



17th March 2018

CALCULUS VCT PLC

Calculus Capital Limited

	Positives	Issues
Why Invest	<ul style="list-style-type: none">► Strategy: To invest in a portfolio of unquoted companies to preserve capital value while generating an income stream.	<ul style="list-style-type: none">► Exposure level: With the majority of the VCT being funds raised in the last two years, about half of the assets are currently
The Investment Manager	<ul style="list-style-type: none">► Team: One of the longest-standing managers in the VCT/EIS area, Calculus has a very experienced and stable team.	<ul style="list-style-type: none">► Past performance: Write-offs over the last couple of years have adversely affected Calculus's previously very good performance. An average realised 13% IRR is still credible.
Nuts & bolts	<ul style="list-style-type: none">► Offer: To raise £5m, with £5m over-allotment facility in the 2017/18 and 2018/19 tax years.► Diversification: The existing portfolio has 22 investments with a weight of over 1%.► Valuation: Investors will receive valuations twice a year. Industry guidelines will be used, with two auditors examining the figures.	
Specific Issues	<ul style="list-style-type: none">► Fees: Mixture of direct fees and charged via the investee companies.► Performance fee: 20% on investor share of proceeds over 105p for every 100p invested.	
Risks	<ul style="list-style-type: none">► Risk mitigation: The aim is to diversify by sector, and the focus on relatively more established companies should also help mitigate some of the risk.► Target return: Overall, the strategy is medium-risk relative to other EIS/VCT products, with the target company IRR of 20% and capital return of 2.5x towards the top end of what we'd expect for that risk category. The VCT targets an annual dividend of 4.5% of NAV while also providing capital growth.	

Manager information	
Analyst	<ul style="list-style-type: none">► Scheme assets: £8m
Brian Moretta	<ul style="list-style-type: none">► Scheme target: £10m
0207 194 7622	<ul style="list-style-type: none">► EIS assets: £151m
bm@hardmanandco.com	<ul style="list-style-type: none">► Total FUM: £159m
	<ul style="list-style-type: none">► Fund launch date: 2017

Table of contents

Factsheet	3
Calculus VCT aims	4
Summary of risk areas	4
Risk analysis/commentary	5
Investment process	6
Governance and post-investment monitoring.....	9
Track record.....	11
Fees.....	12
Fund Manager.....	14
Appendix 1 – due diligence summary.....	16
Disclaimer	17
Status of Hardman & Co's research under MiFID II	19

Factsheet

Calculus EIS Fund

Product name	Calculus VCT plc
Product manager	Calculus Capital Limited
Investment Adviser	NA
Tax eligibility	VCT
Target return	For each company, an IRR of 20% with a return of £2.5 for every £1 invested
Target income	4.5% of NAV
Type of product	Venture Capital Trust (VCT)
Term	VCT is ongoing, but investments expected for 3-7 years
Sectors	Generalist

Diversification:

Number of companies	22
Gini coefficient (current investments only)	0.046

Fees	Amount	Paid by
Initial fees:		
Advised investor fee	3% of NAV	Investor
Non-advised investor fee	5% of NAV	Investor – see report for details
Arrangement fee	1.9% (on average)	Investee company

Annual fees:

Management fee	1.75% (excl. VAT) of NAV	VCT
Secretarial services	£15,000 (excl. VAT) per annum	VCT
Monitoring fees	Average £20,000 per company	Investee company
Directors' fees	Average £14,000 per company	Investee company
Fee cap	3% of NAV per annum	See Fees section

Exit fees:

Performance fee	20%	Investor share of proceeds in excess of 105p
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Advisor fee facilitation	Yes
Advisor fee amounts	Up to 2% initial commission and 0.5% trail, subject to 3% maximum and to investor agreement
HMRC Approved fund?	No
Advance Assurance from HMRC	Yes when investing alongside EIS
Reporting	Semi-annually
Minimum investment	£5,000
Current funds raised	£2m in current offer
Fundraising target	£5m in current offer
Closing date(s)	3 rd April 2018 for 2017/18 tax year and 31 st July 2018 for 2018/19 tax year
Expected exit method	Trade sale, IPO or other exit opportunity

Source: Calculus Capital Limited, Hardman & Co research

Calculus VCT aims

The VCT aims to generate sufficient returns to maximise tax-free dividends while giving capital growth over the medium to long term. The current fundraising is for Ordinary shares, which will have an income target of 4.5% of NAV. Returns will be generated by investing in a portfolio of mainly unquoted companies across different industries. The investment criteria include a target IRR of at least 20% per annum for each investment. The intention is for individual investments to exit in three to seven years, with the VCT itself being a continuing entity. The current offer is to raise £5m, with a £5m over-allotment facility.

