Deepbridge Innovation SEIS

Deepbridge Advisers Limited/Enterprise Investment Partners

Summary

The Deepbridge Innovation SEIS is a discretionary portfolio service that will invest into a small portfolio of up to 10 underlying companies, focusing on start-up or early-stage life science companies.

	Positives	Issues
Why Invest	**Strategy:** Well defined investment process to invest directly in new companies in selected technology areas.	**Concentration:** Portfolio may be up to nine investments, although smaller investors may get greater concentration.
The Investment Adviser	**Team:** The Deepbridge team is very experienced in the relevant areas, and its Committees have very strong outside members.	**Newer product area:** Although Deepbridge has been investing in EIS since 2013, SEIS is a relatively new area.

Nuts & Bolts

- **Investing:** Deployments take place on a six-monthly basis, with the aim of investing a full £1.5m tranche at that time.
- **Diversification:** Portfolio of up to 10 companies.
- **Valuation:** Unprofitable companies will be held at cost or at the last relevant transaction. Profitable companies use a discounted average multiple from relevant companies.

Specific Issues

- **Fees:** Only the performance fee is not charged directly to the company.
- **Performance fee:** Performance fee of 20% on gross returns over £1.50 on a per company basis.

Risks

- **Risk mitigation:** Deepbridge aims to mitigate risk by active ongoing support of the company and choosing conservative business plans. Most of the companies will be introduced by partners, who will also be bringing support.
- **Target return:** The target return for the fund is £2 for each gross £1 invested over a minimum of five years. Individual companies tend to have much higher targets, reflecting that success in a company will give an excellent return, but there is a real risk of loss in any project.

Analyst	Adviser information		Contact details	
Brian Moretta	Scheme assets	£1.1m	Managing Partner	Ian Warwick
bm@hardmanandco.com	Scheme target	£3m in each FY	Contact	Andrew Aldridge
020 7194 7622	EIS assets	£45m		01244 746000
	Total FUM	£92m		deepbridgecapital.com
	Fund launch date	2017		

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Factsheet

Deepbridge Innovation SEIS	
Product name	Deepbridge Innovation SEIS
Product manager	Enterprise Investment Partners LLP
Investment adviser	Deepbridge Advisers Limited
Tax eligibility	SEIS
Target return	£2.00 for each £1 invested
Target income	None
Type of product	Discretionary portfolio service
Term	Minimum of 5 years
Sectors	Technology
Diversification:	
Number of companies	3-10
(Expected) Gini coefficient	0.1-0.33

Fees	Amount	Paid by
Initial fees:		
Corporate advisory and arrangement fee	Up to 5% (excl. VAT)	Investee company
Non-advised investor fee	2.5% (incl. VAT)	Investor
Dealing fee	0.65%	Investee company
Annual fees:		
Maintenance fee	2% (excl. VAT) of investment	Investee company
Custody administration fee	0.5% (excl. VAT)	Investee company
Exit fees:		
Performance fee	20%	Investor share of proceeds above a £1.50 hurdle per company
Dealing fee	0.65%	Investee company

Advisor fee facilitation	Yes
Advisor fee amounts	As agreed with investor up to 3%
HMRC Approved fund?	No
Advance Assurance from HMRC	Yes
Reporting	Semi-annually
Minimum investment	£10,000
Current funds raised	£1.1m
Fundraising target	£1.5m in this financial year
Closing date(s)	Evergreen, but by 26th March 2018 for deployment before FY- end
Expected exit method	Trade sale, IPO or other exit opportunity

Source: Deepbridge Advisers Limited, Hardman & Co research

Fund aims

The Deepbridge Innovation SEIS is a discretionary managed portfolio service focused on investing in a portfolio of emerging technology-focused companies across a variety of areas. The target return is £2 for each £1 invested (gross) in a minimum of five years. There is no income target.

