

TECH FOR GOOD SEIS AND EIS FUND 2

Bethnal Green Ventures/Midmar Capital LLP

	Positives	Issues
Why Invest	<ul style="list-style-type: none"> ▶ Strategy: Exposure to a portfolio of technology companies that have a social impact core to their strategy. 	<ul style="list-style-type: none"> ▶ Track record: Although BGV has invested in 127 companies, there have only been a couple of successful exits to date.
The Investment Manager	<ul style="list-style-type: none"> ▶ Team: The team is experienced, having been managing social impact investments since 2012. 	<ul style="list-style-type: none"> ▶ Team size: The team is small, and this may act as a slight constraint, although the use of an external mentoring team mitigates this.
Nuts & Bolts	<ul style="list-style-type: none"> ▶ Duration: The Fund will close on 3 April 2020. Bethnal Green Ventures (BGV) guides that exits will take seven to ten years. ▶ Diversification: The manager aims to provide more than 20 investments with a minimum of 10. These will be spread across different stages of company progress and sectors. ▶ Valuation: Usually changes at next financing or on write-down. 	
Specific Issues		<ul style="list-style-type: none"> ▶ Fees: Simple fee structure with investors paying an upfront fee and no annual charges. ▶ Performance fee: Charged at 20% on aggregate returns over 110% of subscription.
Risks	<ul style="list-style-type: none"> ▶ Target returns: The target return of £2 for each £1 invested suggests a high-risk investment strategy. ▶ Companies: Supplying risk capital to early-stage technology companies. There will be a spread of company returns as the successful ones will do very well, but those who fail may do so completely. 	

	Adviser information	Contact details
Analyst	<ul style="list-style-type: none"> ▶ Scheme assets: £0.12m ▶ Scheme target: £0.5m ▶ EIS assets: £0.47m ▶ Total FUM: £64.8m (Midmar) ▶ Launch date: 2019 	<p>Managing Partners: Paul Miller, Melanie Hayes</p> <p>Contact: Paul Miller +44 (0)20 3670 0350 paul@bethnalgreenventures.com</p>
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Eligibility: This product is for high-net-worth or sophisticated investors who are eligible to be treated as elective professional clients.

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Factsheet

Tech For Good SEIS and EIS Fund 2		
Product name	Tech For Good SEIS and EIS Fund 2	
Product manager	Midmar Capital LLP	
Investment advisor	BGV Investment Management Ltd	
Tax eligibility	SEIS and EIS	
Target return	£2.00 for each £1.00 invested after fees	
Target income	None	
Type of product	Unapproved Collective SEIS/EIS Portfolio	
Term	Realisations in seven to ten years	
Sectors	Technology	
Diversification:		
Number of companies	Target 20+ (minimum of 10)	
(Expected) Gini coefficient	0.05 (0.10)	
Fees	Amount	Paid by
Initial fees:		
Initial charge	10%/5% (excl. VAT)	Investor
Accelerator participation fee	£25,000	Investee company
Annual fees:		
None		
Exit fees:		
Performance fee	20%	Investor – aggregate proceeds over 110% of subscription
Advisor fee facilitation	No	
Advisor fee amounts	n/a	
HMRC Approved?	No	
Advance Assurance	Yes, for each investment	
Reporting	six-monthly	
Minimum investment	£20,000	
Current funds raised	£0.12m	
Fundraising target	£0.5m	
Closing date(s)	3 April 2020	
Expected exit method	Mostly trade sale	

Source: Bethnal Green Ventures, Hardman & Co Research

Fund aims

The Tech for Good SEIS and EIS Fund 2 is an Unapproved Collective SEIS/EIS Portfolio, which will provide a portfolio of investments in unquoted technology companies. These will aim to have a social impact as well as profits. The target return is £2 for each £1 invested after fees. Returns will be focused on capital gains, and investors are unlikely to receive any dividends. The Fund will close in early April 2020.

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 providing risk capital to an unquoted early-stage company that will use technology to create a social impact. BGV's aim is to have more than 20 companies in each portfolio, with a range of company stage and position sizes. Although sector diversification is limited, stock-specific risk should dominate market risk.

The target return of 2x suggests high risk and seems appropriate for the strategy.

Sourcing and external oversight

BGV appears to have established a genuinely differentiated sourcing approach, based around a "Tech for Good" community, which has regular events in several locations and a strong online presence. It also sources through more conventional routes, with the social investment requirement being effective in filtering applications.