Calculus Capital Limited is the Fund Manager, and there are no other companies involved in running the fund.

Summary of risk areas

Note: There are generic risks from investing in VCTs or unquoted companies in addition to the specific ones commented on below. Comments on relative risk refer to other VCTs investments and not to wider investments.

Investments

Portfolio risk

Each investment will be into a company with growth potential. There is an existing portfolio of 22 significant investments, which constitute just over half the existing NAV. There will be some sector diversification, with no more than 20% in one sector. As the portfolio is in more mature companies than some VCTs, there may be some economic sensitivity, but we would expect idiosyncratic risk to dominate.

The target company IRR of 20% and multiple of 2.5 are the upper end of what should be expected for what is, in VCT terms, a medium-risk strategy.

Sourcing and external oversight

Calculus describes itself as having 'privileged sources of deal flow'. Historically, it has managed to find sufficient investments, usually with little competition from other investors. The deal flow has increased over the last couple of years. The VCT will often co-invest alongside the Calculus EIS Fund.

The investment process up to the offer is internal to Calculus. The majority of the Directors on the Investment Committee are not involved in deal negotiation/diligence, bringing an independent oversight of decisions. The VCT board has an overview, but does not generally get involved in individual decisions.

Ongoing support and monitoring

As per many VCT managers, Calculus takes a board position on investee companies, or may also appoint an appropriately experienced non-executive director. Support goes beyond that, with a combination of guiding and mentoring management. The latter, unusually, includes a CEO/CFO Forum, bringing together all the investee companies to share experiences and solutions.

Exits

The intention is that exits will come through trade sales or other normal exit routes such as IPOs. This is supported by Calculus's track record.

Manager

Team

Calculus is one of the longest-established VCT/EIS managers, having been investing since 1999, and the two founders are among the most experienced in the industry. The majority of the investment team of eight people are accountants and bring a broad range of fund management and corporate finance experience.

Track record

Calculus has built up an extensive track record over its existence. To the end of September 2017, it had invested in 67 companies with 32 exits. The latter have achieved a median IRR of 12% and a crude mean of 13% – short of the Calculus target, but still credible. The realised track record has been adversely affected over the last couple of years, with several previously written down investments being written off.

Regulation

Product

Where there is co-investment with the EIS Fund, Advance Assurance will be sought from HMRC. Hardman & Co does not expect any issues to arise from the recent budget changes. Having raised significant capital in recent years, Hardman & Co estimates that just over half of investments by value are VCT Qualifying.

Manager

The Fund Manager is Calculus Capital Limited. It is FCA registered (number 190854), with fund management and custodian permissions. Submissions to Companies House appear to be up to date.

Risk analysis/commentary

Calculus Capital is one of the longest-standing managers in the EIS/VCT area, and has established a good reputation and a considerable track record. The investment process is clear and well-articulated. It does have much in common with other managers, but the emphasis on relatively more established companies, the substantial size of investment and the way it relates to management bring distinctiveness, as well as some risk management.

The focus on somewhat more mature VCT/EIS-eligible companies is getting rarer within the funds in the sector. This focus should bring risk benefits for investors, although with the trade-off that the fund is unlikely to produce many companies with spectacular returns either.

The diversification within the product is currently limited compared with some other VCTs, but should improve as the cash gets invested. Individual investments should largely perform independently of each other, although, as the companies are more mature than some other VCT products, they may show some correlation. Investors should consider this product in the context of their whole portfolio.

Investment process

VCT history

Calculus VCT was originally launched in conjunction with Investec and was initially called the Investec Structured Products Calculus VCT. Until August 2017, the VCT had three different share classes: Ordinary shares (launched in 2010), C shares (launched in 2011) and D shares (launched in 2015). Each had its own segregated pool of assets. The assets of the Ordinary and C shares initially included a significant proportion invested in an Investec structured product to help meet the income targets.

The VCT was renamed in 2015 to Calculus VCT plc, when Investec's only remaining interest was in the structured product in the C share asset pool. It was subsequent to this that the first D share offer was launched.