There are two parties involved in running the fund:

- **Deepbridge Advisers Limited**: the Investment Adviser, who sources and recommends investments and provides ongoing support to companies.
- **Enterprise Investment Partners LLP (EIP)**: the Fund Manager, who makes the final decisions and provides appropriate regulatory support.

Summary of risk areas

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

Investments

Portfolio risk

Each investment will be into a technology company. The target is for investors to receive shares in up to 10 companies. Each investment is likely to perform independently of the others, with idiosyncratic risk dominating market risk.

While the target return for the fund is £2 for each £1 invested, each company will be start-up or very early-stage and will be a high-risk investment.

Sourcing and external oversight

A significant proportion of investments are expected to come through two partners: Sci-Tech Daresbury and We Are Nova. The balance will come through the network of Deepbridge's partners. We Are Nova is expanding, and sourcing the required number of investments looks to be achievable.

The SEIS has two sources of external oversight. The Supervisory Investment Committee has members who are external and voluntary; Enterprise Investment Partners also has to have investments approved by its Investment Committee.

Ongoing support and monitoring

As per many (S)EIS managers, Deepbridge takes a board position on investee companies. However, one of Deepbridge's distinguishing features is that most of its senior staff members have been entrepreneurs themselves, and can bring the appropriate support and insight that enables. As well as having a formal reporting structure, Deepbridge expects to be in daily contact with many investee companies.

Exits

The intention is that exits will come through trade sales or other normal exit routes such as IPOs. To date, there has been one partial exit through a secondary sale, which is not expected to be the normal exit route.

Adviser

Team

The Deepbridge team brings both entrepreneurial and investment experience, with a range of backgrounds including various technology areas and beyond. We note that Deepbridge has recruitment plans based on expected growth, as some operational areas are approaching capacity with their current staff.

Track record

Having started only in 2017, the SEIS does not have a meaningful track record. Deepbridge Technology Growth EIS has invested in 12 companies, with one partial exit to date.

Regulation

Product

Advance Assurance will be sought from HMRC for each company investment.

Manager

The Fund Manager is Enterprise Investment Partners LLP. It is FCA registered (number 604439) with fund management and custodian permissions. Submissions to Companies House appear to be up to date. Deepbridge Capital LLP is also authorised by the FCA.

Risk analysis/commentary

Although the age of Deepbridge means it does not have an extensive track record in EIS, it brings a team that is experienced and has developed a very well-defined investment process. The members of the team that we have met have shown a commitment to understanding, analysing and supporting businesses, rather than being technology evangelists. We note that internal resources are a potential constraint, but that recruitment is planned to keep capacity ahead of requirements.

To date, Deepbridge has shown an ability to source and deploy assets. We note that the recent expansion into SEIS is as yet unproven, and will need Deepbridge to source investments at a faster rate than previously. The use of specific partners in this product mitigates that, and Deepbridge has committed to raising only the money that it can deploy, so we do not see this as a major risk.

It is also too early to assess whether Deepbridge can produce the intended returns in the target timescale. The external scrutiny to which decisions are subject does give comfort to investors that there is a good degree of oversight on their decision-making.

Diversification within the fund is limited, although, with 10 investments, it would be towards the upper end of products in the SEIS area. Individual companies that succeed are likely to give excellent returns, but those that do not may return little or nothing. This SEIS should be considered in the context of an investor's entire portfolio.

Overall, while investing in this area inevitably carries risks, the Deepbridge process looks at potentially exciting investments and may be rewarding too.

Investment process

Deeper dig into process

The Innovation SEIS will invest in a portfolio of very new technology-focused companies. Deepbridge lists several areas of interest:

- Energy and resource innovation
- Medical technologies and diagnostics
- Business enterprise information technology
- Data analytics
- Transport and automotive industry
- Instrumentation and control technologies
- Advanced materials and manufacturing
- Robotics, machine learning and artificial intelligence

Investors will note that some of these are quite broad categories and very few technology businesses would clearly sit outside these. Although Deepbridge has invested in consumer-facing technology, the emphasis in the Technology Growth EIS has been more on business-facing companies.

