particular experience to focus on at least one sub-group which include:

- Property Development and Maintenance
- Finance and Investment
- Partner Management
- Social Impact Management
- Marketing and Member engagement
- Risk and Compliance

Minutes of these sub-groups are shared with the whole board.

Management

Corporate and property management services are provided by Resonance Limited on the basis of an arms-length contract; providing management accounting and property appraisal services and contracting with all the suppliers needed to manage the redevelopment or refurbishment of new properties. Regular reviews of MSP's financials are completed by Nick Smith (Company Secretary) with the production of monthly management accounts and annual financial statements. This helps ensure that MSP's board can closely monitor cash flow and funding available and ensure that is it sufficient to match the project costs and MSP's obligations.

MSP also uses local suppliers where needed for all professional services – solicitors, architects, Quantity Surveyors, builders, etc.

Board & management team

Mustard Seed Property Board of Directors

Suzie Ackford

Qualified as a chartered accountant with Arthur Andersen. She then created a global HR Consulting business Penna Consulting PLC where she was CEO and Chairman for ten years. She currently works with a number of fledgling charities and social enterprises in Cornwall.

Daniel Brewer

Daniel is CEO of Resonance Limited and leads a growing team supporting social enterprises and charities prepare for investment in a variety of transactions including real estate acquisition and development, community share issues and direct venture capital investments. He has seen the company flourish as it has created demand-led, impact investment funds. Daniel founded Resonance in 2002 having spent several years in manufacturing as an engineer and leading a political lobbying campaign on the UK poverty trap. Outside work Daniel is a non-exec of a small number of high impact social enterprises and sits on the investment committee for a leading impact investor foundation.

Stephen Clague

Stephen is a Chartered Accountant, having trained with PricewaterhouseCoopers. For many years he has been Finance Director for a variety of enterprises, most recently at Cornwall Care, the largest provider of adult social care in the county. Since 2019, he has acted as a Finance and Business Adviser to a range of enterprises. Aside from his involvement with MSP, he is also a trustee of Emmaus Cornwall, a charity supporting the homeless.

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Liz James

A member of Mustard Seed Property from the beginning, Liz is a counsellor, manager and supports people with learning disabilities. She ran her own small upholstery business for 28 years. Liz brings particular knowledge and skills in serving the people supported by the partner charities of Mustard Seed Property. Liz is a trustee director of Mustard Seed (SW), which is one of Mustard Seed Property's founding partners. Liz leads on social impact and ensuring MSP delivers for vulnerable people.

Adam Langer

Adam is a qualified and experienced counsellor specialising in working with trauma and addiction. He has worked in Family Assessment, Residential Drug and Alcohol Rehabilitation, and Supported Housing. He is the founder and Managing Director of the Bideford Lighthouse Project CIC and joined MSP as a partner for the Newquay Lighthouse Project CIC.

Charles Lewis

Charles is a Chartered Quantity Surveyor and a Fellow of the Royal institution of Chartered Surveyors. He has over 30 years' experience of working in all sectors of the property environment, both in the UK and mainland Europe.

He was previously an Equity Partner with EC Harris (now Arcadis) and is now part of the Resonance team with a focus on delivering projects for a new impact investment fund, "Resonance Community Developers".

Charles supports MSP on the purchase, development, and refurbishment of their properties.

<u>Steve Maxey</u>

Steve worked for the Probation service for 11 years at a Bail Hostel, and also worked as bank staff for ten years for Spectrum supporting Autistic adults.

Steve joined St Petrocs in 2004, initially as a weekend house manager, then graduating to service manager and now as the Associate Director of Residential Services.

<u>Richard May</u>

Richard has over 35 years' experience as a Chartered Surveyor working throughout the South West region. Following ten years as a partner in Knight Frank he set up Maze, an Exeter based consultancy business, dealing with residential and commercial work. He specialises in Planning and Development but typically works with corporate clients and charities on acquisition and portfolio enhancement.