The three classes of shares were merged in August 2017. By this point, the structured products had matured and were no longer in the portfolios. For the Ordinary shares and C shares, the majority of capital had been returned as dividends. At this point, the D shares represented about 86% of the total assets. The new class of shares has been renamed to Ordinaries (also referred to in some of the documentation as 'new ordinaries').

In September 2017, Calculus VCT merged with Neptune-Calculus Income and Growth VCT (Neptune VCT) by acquiring the latter. Neptune VCT was started in 2005 as a joint venture between Neptune and Calculus, although had not raised any new money since 2008. At the time of the merger, it had £2.2m of assets, 22% of the new total of £9.92m.

Calculus VCT now has a single share class of Ordinary shares. Having a larger company with a single share class makes good economic sense, with reduced company costs. It also provides greater diversification for investors, as the different asset pools did not have the same investments. For the older share classes, it also gives a new flow of investments.

Deeper dig into process

Calculus has a well articulated process for investing, with some quite explicit criteria for choosing companies. In particular, it looks for each company to satisfy all of the following:

- ▶ Proven products or services, with some sectors requiring recurring revenues, including multiple clients.
- ▶ Relatively predictable cash flows and a healthy balance sheet.
- ▶ Either generating profits or with a clear path to profitability within the next 12-18 months.
- ▶ The company's primary constraint is access to finance.
- ▶ A clear route to exit, with a target annualised IRR of 20%.
- ▶ Can benefit from the operating and financial experience of the Calculus team.

The above points show that Calculus is looking for more established unquoted companies. It avoids seed and early-stage companies, which are higher-risk. It rarely invests in AIM- or NEX-listed companies, as it feels the unquoted sector usually

offers better value and greater opportunities to scrutinise and influence outcomes. Of its existing EIS investments, 42% by company were invested in at the pre-profit stage.

Split of Calculus's historical investments by type		
Type	Amount invested (£m)	Number of companies
Early stage, pre-revenue	9.7	3
Later stage, pre-flotation	49.0	28
Later stage, pre-profit expansion	63.3	25
Expansion/growth capital	20.9	7
Mature stage	0.2	1
Mature stage – MBI/MBO	3.1	4
Total	156.3	67

Source: Calculus Capital, Hardman & Co Research

We note that two of the pre-revenue investments were some time ago and neither of them were successful, perhaps demonstrating a willingness to learn. In early 2017, Calculus invested in another early-stage business, but this is seen by management as a one-off.

The low number of management buy-outs/ins suggested that the legislation removing those options for VCT managers would have little or no effect, something that has been borne out so far. Indeed, in the two years since that change, and Hardman & Co's last report on a Calculus product, the latter has found new investments at a faster rate than before.

The target IRR of 20% is based off Calculus's own financial modelling of the company and what the team believes can be achieved in an exit in five years' time. Calculus observes that its own projections are always less optimistic than management's, although it does encourage the company to target the latter and keeps its own figures internal.

Calculus looks for companies into which it can make investments of £2m-£5m. The VCT will generally be co-investing alongside Calculus's EIS Funds. Allocations are generally pro-rata, depending on available capital, with Calculus's Treating Customers Fairly Committee taking the final allocation decision. In some cases, priority for investment may be given to earlier EIS tranches.

Sourcing deals

Calculus describes itself as having 'privileged sources of deal flow'. Some of this derives from its position as one of the longest-standing managers in the area. For example, one source is management teams Calculus has backed before. There are some teams on their second Calculus-backed venture, and one is starting its third.