The intention is to provide some diversification within each investor's portfolio across these areas.

As is typical for SEIS, it is anticipated that the companies will be start-ups or at a very early stage of development. This means they are unlikely to be revenue-generating, and, in most cases, will not have a product ready for market.

It is clear that Deepbridge is bringing an international outlook and focusing on companies in the context of a global market. However, the needs for investment at the seed stage are distinctive from its established EIS. Deepbridge articulates a set of desirable criteria:

- **Commercial relevance**: in essence identifying whether is there an adequate market for the technology. This includes identifying whether it actually satisfies a customer need, whether there are enough of those customers and whether there is a space in the market for that product.
- **Disruption**: Deepbridge has a preference for technology that will either displace current market technologies or create new market segments. It is not interested in me-too types of investments.
- **Technology**: the company will use a technology derived platform and/or and innovative approach.
- **Clear development path**: while Deepbridge accepts that most seed companies will not have a product ready yet, the path to achieving that should be clear. The target delivery will be a prototype or minimum viable product. This is particularly important when it comes to future funding needs.

- **Intellectual property**: Deepbridge looks for a strategy to be in place to protect any intellectual property. Typically, this will include the potential for patents. Investors should note that this is not a panacea, as such cases can consume considerable resources and take a long time to resolve.
- **Management**: a team that is passionate and experienced is ideal. They should also be open to advice and guidance.
- **Exit**: a strategy that will lead to exit in five-plus years, with founder and shareholder interests aligned.

Deepbridge is realistic that not all these may be possible at the seed stage. It sees the team, IP strategy and commercial prospects as the most important issues.

The last criteria is clearly for the benefit of SEIS shareholders. We would note that SEIS investors typically take a 30%-40% stake of the equity in investee companies, and almost never a majority. All investments will be unquoted.

Deepbridge will also look for additional or match funding, such as grants. With one of Deepbridge's partners being in an Enterprise Zone, and being in sectors that the government is keen to support, investee companies should be well placed to benefit from additional funding. Receipt of such funding is not a necessary requirement to be considered by Deepbridge, but its availability is obviously important to the investment decision.

Overall, Hardman & Co finds the investment process and criteria to be articulated better than many others in the EIS sector, although discipline in its execution remains a key factor in whether it is successful.

Sourcing deals

Across all its funds, Deepbridge relies strongly on the network of contacts from its senior management to source deals. For this SEIS, it has two particular partners, from which the majority of the investments are likely to come:

- **Sci-tech Daresbury/Daresbury Innovation Centre:** (www.sci-techdaresbury.com). Located roughly half-way between Liverpool and Manchester, this is a National Science and Innovation Campus that was founded in 2006. The site consists of four main buildings, which offer both office and laboratory space for hi-tech companies. Being in an Enterprise Zone, companies there receive both implicit and explicit support. At the time of writing, over 100 companies, from start-ups to multinationals, have their headquarters there.

- **We Are Nova:** (www.wearenova.co.uk). Based in Liverpool, it specialises in creating and supporting digital start-up businesses. It has much in common with an incubator for new businesses, with the SEIS being a potential funder of the projects. We Are Nova assesses and challenges potential products, helps create prototypes and provides mentoring services. It aims to encourage start-ups to hone their product into something that has a market need. It is planning to expand in Manchester, Nottingham and the Middle East.

Neither of these are remunerated directly for helping to source companies. Helping to source funding falls within Sci-Tech Daresbury's remit, although companies based there may pay rent. We Are Nova will provide relevant services to companies, and will receive either financial payment or equity in return.

Deepbridge also cites some other institutions, universities and research centres with which it has active relationships, including Imperial College London and Scottish Investment Bank. Deepbridge appears to have grown the range and depth of these relationships over the last few years, some of which are linked to the launch of other products. In broad terms, Deepbridge expects the partners above to bring a significant proportion of the investments, with the balance coming from its own network.