Management support

<u>Nick Smith</u>

Nick works in the finance team at Resonance. Previously he worked within the finance industry for nine years, with the most recent four years spent in the finance team of a local Cornish charity. He has a Bachelor of Commerce degree, majoring in accounting, and is currently working towards becoming a Chartered Accountant through ACCA. Nick supports MSP with all finance and accounting functions, including management accounts, budgeting, payment of invoices and liaising with suppliers.

Property development

Assessment framework: partners & properties

MSP has created a framework and documents for assessing both its partners and properties (available on request). All of MSP's partners have scope for continued growth and MSP is also open to new partnerships.

- Initial discussion of what type of property is needed, number of bed spaces, suitable location, etc.
- The MSP board members will look for any suitable properties and will fill out the property assessment document, considering; affordability, location, bedspaces, scope for adaptation and creating the best use of space, and the estimated net initial yield.
- Following a peer-review by the board members, MSP will engage with the property agents to organise viewings of the proposed properties.
- A detailed property development appraisal will be created assessing the current state of the property and required refurbishment – presenting a more accurate forecast of net initial yield.
- Where a relatively large level of re-design is required, a design team will be approached to produce drawings and costings for this project.

The assessment framework and property appraisal tool are followed closely by the Board.

Property assessment

Each property is appraised by the MSP Board against both social impact and commercial criteria and independently valued ahead of purchase. Refurbishment is carried out to a high standard with particular thought to achieving both low maintenance and running costs where possible. As with the first property – Godolphin (in Helston) - if MSP can reduce the utility bills for its tenants and simultaneously generate a return from feed-in-tariffs and/or renewable heat incentives, MSP will look to invest in low carbon technologies. Access to outside space, limiting the density of living, providing spacious communal areas, and installing mechanical ventilation (with heat recovery to provide a permanent supply of clean warmed air) is standard for all the properties.

New properties for St Petrocs

MSP will continue to work with our current partners to source properties with Penzance, St Austell, Truro and Bodmin all being target locations for St Petrocs. This would likely cost approximately £600-700k for the purchase and refurbishment of a 10-12 bed House of Multiple Occupation in one of those four locations.

Planned acquisition of next property in Cornwall

MSP has engaged with members of Newquay Lighthouse Project CIC who want to expand their support in Cornwall; providing supported accommodation for women recovering from addiction who want to maintain their abstinence. MSP is very excited at the prospects of duplicating the existing Cornwall based Lighthouse Project (for men) and initiating a further partnership with them in the near future.

Indicative timeline for purchase & development of Cornwall property

Phase	Time
Property identification	July - September 2024
Property acquisition	October 2024
Completion of purchase	November 2024
Preparation for planning	January 2025
Planning permission	February – March 2025
Detailed design	April to May 2025
Tendering & contractor mobilisation	June 2025
Refurb	July – September 2025
Residents move in	1 October 2025
Let of commercial unit	1 October 2025

Finance & investment summaries

This section sets out a summary of MSP's track record in paying returns to community shareholders, historic financial performance, as well as MSP's investment plans and detailed financial forecasts.

Track record: returns to community shareholders

The table below shows how much member share capital MSP manages and the return made to shareholders.

MSP: Use of Society funds

Year ending 30 September		2020 A	2021 A	2022 A	2023 A
Member share capital at year end	£	**587,975**	**1,198,111**	**1,202,761**	**1,195,977**
Interest rate on (eligible) share capital	%	3.50%	0.00%	3.49%	3.50%
Actual interest paid	£	10,816	0	25,029	0
Share interest re-invested	£	9,765	0	16,953	42,097
Total interest on share capital (as shown in P&L account)	£	20,581	0	41,982	42,097
Withdrawals	£	6,066	0	450	6,784
Community benefit spend (community benefit societies only)	£	0	0	0	0
Net profit (loss)	£	(12,723)	(3,844)	(26,558)	2,522
Addition (reduction) to Society Reserves	£	(12,723)	(3,844)	(26,558)	2,522

Source : MSP unaudited annual accounts to 30 September 2020, 2021, 2022, 2023
Note : A = actual, E = expected, F = forecast

Notes:

- Whilst an investment in MSP should not primarily be seen as a finance first investment, the board has been diligent in recognising its commitment to MSP shareholders that their investment deserves a regular return. As such, investors have been paid a return every year for over a decade, except in FY21 due to Covid-19 and the pressures that put on the enterprise.
- The target interest rate was set at 3.50% in the last historic years shown and is expected to be increased to 4.00% for the current financial year (ending 30 September 2024). The directors intend to increase the target rate to 4.50% for the next financial year ending 30 September 2025 and increase the rate to 5.00% for the financial year ending 30 September 2026 and thereafter.
- Shareholders regularly re-invest 40-45% of their share interest payment in new shares, providing more capital for MSP to invest. Withdrawals in the last few years have been fairly limited.
- MSP generated losses in the historic financial years 2020-22 and a small surplus in the last financial year to 30 September 2023. This was planned for and expected - as property was purchased and funds were spent on raising new capital.

- The Board are committed to continuing to pay a return to community shareholders and consider this sensible given the growing revenues and the projected financial performance – see below.

Historic financial performance

The table below shows MSP's historic financial performance; for the four financial years ending (**FY**) 30 September 2020, 2021, 2022 and 2023.

MSP: Financial summary (2020-23)

Year ending 30 September		2020 A	2021 A	2022 A	2023 A
Revenue / total income (including revenue grants)	£	45,206	29,156	41,659	70,455
Operating profit (loss) before interest on capital and tax (EBIT)	£	10,939	(1,424)	22,995	67,289
Net profit (loss) after depreciation, interest on capital and tax	£	**(12,723)**	**(3,844)**	**(26,558)**	**2,522**
Fixed Assets	£	555,724	645,756	1,302,455	2,048,622
Member share capital	£	587,975	1,198,111	1,202,761	1,219,691
Accumulated reserves (or losses)	£	(25,503)	(29,349)	(55,907)	(53,385)
Long term liabilities (loans)	£	(105,757)	(98,718)	(421,583)	(727,325)
Net Assets	£	**562,472**	**1,168,763**	**1,146,854**	**1,166,305**

Source : MSP unaudited annual accounts to 30 September 2020, 2021, 2022, 2023
Note : A = actual, E = expected, F = forecast

Audit requirements:

MSP currently presents unaudited accounts having disapplied the requirement for an audit under Rule 96 and with assets and turnover below the relevant thresholds. The shareholders are asked each year to vote on whether an auditor should be appointed.

Notes:

- Revenue in FY20 includes a revenue grant of c. £15k.
- Revenue of c. £42k in FY22 grew by 43% and revenue of c. £70k in FY23 grew by a further 69% as the second property (St George's) let to operational partner.
- Net losses in period 2022-23 largely due to legal and professional fees as capital was raised and new properties acquired.
- Fixed assets of £2.0 million as at FY23 equate to the value of the three properties and a small amount of plant & equipment (solar panels which provide an income of c. £800 p.a. and are depreciated over time).
- Long-term liabilities at FY23 comprised a c. £85k mortgage with Triodos on Goldolphin and £640k of development finance; all of which has now been repaid.

MUSTARD SEED PROPERTY

Debt arrangements

Development finance with NC Bailey Limited:

- £660k short-term development finance facility for purchase and refurbishment of Alma Place (Property number three), now repaid.

Long-term debt with Triodos:

- Secured against Godolphin, now repaid.

Resonance Community Developers Ltd:

- £1 million medium-term debt facility provided to fill potential funding gap and allow repayment of NC Bailey Limited and Triodos;
- 2-year term;
- Priced at fixed rate of 8.00% with bullet repayment of capital.

Historic and forecast financial performance

These base case forecasts are based on a £1.8 million additional community share raise over three phases each achieving the optimum raise projected. Two additional operational properties are projected to be added to the portfolio in FY26 and FY27, with the enterprise achieving a "steady state" (i.e., five operational properties rented for 52 weeks each) in the financial year ending 30 September 2027.

The table below shows the historic and forecast Profit & Loss Account for MSP for the period from 2020 to 2029.