The Investment Committee has two very experienced external members. The mentoring team and founders of previous investments are also involved in the selection process, giving strong external input.

Ongoing support and monitoring

The core of the BGV approach is the accelerator programme that all companies go through. This runs twice a year and is well established. Extensive support is provided both by the BGV team and team of 90 mentors. There is little focus on direct board membership, with BGV believing its main strengths are in supporting the business.

Exits

With only a limited number of successful exits to date, the expectation is that the majority of exits will come through the usual market routes of trade sales. BGV, sensibly, guides investors to expect that it will take between seven and ten years for successful companies to exit.

Manager

Team

The team at BGV has 10 members, with just over half involved in investment. Although this is small for the number of investments, BGV has built an active community among companies to provide peer support and a mentoring team. This additional support, together with the structure that the accelerator programme brings, means that the team size appears adequate for the current scale of operations.

Track record

Since its inception in 2012, BGV has invested £3.43m into 127 companies of which 73 are still in existence. Two have been successful exits with the balance being written off. In aggregate, realised gains and subsequent rounds on unrealised investments have given an uplift to £6.55m, a multiple of 1.91x the amount invested.

Regulation

Product

Advance Assurance is sought for each investment.

Manager

The manager of the fund is Midmar Capital LLP. It is FCA-registered (number 519772) with fund management permissions. The Investment Advisor is Bethnal Green Ventures. Submissions to Companies House appear to be up to date for both.

Risk analysis/commentary

Overall, BGV seems to be a well-run, efficient organisation with a genuinely different investment proposition. There are very few ESG options in the EIS fund sector and very few accelerator programmes: the intersection is genuinely unique. The team is small for the scale of operations, but its experience, accelerator structure and support from an extensive mentoring team allow BGV to cope with its large investment portfolio.

The age of the company means the track record is still immature, but the returns to date show signs of promise. Investors will need to be aware that they are investing into very early-stage businesses, and BGV is clear that there will be a high proportion of failures in any portfolio. Successful exits should deliver high returns in compensation, and the limited number to date support that. The portfolio return will still be dependent on a small number of the investments.

If BGV manages to reach the target of more than 20 investments in a portfolio, then diversification will be better than for most other EIS funds. However, the very early stage of investment means realisations may take longer to achieve. Investors, as usual, should consider this investment in the context of their entire portfolio.

Investment process

Deeper dig into process

The core aim of BGV's investments is encapsulated in its "Tech for Good" slogan – investments will be technology businesses with the potential for significant social and environmental impact.

BGV is looking for founders that are intentionally trying to have a positive impact and where that impact is inherent in the business model. The focus is on three key themes:

- ▶ Healthy lives
- ▶ A better society (including education and employability)
- ▶ A sustainable planet

There is also a specific list of excluded areas, including companies involved in defence, that damage human health or the environment, or are exploitative of workers.

It should be emphasised that the model here is very much that of social enterprises, not charities, with companies that can do good while still generating substantial revenues and a significant profit. There is also a desire to see a social impact that is measurable, something that is easier to set up in a new company compared with an established one.

The business criteria that BGV uses are largely conventional. The following are seen as especially desirable:

- ▶ Quality of management team, including its skills, commitment and market insight. Team members also need to understand the social or environmental problem that they are solving.
- ▶ A user-centred design approach, with a desire to iterate and learn (as per a lean start-up approach).
- ▶ An innovative product with the potential to add significant value to users/customers with a business model that is scaleable.
- ▶ The ability to differentiate and establish a defensible position against competition.

The emphasis on user-centred design is a little different, and is suggestive of the sorts of businesses that BGV is looking for. One advantage of focusing on social enterprises is that it is often straightforward to establish a market need, even if it is not always at the desired scale or price.

Once accepted, new companies are put into an accelerator programme that BGV runs. The topics covered are conventional for an accelerator, although the social impact does bring some different angles.

Sourcing deals

BGV categorises its investments into three groups:

- ▶ Accelerator: companies that are typically 0-6 months old. Companies are typically at the pre-product/market-fit stage, usually having a prototype or minimum viable product and generating little or no revenue yet.
- ▶ Pre-seed: companies that are typically 12-18 months old.
- ▶ Seed: companies that are 24 months plus old.