Although Deepbridge is based in the north of England, it has no geographical restrictions or preferences; however, from conversations, its strongest areas appear to be outside the south-east.

Deepbridge uses its experience in developing businesses as a key attraction for potential investments. Its main interest is in companies that need access to expertise, not those that just want a cheque.

Deepbridge is looking to have up to 10 investments in each tranche of this SEIS, with two tranches a year. The use of Sci-Tech Daresbury and We Are Nova is a key part of achieving this. We note that the former has been very successful in attracting businesses, and some of its facilities are approaching capacity. However, if the latter is successful in its expansion, then this should bring more opportunities.

Decision-making

The decision-making process is a little different from that of Deepbridge's other EIS products. Both Sci-Tech Daresbury and We Are Nova bring their own capabilities. In particular, each will do some pre-assessment of potential opportunities. The latter, in particular, has a six-week assessment programme that companies go through.

Once presented to Deepbridge, each company will follow the former's usual procedures. Using an external filter helps Deepbridge to keep down its resource requirements and costs – essential in SEIS investing.

The rest of the decision-making process follows a similar pattern to most EIS managers. The executive team at Deepbridge carries out the selection, appraisal and review of all potential investments. This is a very considered decision.

Valuations are usually based off business plans, using discounted multiples of expected profits in five-plus years' time. Deepbridge does examine the forecast revenue figures to check their validity, discounting for execution risk. For SEIS companies, the earlier stage and greater uncertainty of revenues mean less importance is attached to this. Valuation is more of an art than a science at this stage.

Proposed investments are presented to the Investment Supervisory Committee for approval. It should be noted that two of the three people on the Committee are very strong industry figures who are not Deepbridge employees, giving added credibility to this part of the process.

The Committee is given an aggregation of the due diligence information, including information on the company, its directors and significant shareholders, as well as the rationale for investing. The shareholder agreement is seen as a particularly important element, making sure that EIS investors get appropriate rights. The Committee may also source external experts to validate technology, if required, although this may happen at an earlier stage in the due diligence process.

The Committee's designated role is not simply to validate investment decisions, but also to act on behalf of EIS investors. Consequently, its involvement continues beyond the approval of any company for investment. It also has responsibility for appointing specialists to help the company and monitoring any exits.

After the Investment Supervisory Committee has agreed on an investment, it needs to be approved by Enterprise Investment Partners' Investment Committee. At the time of writing, this is a relatively newer part of the set-up. Deepbridge notes that, so far, EIP has challenged the diligence information more, looking for better back-up evidence and information. To date, however, it has not challenged the rationale for any decisions and has not rejected any investments.

Overall, it usually takes about three months from initial interest to deployment of capital. In practice, the intention is that the fund will deploy capital in two tranches a year and payments to companies will be made as a lump sum.

It should be noted that Deepbridge, members of its team or members of the Investment Supervisory Committee may invest alongside SEIS investors, but will do so on the same terms (although see *Fees* below).

Governance and post-investment monitoring

Before being added to the portfolio, all companies will be in receipt of Advance Assurance from HMRC. Deepbridge notes that it sometimes gives companies help with structuring, usually for technical reasons, rather than due to the core business plan.

Investors will receive half-yearly reports and valuations on their holdings. Deepbridge has published a valuation methodology that will be applied to holdings. In short, companies that do not have a positive EBITDA will be valued at the book cost of the shares. Companies with a positive EBITDA will be valued using an average price-earnings multiple of comparable listed companies and applying a discount (to reflect higher risk and reduced liquidity). These are in line with standard international guidelines. Since 2016, Deepbridge has a policy that all valuations will be examined at least annually.

As mentioned above, Deepbridge sees one of its key roles as supplying expertise to the investee companies. One of its differentiators from some other EIS managers is that most members of the investment team have been successful entrepreneurs themselves. Their experience of investee companies is that the management is often very good at technology but less experienced on business matters.