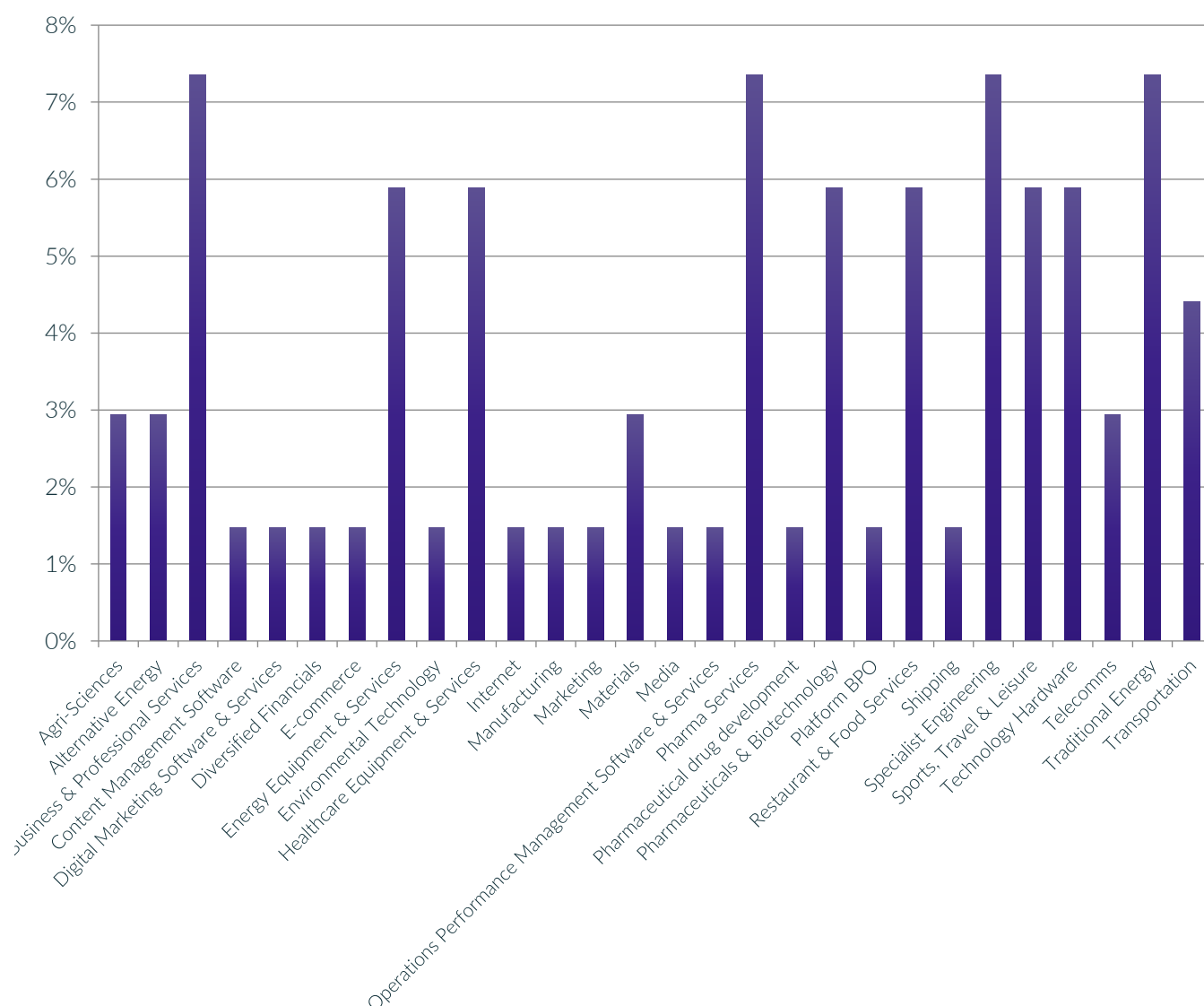
Having been established since 1999, and with most staff having a broader capital markets experience, the Calculus team has an extensive range of contacts. It also cites its investor base as a slightly unusual additional source. A high proportion of its investors are city and finance professionals who are repeat customers and so are happy to refer opportunities to Calculus. It also gets a large number of unsolicited approaches, although relatively few of these lead to investments.

In broad terms, Calculus estimates that it sees about 500 opportunities a year, of which around 100 get requests for more information and 25 are expected to advance to detailed due diligence. These are whittled down to about six to eight new investments a year, plus one or two follow-on investments. 2017 saw a faster rate, with £30m into 11 investments from December 2016 to August 2017. The overall figures are not dissimilar to other VCT/EIS managers but, for the deals it acts on, Calculus generally finds itself in little competition with other capital providers.

Overall, Calculus has some differentiation in its sources of deals, and, over its history, it has been able to source adequate deals. The VCT/EIS market as a whole has become more competitive in recent years, but the expansion of eligible companies means Calculus has not seen much effect from this. We see no reason why this should not continue, and note Calculus's increased rate of investment over the last year or so.

Calculus aims to provide a diversified portfolio, and its track record shows a wide spread of industries. Its 67 historical investments have been spread across 26 different industries (Calculus divides pharmaceuticals into three subsectors). The largest exposure is to the pharmaceutical sector, with a combined 17% of the value invested and 14% of the number of companies. Twelve sectors have seen investment in only one company.

Sector exposure of Calculus's historical investments by proportion of companies



Source: Calculus Capital, Hardman & Co Research

The VCT currently has 18 companies with weights above 1% of the fund, with the largest position at 13.6% as of 30th June 2017. As well as funds raised from the current offer, the VCT still has significant uninvested cash from previous offers.