Pre-seed and seed investments will be expected to have made significant progress. From a sourcing perspective, all these investments will have previously been through the accelerator, so the pipeline is contingent on historical accelerator companies. Companies going into the accelerator will be new to BGV: this funding is usually the first external investment.

For new accelerator companies, BGV appears to have a genuinely differentiated pipeline. Most of this is focused on the Tech for Good community that BGV has built up. This includes a London meet-up, which has regular events and more than 9,000 members, with a mixture of entrepreneurs, some investors and people with experience in technology.

There are also partner networks in Manchester and Bristol as well as in Europe. The community also has an online presence, including an online news platform and social media channels.

Much of its other channels are more common for the sector, including referrals from their network, enterprise hubs and universities. This also includes corporates and, more unusually, some charities.

In geographical terms, BGV is agnostic about company location. However, its greatest strength is in London, and it has also had sourcing success in the South West. It seems likely there will be more investments from those areas.

BGV aims to give investors more than 20 companies in their portfolio, with a minimum of 10. Having sourced 10 investments for each accelerator cohort, reaching that minimum should be straightforward. With 73 active investments, there is likely to be a steady ongoing flow of companies requiring further investment. Even with a realistic casualty rate, to have 10 needing investment and having made progress every six months seems a realistic prospect. BGV seems well placed to source adequate deal-flow to meet its goals.

Decision making

In broad terms, BGV's decision-making process is similar to that of most EIS fund managers, with a couple of small distinctions. It is a little different between accelerator and pre-seed/seed investments.

The first step when a brand-new opportunity is received is to put it through an online scoring system, with the portfolio team and some members of the mentoring team contributing. The focus at this stage is on four dimensions: the size of the problem being addressed, the quality of the solution, the team and how much progress they have made. BGV notes that its sourcing process seems to be very effective in filtering out companies that do not fit the "tech for good" criteria, which helps manage internal resources.

The aim is to have three or four people review each application, with the objective of reducing approximately 200 initial applications for each cohort to about 40 to be interviewed. The interview panel for each candidate company consists of two members of the BGV team, one mentor and the founder of a company that has already been through the programme. The latter illustrates BGV's ability to keep companies and founders within their community.

A further combination of scoring and recommendations are brought together, with the aim of producing a top 10 from the 40 candidates. SEIS eligibility is checked at this stage. The target is somewhat flexible: while space in the accelerator is not unlimited, there were a dozen companies in last autumn's cohort.

The candidates are then assessed by the Investment Committee. In theory, a majority decision is required, with at least one executive and one non-executive in favour. In practice, all decisions to date have been unanimous.

Following this, the offer is made to the team. The terms are standard, so companies will be aware in advance of what these are. For accelerator companies, this is £55,000 for 7% of the company, with £25,000 payable as a fee for the accelerator programme.

This is followed by proper due diligence, with the aim of completing at least a month before joining the accelerator. Investments are then approved by Midmar Capital, as the regulated fund manager.

With pre-seed and seed investments, the companies have already been through the accelerator programme and so will be known to the BGV team. For these, the process starts with the creation of an initial note for the Investment Committee focusing on whether the investee company is on track.

Assuming it passes this stage, then a full investment memo is drawn up, similar to that for other investments. This is then presented to a second Investment Committee meeting. This process tends to be shorter than for new accelerator companies, typically taking about six weeks.

BGV notes that, in most of these later rounds, it will not be the sole investor and sees a significant part of its role as lining up further investment. Although it usually helps to set the terms, it is agnostic about whether it is the lead investor, commonly leaving it to others at the seed stage.

Overall, BGV aims for 20+ companies in a portfolio, with a minimum of 10. The former will give one of the better spreads in the EIS fund sector, although some of this is mitigated by different sizes of investment into different companies. There should be diversification by sector as well, with exposure to health, education, sustainability and civic engagement.

The indicated split between the different stages of companies is 45% accelerator, 30% pre-seed and 25% seed. However, pre-seed investments are typically double those of accelerator ones, and seed around double that again. Investors will end up with very different company weights across their portfolio. However, with smaller weights in the earlier stage, and so more risky investments, this is not unreasonable.

BGV expects accelerator and pre-seed companies to be eligible for SEIS and seed investments to be eligible for EIS, stating in the IM that the aim is for at least 75% to be SEIS-eligible.