MSP: Profit & Loss summary (2020-29)

Financial year ending (FYE) 30 September		2020 A	2021 A	2022 A	2023 A	2024 E	2025 F	2026 F	2027 F	2028 F	2029 F
Revenue	£	**30,246**	**29,156**	**41,659**	**70,455**	**103,430**	**142,063**	**190,343**	**238,842**	**243,612**	**248,295**
Revenue growth		*10.2%*	*(3.6%)*	*42.9%*	*69.1%*	*46.8%*	*37.4%*	*34.0%*	*25.5%*	*2.0%*	*1.9%*
EBITDA	£	**(3,225)**	**(628)**	**11,516**	**42,826**	**92,507**	**124,129**	**169,927**	**220,926**	**225,287**	**229,554**
EBITDA margin	%	*(11%)*	*(2%)*	*28%*	*61%*	*89%*	*87%*	*89%*	*92%*	*92%*	*92%*
Gain on revaluation of investment properties	£	0	0	12,275	24,664	0	0	0	0	0	0
Fees - debt & share offer	£	0	0	0	0	(22,000)	(24,000)	(52,250)	0	0	0
Financial expenses - share interest	£	(20,581)	0	(41,982)	(33,891)	(29,273)	(40,900)	(63,581)	(90,899)	(91,353)	(91,810)
Financial expenses - debt	£	(3,081)	(2,420)	(7,571)	(30,876)	(84,003)	(79,940)	(45,360)	(44,917)	(44,034)	(43,095)
Depreciation	£	(796)	(796)	(796)	(201)	0	0	0	0	0	0
Taxation	£	0	0	0	0	0	0	0	0	0	0
Revenue grants	£	14,960	0	0	0	0	0	0	0	0	0
Net surplus / (deficit)	£	**(12,723)**	**(3,844)**	**(26,558)**	**2,522**	**(42,769)**	**(20,711)**	**8,736**	**85,110**	**89,900**	**94,650**
Net margin	%	*nm*	*nm*	*nm*	*4%*	*nm*	*nm*	*5%*	*36%*	*37%*	*38%*

Source : MSP unaudited annual accounts to 30 September 2020, 2021 & 2022, 2023; MSP budget & financial forecasts

Note : A = actual, E = expected, F = forecast

Commentary:

- Revenue increased in FY23 by 69% as MSP in receipt of full year's income from St George's (Property number two) and expected to increase again by a further 47% in FY24 as Alma Place (Property number three) becomes operational from March 2024) with a further 37% growth in FY25 with a full year of rental income.
- We note that the lease agreement for Alma is not yet signed with United Response (as at January 2024 , although Heads of Terms are in place and the formal legal agreement is expected to be concluded imminently).
- Revenue continues to grow as properties four and five are purchased, refurbished, and then fully let to charity partners.
- Fees for raising debt and equity (bank arrangement fees, Ethex platform, Resonance advisory, etc.) of c. £22k in current financial year. MSP notes that in FY24 it would be making a much smaller loss (c. £20k) in the absence of these fees (necessary for growth) and is therefore comfortable to pay out the share interest shown in the next financial year.
- Share interest increases as member share capital increases (offset by projected 40% reinvestment of share interest each year – see below).
- From FY24 onwards, the reinvested element of the share interest (i.e., added to share capital rather than paid out as cash) is not recognised in the annual P&L but as a transfer between reserves in the Balance Sheet.
- Financial expenses for debt forecast to increase substantially in current financial year (FY24) as increased interest is paid to RCD Ltd (the medium-term lender). Financial expenses gradually fall in further forecast years as debt is reduced - although this will be offset by the planned increase to the share interest rate paid from the current 3.50% up to 5.00% by FY26.
- Net deficits forecast for FY24 of c. £43k and for FY25 of £21k in growth phase, with net surpluses generated and increasing over the forecast period shown from FY26 as new properties are added to the portfolio.

The table below shows the historic and forecast Cash Flow Statement for MSP.