Like many (S)EIS managers, Deepbridge looks to appoint a senior member of its team to the Board of investee companies in a non-executive position. However, Deepbridge sees its involvement going beyond that. In essence, it is looking to be more of a mentor to the company, encouraging its development by bringing technical, financial or other support. This may or may not come from Deepbridge directly. Often it is ensuring that suitable management or experts are involved with the company as staff or consultants. Sometimes, its involvement has been more direct, such as assisting with project management for a build that can have cost savings, while reducing execution risk.

For the Innovation SEIS, Deepbridge's input will be complemented by support from Sci-Tech Daresbury or We Are Nova. This should reduce the strain on Deepbridge's team. While Deepbridge will choose only partners that it trusts, Hardman & Co has not done any diligence on partners' teams or capabilities.

Formally, Deepbridge expects a six-month formal report, quarterly management accounts, to attend board meetings and to monitor the share capital. Informally, contact with the company will extend beyond board meetings, and Deepbridge will maintain regular management contact; for new investments, this means almost daily, but for more mature investments, the contact can be less frequent.

Performance is also regularly compared against the operational plan and, if necessary, remedial action is sought. Deepbridge has indicated that it is looking for investee companies to follow a "conservative business model" and it will be making sure that this happens. Overall, this goes well beyond simply monitoring the investment, and Deepbridge see this as an important part of its risk mitigation.

The vast majority of SEIS investments have further funding needs, and the investments in this fund will be no exception. Deepbridge is potentially well placed to do some of this with its EIS products, but it says this will not happen for every SEIS investment. We note, in particular, that only the first three areas on the list on page 6 are listed for the Technology Growth EIS, although these are potentially quite broad. Deepbridge will use its contacts to support further funding.

Investors should note that there is no provision for investors to participate directly in follow-ons, which could lead to dilution of their holding. However, SEIS companies are unlikely to succeed without further funding, and this is a widely acknowledged part of seed investing.

Investors should also note the potential tension between receiving later EIS funding, which requires a minimum three-year holding time for tax relief, and Deepbridge's aim of exiting in five years' time. Hardman & Co notes that five years could be ambitious for a SEIS technology fund, but we note that Deepbridge sensibly give this as a minimum.

Exits

Deepbridge emphasises that it is exit-focused from the time of the initial investment. Although the team will have an idea of how the exit may occur, this is, by necessity, a flexible plan. The main anticipated exit route is through a trade sale, although IPOs or other routes are possible. The one (partial) exit to date came through a secondary market sale, but this is unlikely to be common.

Track record

Deepbridge has been investing in SEIS companies only since 2016, so it does not have a meaningful track record yet.

Its initial EIS product was the Technology Growth EIS, which was launched in 2013. As of December 2017, this had invested in 12 companies, some of which have had multiple tranches of investment. There has been one partial exit (all shareholders could have exited, but many chose not to), which gave a return of 2-4x investment, depending on when the investment was made.

Of the 12 investments, seven have seen a positive revaluation, with only one decline. The four without a valuation change were investments in the previous year. Overall, while the EIS track record is limited, it does show signs of promise. It is too early to say whether SEIS will follow a similar pattern.

Fees

The fees for the SEIS are set out in the table on page 3 and, other than the performance fee and non-advised investor fee, are payable by the investee companies. These are straightforward, other than as noted below:

- **Non-advised investor fee:** where an investor does not come through an intermediary, Deepbridge charges a fee of 2.5% (including VAT) to reflect the additional support these investors usually need. This is deducted before subscription, and so is not eligible for relief.
- **Corporate advisory and arrangement fee:** the Information Memorandum says that this is up to 5%. We understand that, in practice, it is almost always 5%.
- **Performance fee:** this is charged on a per company basis. It is possible that performance fees may be payable if the fund as a whole has lost money. However, the threshold of £1.50 helps to offset this risk.
- **Warrants:** Deepbridge will sometimes receive warrants, either in lieu of the above payments or in addition to them. These typically are for five to six years, and are intended to incentivise the management.