Exits

With a very small number of exits to date, expectations for exits are based on usual market norms and trade sales are expected to dominate for successful companies. BGV guides that most successful companies will take seven to ten years to reach an exit, which seems sensible given most investments will be at the very early stage of a company's existence.

Governance and monitoring

Advance Assurance is sought from HMRC on all investments prior to completion.

All client assets, including shares and cash, are held by Mainspring Nominees Limited (FCA registered – no 591814), which is the administrator for the fund.

Investors will receive quarterly email updates with more detailed updates every six months. Valuations will be supplied in line with IPEV guidelines. As well as updating the financial progress of the investee companies, the report will cover social and environmental impact. Investors will also have access to Mainspring's online portal.

All new companies will enter the accelerator programme, while those receiving pre-seed or seed investment will continue to receive support through the established routes.

The accelerator

The accelerator programme lasts 12 weeks. During the programme, companies will receive a mixture of seminars and other support. The former is delivered by a mixture of the BGV team and the mentoring team. Topics such as user design, strategy and sales are covered over the course of two to three weeks. Typically, there are one to two days per week of structured activities, with the remainder open to founders to apply what they have learnt to their companies.

Coworking space is available for investee companies in the same building as BGV's offices. London-based companies usually take advantage of this, while those based outside London may commute in for the more formal sessions. As is normal for an accelerator, the programme culminates in a demo day, where companies can show the progress they have made and, perhaps, start attracting future investors.

Post-accelerator support

The support from BGV continues once a company moves on from the accelerator programme. Unlike some other managers, BGV does not usually ask for board positions: the team sees its strength as helping with the business aspects. The team does help with recruiting good board members. BGV insists on a minimum of quarterly reporting, including progress on both financial and impact measures.

The support is less formal, with a combination of direct team support, connection with appropriate mentors and peer support. BGV offers regular office-hour sessions for all companies that leave the programme. The support requirements vary significantly over time, with more required particularly during times of hiring or fundraising.

Experience has shown that the accelerator funding usually lasts around six months. The gap to pre-seed funding is sometimes bridged with grant support. Although BGV generally points companies to available support rather than getting directly involved in the grant-writing.

The mentoring team is available and usually gets involved to help with particular issues. The team consists of a mixture of those with expertise in particular sectors and those with more functional expertise. BGV believes it has an especially good technical roster, with particularly strong experience in scaling businesses and user design. The team is all-volunteer, although some do take paid consulting roles if there is a particular connection and need. Currently, there are about 90 mentors, with just under half active in the past six months.

BGV does do some prioritisation of support, with more effort devoted to those most likely to achieve their objectives. Once companies reach series A funding, BGV's experience is that other investors provide more support and its involvement usually reduces. Although there are a large number of active investments (73 at the time of writing), BGV estimates that, at any time, there are less than 10 requiring active support.

BGV also coordinates peer support. Companies will already have contact with other members of its cohort. BGV arranges additional contacts or group sessions when companies experience similar issues together or it knows that other companies have

pushed through the same issue. As with the sourcing side, BGV is intentionally trying to build a community among the businesses and their founders. With many founders giving back later on, there is evidence that this is working. It also shows that founders value the programme and support that BGV is giving.

Track record

Since its inception in 2012, BGV has invested £3.43m into 127 companies. With this being the second SEIS and EIS fund, the majority of the investments to date have been funding through institutional investment. Almost £0.5m was debt funded, but almost all of the balance would have been eligible for SEIS and EIS investment. There are also a small number of companies that were in the pilot accelerator, but did not receive investment.

Of the 127 companies, 73 are still in existence. Of these, two have been successful exits, with the balance being written off. The successful exits have been for very healthy multiples. In aggregate, realised gains and subsequent rounds on unrealised investments have given an uplift to £6.55m, a multiple of 1.91x the amount invested.

While it would be good to see more realisations, given the stage of company development on entry and BGV's short history, a very small number is to be expected. BGV's own modelling, which is used to generate the target return, suggests only 5%-10% of companies will make it to an eventual exit.

Overall, the BGV track record still lacks some maturity. However, the successful exits so far and unrealised gains suggest that there is promise in what it has achieved so far.

Fees

The fees for the fund are set out in the table on page 3. Other than as noted below, the fees are straightforward with no annual charges to investors or investee companies.