MSP: Cash Flow summary (2020-29)

Financial year ending (FYE) 30 September		2020 A	2021 A	2022 A	2023 A	2024 E	2025 F	2026 F	2027 F	2028 F	2029 F
Operations											
Operational cash flows	£	26,087	(23,049)	45,683	116,758	95,120	122,197	167,513	218,501	225,048	229,320
Investments											
Sinking Fund	£	0	0	0	0	(3,000)	(3,000)	(8,000)	(10,000)	(10,000)	(10,000)
Freehold property purchased	£	(215,807)	(90,828)	(384,435)	0	0	(250,000)	(300,000)	0	0	0
Freehold property: refurbishment	£	0	0	(260,786)	(721,705)	(238,500)	(350,000)	(300,000)	0	0	0
Debt finance											
Debt raised	£	0	0	330,000	377,000	935,000	0	650,000	0	0	0
Debt repaid	£	(6,738)	(7,039)	(7,135)	(6,258)	(727,325)	0	(1,000,000)	(10,828)	(11,611)	(12,450)
Interest paid/received	£	(3,067)	(2,397)	(7,469)	(30,836)	(84,003)	(79,940)	(45,360)	(44,917)	(44,034)	(43,095)
Charges/Arrangement/commitment fees	£	(14)	(23)	(102)	(40)	(10,000)	(0)	(9,750)	0	0	0
Share capital											
Share capital raised	£	106,140	610,136	5,100	23,714	300,000	600,000	900,000	0	0	0
Provision for share capital withdrawals	£	(6,066)	0	(450)	(6,784)	(24,394)	(22,722)	(31,790)	(45,449)	(45,677)	(45,905)
Return to shareholders	£	(20,581)	0	(41,982)	(33,891)	(29,273)	(40,900)	(63,581)	(90,899)	(91,353)	(91,810)
Costs for share offer / raising share capital	£	0	0	0	0	(12,000)	(24,000)	(42,500)	0	0	0
Net Cash Flow	£	**(120,046)**	**486,800**	**(321,576)**	**(282,042)**	**201,626**	**(48,365)**	**(83,468)**	**16,408**	**22,373**	**26,060**
Cash at end of year	£	**137,554**	**624,354**	**302,778**	**20,736**	**222,361**	**173,996**	**90,528**	**106,936**	**129,309**	**155,370**

Source: MSP unaudited annual accounts to 30 September 2020, 2021 & 2022, 2023; MSP budget & financial forecasts

Note : A = actual, E = expected, F = forecast

Commentary:

- Positive operational cash flows achieved in FY22 and FY23 and are expected to continue to be generated in current financial year to 30 September 2024 and FY25 (with three operational properties fully let). Operational cash flows expected to grow strongly from FY26 as properties four and five added to portfolio and fully let.
- Investments comprise the purchase and refurbishment of property, and the provision of a Sinking Fund (£2k per property p.a. from FY26) to ensure cash is available for regular repairs and maintenance when required.
- Debt interest payments peak in FY24 as MSP has raised £1 million from RCD Ltd to repay NC Bailey Limited and Triodos, as well as to finish the Alma development. This £1 million facility will be refinanced through community shares (and long-term debt if required).
- Shareholder returns increase as more community share capital raised and all investors are forecast to receive 4.00% target interest from FY24, 4.50% target interest from FY25, and 5.00% from FY26.
- Costs for Share Offer (estimated to be c. £12k in FY24).
- Consistent, positive net cash flows from FY27 with properties four and five purchased and refurbished.

Focus on withdrawals & liquidity

- The forecasts above project for approximately £45k of share capital to be withdrawn each year from FY27 (an estimated 1.5% of total shareholder capital each year). However, this is offset by the element of share capital effectively raised each year (40% of such amount reinvested in lieu of interest payments).
- With share capital projected to increase to £3.0 million from FY26 (assuming the success of this share offer raising an additional £1.8 million) a small level of withdrawals (as a proportion of a much larger level of member capital) can have a disproportionate effect.
- MSP notes that if 2% of share capital were withdrawn (i.e., £60k p.a.) and no share interest reinvested this would put pressure on net cash flows.
- As such, MSP is planning to introduce a policy when member share capital exceeds £2m of limiting withdrawals to a maximum of 2.00% each year.

The table below shows the historic and forecast Balance Sheet for MSP.