Although some existing positions may exit, we would expect diversification to increase as this cash is invested.

Going by its historical sourcing rate, this should be achievable. It has additionally set a limit of no more than 20% in any one sector. Based on the data above, Hardman & Co feels there is good evidence that Calculus is capable of delivering on its diversification promise.

Decision-making

Like many EIS and VCT managers, investment decisions in Calculus are made through an Investment Committee. The membership consists of at least three of the CEO, Chairman, Head of Portfolio Management and Head of New Investments. Added to this is the Investment Director leading the deal being proposed. There is no external membership, but at least three of the standing members are not involved in deals until this stage and should be able to provide an objective view.

The Investment Team meets weekly at the 'Pipeline' meeting to consider all new opportunities. All opportunities will have been pre-screened by a member of the team, but even those to be rejected are still double-checked by a senior Investment Team member, just in case. If an opportunity is to be taken further, it is assigned to a two-person deal team of an Investment Director plus another member of the team. As indicated above, their primary initial task is relationship building with the management, and the emphasis on this is a little different from some other managers, where it seems to be lower down the priority list.

Before Calculus commits to a deal, there is a formal Investment Committee meeting at which the investment is scrutinised. After this, an offer will be made subject to due diligence. Few investments fail at the due diligence level, although Calculus quotes examples where it has withdrawn based on due diligence findings – companies are usually incentivised by a clause that covers Calculus's costs if it has to walk away, which acts as an additional filter.

Typically, the full process takes between four and seven months from start to end. The overall stake is usually around 30%-40% of the equity of the investee company, although some deals have been much higher or lower.

No target time for investment of funds is given, other than within the HMRC rules for VCTs, which require 80% within three years.

Governance and post-investment monitoring

Advance Assurance is received from HMRC prior to completion for investments where the VCT is co-investing with the Calculus EIS Fund.

The company has a financial year-end of 28th February. As a listed company, it produces an Annual Report (historically published in May-June) and an Interim Report (historically in October).

Valuations are done using BVCA guidelines, which, for unquoted companies, means using comparable quoted companies as far as possible. We note that 3 of the 18 current investments now have AIM listings. This is currently a popular option for biotech companies, and we would expect a minority of investments in the VCT to move to AIM over time. Six of the current portfolios have at least part of the holding valued at the last price paid for shares.

As a listed company, the valuations of the VCT's holdings will be subject to audit. In practice, all of Calculus's valuations, both in VCTs and EIS products, are subject to two external audits. As well as Grant Thornton, which is the VCT auditor, Hillier Hopkins also checks the valuations.

Calculus, like many other VCT/EIS managers, looks to take a seat on the board of investee companies. It usually looks to strengthen the board with an appropriate independent non-executive director too. Sometimes, the independent director may be instead of the Calculus representative, with the latter taking an observer position.

The interest Calculus takes in its investee companies goes well beyond monitoring. There is a combination of guiding and mentoring of management. The former mainly holds the investee companies to the targets and plans that have been set at the time of investing. The mentoring can take many forms, from suggesting appropriate ways of improving internal systems to a regular CEO/CFO forum for all investee companies. The latter is a mix of a seminar on a relevant topic and group support, allowing management to share experiences, issues and solutions.

We note that the latter is somewhat distinctive for VCT/EIS managers, and seems a useful additional item of support.

With the changes announced in the 2017 budget, qualification levels have become more important to measure. With slightly over two-thirds of its current assets having been raised through D share issues in the last couple of years, the VCT can have a lower level of qualifying assets than the 80% limit. The data available are slightly out of date, but using the figures for the VCT as of 31st August 2017 and Neptune VCT as of its year-end of 31st December 2016, Qualifying Investments were around 50% by value¹ of the net assets as of the merger date.

Exits

Calculus has a member of the team whose investment focus is to manage companies after the three-year holding period and guide them towards an exit. The expectation is that most successful exits will occur through trade sales. The track record shows this to be the case, although, as noted above, Calculus has had a proportion list on the AIM.

Calculus has additionally made a commitment to return capital after year 5, although it is too early to say what form that will take. Historically, this has been predominantly through dividends, and investors should note that these are tax-free for VCTs.

The dividend policy will change from summer 2019, with the VCT having a target annual dividend of 4.5% of NAV.