Unless otherwise noted, the fees and charges are quoted net of VAT. Where investee companies have sufficient VATable revenue, the VAT can be offset, but where a project is unsuccessful, this may not be the case.

Fundraising targets

The target fundraise is £1.5m in the 2017/18 financial year, with £3m in future years. Deployments take place every six months, with the aim that each tranche will be £1.5m into 10 companies. The fund itself is evergreen, but the closing date for money to be invested in the 2017/18 financial year is 26th March 2018.

The minimum subscription is £10,000 per investor. The number of companies may depend on the amount invested, with an investor who invests the minimum getting a minimum of three companies. Deepbridge tells us that the average investor has received six investments.

Fund manager & investment adviser

Enterprise Investment Partners was established in 2010. It has acted as a manager and/or promoter for various EIS, SEIS and BPR/BR products.

Deepbridge Advisers has been focused on technology investments since its inception. Founded by Ian Warwick, the Technology Growth EIS has been its flagship product in EIS. Deepbridge has expanded its product range over the last couple of years, and now has four active EIS and SEIS funds. It has also added investments in renewables, which are used, inter alia, in its Business Relief product.

Key people

Ian Warwick – Managing Partner

Has spent the last 20 years leading publicly-quoted technology businesses in the UK and USA. Prior to Deepbridge, he was Chairman and CEO of Aftersoft Group Inc, turning around the business and returning it to profit.

Dr Savvas Neophytou – Partner, Head of Life Sciences

After gaining a PhD in psychopharmacology, Dr Neophytou spent 15 years as a top-rated investment banker and analyst at several large investment banks and brokers. He was also CEO of Now Healthcare Group, a telemedicine business.

Kieran O'Gorman – Technical Partner

Has had a broad range of roles in insurance, private client stockbroking and the alternative asset space. Within Deepbridge, his role includes sourcing investment capital and client communication.

Rick Parry – Partner

Has held various senior roles in the sporting world, most notably as CEO of the FA Premier League and CEO of Liverpool Football Club. He was chair of The Sports Betting Integrity Panel and is an advisor to the Kingdom of Saudi Arabia.

Professor Chris Wood – Senior Medical Adviser

Is an experienced biotech entrepreneur who has founded and successfully exited two companies (BIoenvision Inc and Medirace Limited) for a combined $900m. As well as his Deepbridge role, he is involved in several biotech projects.

Matthias Mueller – Senior Technology Adviser

Has worked in innovation-led technology engineering as well as IT and Systems Integration. His primary role is assisting with the appraisal and assessment of new technologies.

In operational terms, the Deepbridge investment team is split into life sciences and technology with a common due diligence and post-investment team.

At the time of the last Hardman & Co review of a Deepbridge product, we noted that the team was small. It has grown substantially since then, and currently has 32 members of staff. The bulk of this growth has been on the support side, as Deepbridge has developed its in-house capabilities.

The staff on the investment side of the business has grown at a slower rate. Recently, a new manager was recruited for life sciences, and an appointment is being sought for the technology side too. This is welcome, as the current partners are approaching their capacity for the close involvement in investee companies that the Deepbridge process demands.

We understand that there are also some administrative areas in which expected growth will push capacity to the limit with current staffing levels. There is a plan to increase headcount significantly over the course of 2018, with some recruitment having started already.

The Investment Supervisory Committee for the fund consists of Rick Parry, Chris Wood and Matthias Mueller, together with Kieran O'Gorman as the Deepbridge representative. We note that, unusually, the members of the Committee receive no direct remuneration. They are incentivised by the increased connections and knowledge that the role brings, although we note that some do also invest alongside the SEIS (on the same terms).