MSP: Balance Sheet summary (2020-29)

Financial year ending (FYE) 30 September		2020 A	2021 A	2022 A	2023 A	2024 E	2025 F	2026 F	2027 F	2028 F	2029 F
Fixed Assets	£	555,724	645,756	1,302,455	2,048,622	2,290,122	2,893,122	3,501,122	3,511,122	3,521,122	3,531,122
Cash	£	137,554	624,354	302,778	20,736	222,361	173,996	90,528	106,936	129,309	155,370
Other current assets	£	2,309	8,235	8,610	14,860	9,656	11,588	14,002	16,427	16,665	16,899
Debt	£	(105,757)	(98,718)	(421,583)	(792,325)	(1,000,000)	(1,000,000)	(650,000)	(639,172)	(627,561)	(615,110)
Other liabilities	£	(27,361)	(10,866)	(45,408)	(125,590)	(123,000)	(123,000)	(123,000)	(123,000)	(123,000)	(123,000)
Net Assets	£	**562,469**	**1,168,761**	**1,146,852**	**1,166,303**	**1,399,139**	**1,955,706**	**2,832,652**	**2,872,313**	**2,916,536**	**2,965,281**
Members' capital	£	587,975	1,198,111	1,202,761	1,219,691	1,514,812	2,119,357	3,029,953	3,045,103	3,060,329	3,075,630
P&L account	£	(25,503)	(29,349)	(55,907)	(53,385)	(115,669)	(163,647)	(197,298)	(172,787)	(143,789)	(110,346)
Shareholder Funds	£	**562,472**	**1,168,762**	**1,146,854**	**1,166,306**	**1,399,143**	**1,955,710**	**2,832,656**	**2,872,317**	**2,916,540**	**2,965,284**
Difference		*3*	*1*	*2*	*3*	*3*	*3*	*3*	*3*	*3*	*3*

Source: MSP unaudited annual accounts to 30 September 2020, 2021 & 2022, 2023; MSP budget & financial forecasts

Note : A = actual, E = expected, F = forecast

Commentary:

- Fixed assets increase in this current financial year (FY24) to c. £2.3 million with Property number two operational and the refurbishment of Property number three nearly complete. Fixed assets expected to grow to c. £3.5 million as properties four and five added.
- MSP measure all investment properties at a fair value (which itself represents the actual costs of the property and its development). Any changes in the fair value will be recognised within the P&L, but with the fair value model (as opposed to the cost model) no depreciation is recognised.
- Senior debt at end of current financial year of c. £1 million comprising medium-term facility with RCD Ltd (where the short-term debt with NC Bailey Limited and mortgage with Triodos on Godolphin has been repaid). This represents a gearing ratio (debt as a percentage of total capital) of 40%.
- Members' capital expected to increase from c. £1.2m (FY23) to £3 million in FY26 as £1.8 million is raised over the three phases of the share offer.
- MSP notes that forecast withdrawals from FY27 of c. £45k each year offset by reinvestment of share interest of c. £60k each year. Members' capital therefore decreases gradually by c. £15k each year from FY25. This is a useful source of capital in a continuing growth phase for MSP.

Forecast financial performance: Sensitivity

The table below shows the historic and forecast Profit & Loss Account for MSP, assuming MSP only raises £100k in share capital in the first phase (the minimum raise):

MSP: Profit & Loss summary (2020-29)