As secondary liquidity for VCTs is usually limited, Calculus will make ongoing share buybacks as necessary. The intention is that buybacks will take place at no greater a discount than 10% of NAV until February 2020. After that, the discount will be reduced to 5%. Given that VCTs without such a policy can trade at much wider discounts, this is significant. However, many other VCTs have now enacted similar policies. Buybacks, even at a small discount, will also slightly enhance the NAV for the remaining shareholders. The VCT has permission to buy back up to £500,000. In January 2018, it bought back 62,210 shares at 78p.

¹ The regulation with the 80% limit applies to the adjusted cost, but this gives a first approximation.

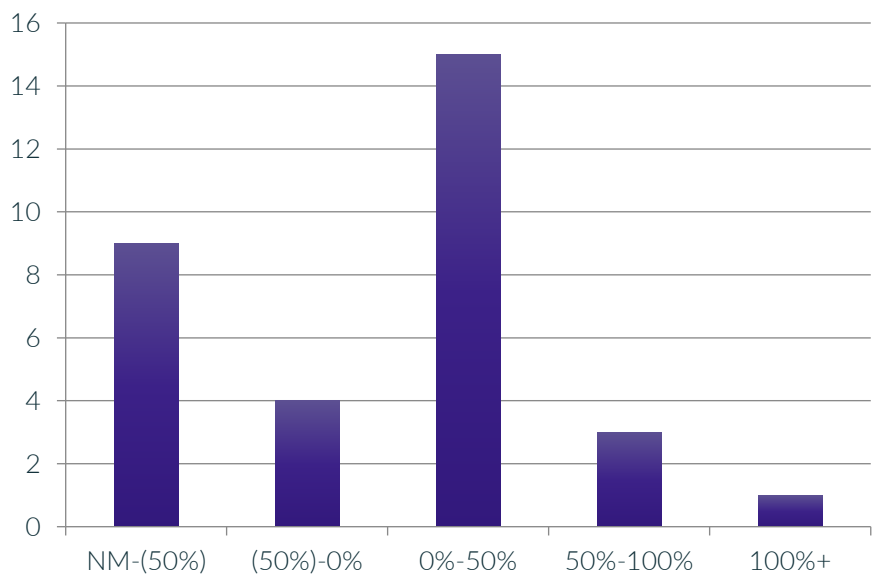
Track record

Hardman & Co has been supplied with details of the Calculus track record, with figures as of 30th September 2017. At the time of the last Hardman & Co review, the track record had exits that averaged close to Calculus's 20% IRR target. Unfortunately, in the two years since then, the exits have not matched that standard, although several of these were the crystallisation of losses that had already been recognised but not crystallised.

To date, Calculus has invested into 67 companies, of which 32 have achieved exits. The vast majority of these took place between three and eight years after the first investment, although several had earlier dividends or partial realisations. The average exit proceeds weighted by the cash invested are 2.0x the initial (gross) invested capital. On an unweighted basis, this falls to 1.5x.

The median annualised IRR on the realisations is 12%. As the figure below shows, 13 were at a loss, eight of which were complete write-offs and do not have a meaningful IRR. Using an approximation for these latter investments gives an average IRR of 13%.

Number of companies exited with achieved IRRs



Source: Calculus Capital, Hardman & Co Research

Overall, the pattern is what is to be expected from the Calculus investment process: investing in more mature companies tends to give returns that are more steady than spectacular.

Giving an average time to realisation is not straightforward. There are some investments that have had several investment tranches, and some where realisations have taken place over time. The average time to first realisation is 4.9 years, with a median of 4.2 years. In 63% of investments, the time until the first realisation was less than five years.

This, of course, is not the whole story, as there are 35 current investments. These are currently showing a median return on investment of 13% over a median time since first investment of 3.2 years. There are eight investments that are over five years-old, but are still currently held. Two of these have been written down, one by 78% and another by 18%. The other six are showing gains and, overall, these eight

investments show an aggregate gain of 27% over a median of 7.8 years. We do not have IRR data for these investments, but the crude annualised average return of 3.5% gives an indicative figure.

The less mature investments show a similar pattern, although a narrower spread of returns. Seven of the unrealised investments are now AIM-listed companies, and we note that some of these have seen a disappointing performance over the last couple of years.

Overall, the last couple of years have, unfortunately, adversely affected Calculus's previously good performance. An achieved IRR of 12%-13% is still credible, albeit somewhat short of Calculus's target.