Appendix 1 – due diligence summary

Summary of core due diligence questions		
Investment Manager		**Validated by**
Company	Enterprise Investment Partners LLP	
Founded	2010	Hardman & Co
Type	Limited liability partnership	Hardman & Co
Company number	OC357090	Hardman & Co
Ownership	Two members	Hardman & Co
FCA registration	604439	Hardman & Co
Solvency	Yes	Company
EISA member	Yes	Hardman & Co
Investment Adviser		
Company	Deepbridge Advisers Limited	
Founded	2013	Hardman & Co
Type	Private limited company	Hardman & Co
Company number	08614835	Hardman & Co
Ownership	Deepbridge Capital LLP	Hardman & Co
FCA registration	609786	Hardman & Co
Solvency	Yes	Hardman & Co
EISA member	Yes	Hardman & Co
Fund Custodian		
Company	Reyker Securities plc	Information Memorandum
FCA registration	115308	Hardman & Co

Source: Hardman & Co research

Regulation

Enterprise Investment Partners LLP currently has two members: Martin Sherwood and Christian Elmes. It has appropriate permissions for a fund manager. The company has a strong balance sheet as of the last accounts (March 2017), with £288,630 of equity reserves. Currently, EIP has capital at 109% of its requirements. Submissions to Companies House appear to be up to date.

Deepbridge Advisers Limited is wholly owned by Deepbridge Capital LLP. This has seven members, with Ian Warwick holding a 51.1% stake and the balance being held by other senior members of the Deepbridge team. Deepbridge Capital LLP is authorised by the FCA (number 563366), with Deepbridge Advisers Limited being an appointed representative. Deepbridge Advisers Limited has accounts made up to July 2016, and submissions to Companies House appear to be up to date. For capital needs, Deepbridge Capital LLP is a BIPRU50k firm. At 31st July 2017 (latest accounts), its net members' interest was £316,501 and its solvency ratio was 109%.

Appendix 2 – example fee calculations

This calculates the estimated amounts payable both directly and indirectly under certain assumptions.

Basic assumptions	
Term	5 years
Investor amount	£100,000
VAT s reclaimed by investee companies	

Source: Hardman & Co Research

Note: Fees as on page 3. For Deepbridge, all except performance fee payable by investee company.

Calculations

		Hardman & Co Standard			Target
Gross return		**-50%**	**0%**	**50%**	**100%**
Amount (pre-tax relief)		**£100,000**	**£100,000**	**£100,000**	**£100,000**
Initial fees	**Rate**				
Corporate advisory and arrangement fee	5.00% (excl. VAT)	£5,000	£5,000	£5,000	£5,000
Dealing fee	0.65%	£650	£650	£650	£650
Total initial fees		£5,650	£5,650	£5,650	£5,650
Net investment		£100,000	£100,000	£100,000	£100,000
Annual fees					
Maintenance fee	2.00%	£2,000	£2,000	£2,000	£2,000
Custody administration fee (annual)	0.50%	£500	£500	£500	£500
Total over 5 years		£12,500	£12,500	£12,500	£12,500
Gross fund after investment return		£50,000	£100,000	£150,000	£160,000
Exit fees					
Dealing fee	0.65%	£325	£650	£975	£1,040
Performance	20% over £1.50	£0	£0	£0	£10,000
Net amount to investor		£50,000	£100,000	£150,000	£190,000
Gain (pre-tax relief)		-£50,000	£0	£50,000	£90,000
Gain (post-tax relief)		£0	£50,000	£100,000	£140,000
Total fees paid		£18,475	£18,800	£19,125	£29,450

Source: Hardman & Co research

Notes: tax relief allows for basic relief only and makes no allowance for any loss relief or other benefits.

Notes

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(Disclaimer Version 4 – Effective from January 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman research and, specifically, whether it can be accepted without a commercial arrangement. Hardman's company research is paid for by the companies about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are' (b) 'written material from a third party that is commissioned and paid for by an[sic] corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public;'

The fact that we are commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman is not inducing the reader of our research to trade through us, since we do not deal in any security.

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