Financial year ending (FYE) 30 September		2020 A	2021 A	2022 A	2023 A	2024 E	2025 F	2026 F	2027 F	2028 F	2029 F
Revenue	£	**30,246**	**29,156**	**41,659**	**70,455**	**103,430**	**142,063**	**144,898**	**192,488**	**196,332**	**200,068**
Revenue growth		*10.2%*	*(3.6%)*	*42.9%*	*69.1%*	*46.8%*	*37.4%*	*2.0%*	*32.8%*	*2.0%*	*1.9%*
EBITDA	£	**(3,225)**	**(628)**	**11,516**	**42,826**	**92,507**	**129,129**	**126,664**	**176,797**	**180,276**	**183,643**
EBITDA margin	%	*(11%)*	*(2%)*	*28%*	*61%*	*89%*	*91%*	*87%*	*92%*	*92%*	*92%*
Gain on revaluation of investment properties	£	0	0	12,275	24,664	0	0	0	0	0	0
Fees - debt & share offer	£	0	0	0	0	(14,000)	(24,000)	(42,250)	0	0	0
Financial expenses - share interest	£	(20,581)	0	(41,982)	(33,891)	(29,273)	(35,500)	(57,563)	(84,851)	(85,275)	(85,701)
Financial expenses - debt	£	(3,081)	(2,420)	(7,571)	(30,876)	(84,003)	(79,940)	(17,360)	(17,128)	(16,727)	(16,304)
Depreciation	£	(796)	(796)	(796)	(201)	0	0	0	0	0	0
Taxation	£	0	0	0	0	0	0	0	0	0	0
Revenue grants	£	14,960	0	0	0	0	0	0	0	0	0
Net surplus / (deficit)	£	**(12,723)**	**(3,844)**	**(26,558)**	**2,522**	**(34,769)**	**(10,311)**	**9,491**	**74,819**	**78,274**	**81,638**
Net margin	%	*nm*	*nm*	*nm*	*4%*	*nm*	*nm*	*7%*	*39%*	*40%*	*41%*

Source : MSP unaudited annual accounts to 30 September 2020, 2021 & 2022, 2023; MSP budget & financial forecasts
Note : A = actual, E = expected, F = forecast

Commentary:

- Lower deficit of c. £35k expected in FY24 (this current financial year) due to lower costs of share raise (£100k vs. £300k target raise).
- Lower profitability compared to scenario above, but MSP forecast to still generate healthy net surpluses from FY26 with Property number three operational and fully let, with the surplus growing as one additional property added (rather than two).
- Profit and cash generation comfortably covers all financial obligations, expenses, and an increased return (4.00% p.a. target interest to shareholders for FY24, 4.50% for FY25 and 5.00% from FY26).

MUSTARD SEED PROPERTY

Key risks

The list of Key Risks below is not necessarily comprehensive, and you should consider other risks that may impact the value of your investment.

<table>
<tr><th>RISKS</th><th>COMMENTS</th></tr>
<tr><td>For investors</td><td></td></tr>
<tr><td>The money you pay for shares is not safeguarded by any depositor protection scheme such as the Financial Services Compensation Scheme (FSCS)</td><td>This Share Offer is exempt from regulations under the Financial Services and Markets Act 2000 and Financial Services and Markets Act 2000 (Prospectus) Regulations 2019 and therefore you do not have the protection provided by these acts. This means that there is no right to complain to an Ombudsman; and this share offer has not needed to be approved by an approved person under the Act.
The shares are not tradable, and the full value may not be returned if certain risks described below are realised.
The shares are an illiquid financial instrument which means you may not be able to get your capital back immediately or when needed.
MSP provides for withdrawal of share capital after a certain point - see ‘Important Information’ section of the Share Offer document.</td></tr>
<tr><td>Impact of financial crisis on property prices; should house prices fall this may reduce the equity available for borrowing (and make it more difficult to raise the required debt for refurbishment against properties) and potentially require MSP to write-down the value of the share capital</td><td>MSP will only seek a sensible amount of leverage in terms of mortgage finance from social banks, alongside a sensible blend of equity (community shares) and lending from other socially minded investors.</td></tr>
<tr><td>The shares are illiquid, and the Board of Directors may not consider they are in a position to allow withdrawal if and when required, so you may not be able to have your money back when you request it</td><td>Over the past 10 years MSP has been able to provide liquidity of approximately 2-6% in any given year. Please note that past performance is neither a guarantee nor a reliable indicator of future results.
With share capital projected to increase to more than £3 million from FY26 (assuming the success of this share offer raising an additional £1.8 million) a small level of withdrawals (as a proportion of a</td></tr>
</table>