Dividends

The following table gives the dividends paid and the NAVs over the last five years. From inception, the old Ordinary shares paid total dividends of 84.66p from 2010 to 2017, and the old C shares paid total dividends of 74.13p from 2011 to 2017.

Dividends paid in year and NAV as of 28 th February								
p	Old Ord			Old C			Old D/New Ordinary	
	NAV	Regular	Special	NAV	Regular	Special	NAV	Regular
2013	96.3	5.25		93.5	4.5			
2014	95.2	5.25	22	91.4	4.5			
2015	66.4	5.25	21.8	90.1	4.5			
2016	31.36			77.27	4.5			
2017	20.63	7		26.02	3	47.6	92.43	4.25
NAV at 31/08/2017 (equivalent for merged classes)	12.623			21.31599			87.54	

Source: Hardman & Co Research

Fees

The VCT's fees and costs are listed on the Factsheet on page 3.

Calculus estimates that the total offer costs will be 5% of the funds raised. Calculus will receive a Promoter's fee, which will be 3% for advised investors or those who invest through intermediaries. For direct investors (with no intermediary), it will be 5% of the amount invested.

Commission may also be payable. For advised investors, this is as agreed between the investor and the advisor. For non-advised investors using an intermediary, initial commission will be 2% of the investment plus a trail of 0.5% (up to a cumulative 3.0%, i.e. for up to six years). The amount of trail commission paid in practice is not disclosed, but we understand that most investments to date will not require it to be paid.

Note that these charges are paid by the VCT and thus the full investor amount is eligible for tax relief. Calculus will bear the other initial costs from its fee.

A performance fee will be payable once proceeds to shareholders are in excess of £1.05 per share (compared with a £1 issue price and expected net proceeds of £0.95). The fee will be 20% of any proceeds in excess of this amount. Proceeds will include dividends, share buybacks or similar distributions.

There are, of course, other costs associated with the VCT in addition to those listed above, such as listing costs, audit fees, Directors' fees (£50,000 in FY2017) and shareholder communications, etc. Directors' fees are capped, in total, at £100,000, although, in practice, they have not approached this amount. Since the merger, one new Director (formerly on the Neptune VCT Board) has been appointed, so this cost will increase.

Calculus has agreed to cap total costs (excluding performance fees) at 3.0% of net assets, with any costs in excess of this being borne by the manager. For former D shareholders, this is a reduction from 3.4% prior to the merger. For former old Ordinary and C shareholders, this is the same as before.

The top-up issues should also have a beneficial effect on costs, with Calculus estimating that, if the full £10m is raised, then the expense ratio will fall to 2.9%. The average for Generalist VCTs is 2.7% (or 3.0% including performance fees). In this respect, the VCT potentially still suffers a little from its small size.

We also note that any further top-ups would be expected to have a beneficial effect on costs. In FY2017, 'Other Expenses' were £193,000, including a £20,000 clawback from Calculus, giving £213,000 in total. Crudely, these are about 2.1% of current net assets, but will grow at a much slower rate as new funds come in. The Calculus estimate suggests that these will fall to 1.1% if the full £10m is raised. This would suggest that a further fund raise of around £5m would bring total costs in line with the sector average.

In addition to the above, Calculus may charge arrangement and syndication fees to the investee company. The registration document says these will be in line with normal industry practice, and the averages are outlined in the table on page 3. Note that the Directors' fees may be payable to an independent director instead of a Calculus representative. The fees and charges are quoted net of VAT. Where investee companies have sufficient VATable revenue, the VAT can be offset, but where an investment is unsuccessful, this may not be the case.

Fundraising targets

The offer is for £5m, with a £5m over-allotment facility. Closing dates are 3rd April 2018 for investment in the 2017/18 tax year and 31st July 2018 for the 2018/19 tax year. Existing investors will receive a 0.5% discount.

The minimum subscription is £5,000 per investor.

Fund Manager

Calculus Capital Limited is one of the longest-established fund managers in the tax-enhanced area, with the founders still running the company. It manages a series of EIS funds, as well as the Calculus VCT.

People

John Glencross – CEO and Co-Founder

A chartered accountant, he has had a long career in private equity, corporate finance and operational management. Qualifying at Peat, Marwick, Mitchell & Co, he was a founding member of Deloitte's corporate finance business, head of M&A at Philips and Drew and also an Executive Director in European Corporate Finance at UBS.

Susan McDonald – Executive Chairman and Co-Founder

Started her career in the energy, then pharmaceutical industries. She moved to the finance world at Jardine Fleming in Hong Kong and subsequently to associated companies. She was Director and Head of Asian Equity Sales at Banco Santander before founding Calculus, and now has over 28 years of experience.

Lesley Watkins – Finance Director

Accumulated 18 years of corporate finance experience at senior director level. Most of this was at UBS, but was with Bankers Trust Alex Brown when it was purchased by Deutsche Bank. Joined Calculus in 2002.

Robert Davis – Deputy Chief Executive, Head of Portfolio Management

A chartered accountant, he has over 25 years of advisory experience covering a whole range of transactions, but especially M&A. As well as spells at, inter alia, JPMorgan and Robert/Jardine Fleming, he held senior roles at Avendus Capital and Nomura International. He joined Calculus in 2014.

Ken Edwards – Non-executive Director

Spent 20 years at Hill Samuel, where he rose to Managing Director of the intermediary distribution arm. He followed this with a role at Barclays Unicorn, before becoming a Director of Baillie Gifford's retail investment for 12 years.

The Calculus investment team has seven other people: four experienced Investment Directors and three less experienced staff. The majority of the team are qualified accountants and bring experience of capital markets, mostly through corporate finance or investment banks, but also hedge funds and fund management at, inter alia, JPMorgan, Robert Fleming, Citigroup, Apollo Management and Ernst & Young.

As well as the investment team, Calculus has six other permanent staff in finance, investor relations and marketing roles. It also employs a specialist management consultant for compliance requirements.

The Investment Committee is comprised of a minimum of three members. The standing members are Susan McDonald, John Glencross, Robert Davis and Richard Moore. Employees with the title "Investment Director" may be elected to the committee on an ad hoc basis. The Investment Director responsible for a particular investment will be a member of the Committee when any matter related to that particular investment is under consideration, although three members other than that person are required to be quorate.

Calculus VCT Directors

Michael O'Higgins – Chairman

Formerly a partner at Price Waterhouse and PA Consulting, he now has an academic career. He is also a non-executive director of Network Rail and at HM Treasury (until March 2014).

Kate Cornish Bowden – Director

With a background in investment banking at Morgan Stanley, she now acts as a consultant to private equity and financial training firms. She is a non-executive director at Scancell Holdings.

Steve Meeks – Director

Specialised in structured products during a 30-year career in financial markets with NatWest, UBS and Santander. Currently Executive Chairman of Smart Carbon Control.

Diane Seymour Williams – Director (formerly on Neptune Board)

Has an extensive career in investment management, including 23 years at Morgan Grenfell/Deutsche Asset Management and nine years at LGM Investments. She is a former non-executive director of Calculus Capital Limited, and has held several fund and other directorships.

In addition to the above, the Calculus CEO is a Director, although, pleasingly, he does not draw a director's fee. We note that Scancell Holdings is an investment in the VCT and that Kate Cornish-Bowden is a non-executive director of it, although she became a director after Calculus had invested, and this is unlikely to cause a significant conflict of interest. Procedures are in place should this be an issue.

Appendix 1 – due diligence summary

Summary of core due diligence questions		
Investment manager		Validated by
Company	Calculus Capital Limited	
Founded	1999	Hardman & Co
Type	Private limited company	Hardman & Co
Ownership	Calculus Holding Limited	Hardman & Co
FCA registration	190854	Hardman & Co
Solvency	Yes	Calculus
EISA member	Yes	Hardman & Co
Fund custodian	Unquoted investments	
Company	Calculus Nominees	Calculus
FCA registration	Part of Calculus Capital	Hardman & Co
Fund custodian	Quoted investments	
Company	Investec Wealth and Investment Ltd	Calculus
FCA registration	124537	Hardman & Co

Source: Hardman & Co research

Regulation

Calculus Capital Limited is a limited company founded in 1999 as McDonald-Glencross Limited, changing its name to Calculus in 2005. The company has a very strong balance sheet, with the last accounts (October 2016) showing £6.0m of shareholders' equity and £1.4m of cash on the balance sheet. Calculus has confirmed that this is comfortably in excess of its solvency capital requirements.

Calculus Capital Limited is wholly owned by Calculus Holdings Limited. The latter is equally owned by John Glencross, Calculus CEO, and Susan McDonald, Calculus Executive Chairman, who were the co-founders of the company. The FCA permissions of Calculus Capital include permissions to act as a custodian, as well as fund manager permissions.

Notes

Notes

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