	much larger level of member capital) can have a disproportionate effect. MSP notes that if 2.00% of share capital were withdrawn (i.e., £60k p.a.) and no share interest reinvested this would put pressure on net cash flows. • As such, MSP is planning to introduce a policy when member share capital exceeds £2m of limiting withdrawals to a maximum of 2.00% each year and the financial model provides for 1.50% of total share capital (at previous year end) being withdrawn each year.
That we become over capitalised, with member share capital increasing through this share offer and continued re-investment of share interest, meaning MSP would have more capital than it needs and may find it difficult to meet the target share interest payments it wants to deliver	• MSP is in a growth phase, with property urgently required by its charity and social enterprise partners; meaning capital is required. • Should MSP cease its growth plans this could become an issue so MSP will continue to monitor its capital requirements. • Over-capitalisation can be mitigated by paying all share interest in cash and by relaxing the withdrawal policy or encouraging withdrawals.
The value of the shares may be written down so you may not receive all, or any, of your money back	• If the liabilities of MSP (and its share capital) should exceed the value of its assets, under Rule 29, the Directors have the right to "write down" the value of shares, by apportioning this excess proportionally amongst members and cancelling the shares of members on a pro-rata basis. • Members who then withdraw their shares will only receive the reduced value of their remaining shares.
Operational risks	
That we have achieved a significant increase in the scale at which we operate, and the intention is to grow further	• MSP has operated a successful business model for over a decade, generating net surpluses in years when capital not raised / property purchased. • Strong evidence has been used to underpin the assumptions, in our business plan and forecast financial model, around the new properties –

	including capital costs and rental incomes - and the revenue growth that will drive. • Current financial management processes (budgeting, accounting, etc.) and Board oversight are fit for purpose and able to scale. • Shareholders are asked each year whether to apply the requirement for a formal audit. • There is no legal obligation for an audit. Once thresholds for turnover and assets have been exceeded then in that financial year a qualified auditor will be appointed.
That contracts under negotiation (i.e., with United Response for the Alma Place lease) may not be signed, or that contracts under lease (with other partners for Godolphin and St George's) may not be renewed	• MSP has a very close relationship with its partners who also each provide a representative who sits on the Board. • MSP and its partners/lessees are aligned in terms of property pricing and requirements. • Planning for who leases the various properties can be undertaken well in advance.
Voids caused by residents either moving out or being slow to take up anticipated occupancy; some rooms may be left vacant for a time, putting pressure on the partners	• MSP leases properties to partners on internally repairing and insuring leases, meaning this is a risk that is shouldered by the partner. • Rents are set to allow for some level of voids as well as maintenance and management costs.
Property development; buying and developing property carries both cost and time overrun risk. Both affect the ability to deliver expected financial yields	• Valuations and appropriate surveys by qualified personnel, including detailed costs reports for all significant refurbishment work, are carried out ahead of purchases.
The business model is asset rich, and for that reason expansion requires significant cash outlay, share capital and debt finance	• MSP has successfully raised share capital to date and has also built solid relationships with lenders (including Triodos Bank, NC Bailey Limited and RCD Ltd). Please note that this is not guaranteed.
Commercial risks	

Government policy change where revenues from leases are currently underpinned by housing benefit. Our partners also rely on support contracts, which are usually funded through Local Authority budgets. Changes in policy can affect the levels of funding	• MSP leases properties to partners on internally repairing and insuring leases, meaning this is a risk that is shouldered by the partner. • In most instances the alternative to existing support contracts is residential care or 'hospital', both of which are more expensive to the state.
Our partners may get into financial difficulty or fail to provide appropriate support to individuals	• Mustard Seed Property carefully assesses its partners based on quality and experience. • Partners are required to share their annual accounts and provide an annual impact report for each property they lease. • Operational partners are currently managing the financial challenges and cost of living crisis. The rents for the people they support (in properties provided by MSP) are paid for through Housing Benefit so this is not adjudged to present much risk to the business model.
Interest rates where future lending requirements will likely be linked to base rates. MSP intends to take on additional senior debt as it purchases and develops more properties. If the Bank of England raises interest rates the potential mortgage payments would increase and this may begin to impact on the return available to investors.	• Our financial model and forecasts assume a base rate of 4.00% in the medium term, with a minimum overall rate for future lending with a social bank estimated to be 7.00% (4.00% base rate + c. 3.00% margin). • Debt facility with RCD Ltd (until 2026) at fixed rate of 8.00%. • Mustard Seed Property has a policy to maintain a sensible and affordable level of gearing (amount of debt relative to equity) which is not expected to exceed 40% over the forecast period.