The initial fee is charged at a rate of 10% on subscriptions up to £50,000 and 5% on any amount thereafter.

Investee companies are charged a fee of £25,000 for participation in the accelerator programme. BGV believes it is operating this at around a breakeven cost, although that doesn't fully account for staff time.

Exit fees

The performance fee has a threshold of 110% of the aggregate subscription. The performance fee is based on the aggregate capital return over the investor subscription, and is charged after the other fees.

Fundraising targets

BGV has a fundraising target of £500,000 for the April close, although would be happy to raise more. Deployments are linked to the start dates of accelerator cohorts. The programme runs twice a year, with start dates in April and September, and with deployment for the next close taking place after the end of the current tax year.

The minimum subscription is £20,000.

Investment advisor

Although a relatively recent entrant to the EIS market, BGV has been operating its accelerator since 2012. Since inception, it has invested in the “tech for good” area, with its philosophy evolving over time. The majority of funding to date has come from institutional investors, but this is its second SEIS and EIS fund. To date, more than 130 companies have passed through the programme.

People

Paul Miller OBE – Managing Partner and CEO

Started his career as a researcher at Forum for the Future, followed by three years at Demos. He co-founded and was CEO of School of Everything, an edtech start-up, which he ran for five years. He co-founded BGV in 2012 and was awarded an OBE for services to start-up investing in the 2020 New Years Honours List.

Melanie Hayes – Managing Partner and Investment Director

Began her career as a Chartered Accountant at Deloitte, specialising in telecoms. Spent over three years managing investments at Channel 4 and another three years at Octopus Investments. Joined BGV in 2013.

Trevor Hope – Investment Committee

After six years as an Investment Director at 3i, he joined Beringea in 2004 where he was Chief Investment Officer for 11 years. A Partner at Mobeus Equity Partners since 2016, he has also held numerous non-executive director posts.

Steven Clarke – Investment Committee Chairman

Spent 21 years working in private equity, including eight years at 3i and seven years at August Equity. Since leaving ICG, he has had a variety of advisory, consulting and non-executive roles, including being on the investment committee for Social and Sustainable Capital.

The Investment Committee consists of the Managing Partners together with the two independent members. Both of the latter are vastly experienced.

With 10 members, the BGV team is not large. It has grown significantly in the past couple of years. The structure of the accelerator and the extensive use of mentors allows the team to have adequate capacity for the number of investments. Further growth will likely require a continued expansion of the team.

Appendix 1 – due diligence summary

Summary of core due diligence questions		
Manager	Midmar Capital LLP	Validated by
Founded	2008	Hardman & Co
Type	Limited liability partnership	Hardman & Co
Ownership	Partners: Mrs G E Gallacher, Mr J K Gallacher	Hardman & Co
FCA Registration	Yes – 519772	Hardman & Co
Solvency	Confirmed	Hardman & Co
EISA member	no	Hardman & Co
Advisor	BGV Investment Management Ltd	
Founded	2016	Hardman & Co
Type	Private limited company	Hardman & Co
Ownership	Social Innovation Camp Ltd	Hardman & Co
FCA Registration	No	Hardman & Co
Solvency	n/a	Hardman & Co
EISA member	No	Hardman & Co
Fund Custodian		
Company	Mainspring Nominees Limited	
FCA Registration	Yes – 591814	Hardman & Co

Source: Hardman & Co Research

The manager of the fund is Midmar Capital LLP. It is FCA-registered with fund management permissions. The balance sheet is healthy for a small firm. At the latest accounts (31 March 2019), it had just under £67,000 of shareholders' funds, comfortably in excess of its capital requirement.

Social Innovation Camp Ltd, the owner of BGV Investment Management Ltd, is a private company limited by guarantee without share capital. It is a member of Bethnal Green Ventures LLPs and also owns Tech for Good TV Limited.

Companies House filings for the manager and advisor appear to be up to date.

Appendix 2 – example fee calculations

This calculates the estimated total amount payable to the manager under certain assumptions. The accelerator fee has been excluded.

Basic assumptions	
Term	5 years
Investor amount	£100,000
Company investment	£500,000
VAT on company fees is offset against revenue	

Source: Hardman & Co Research

Calculations					
		Hardman & Co standard			Target
		-50%	0%	50%	147%
Gross return Amount (pre-tax relief)		£100,000	£100,000	£100,000	£100,000
Initial fees		Rate			
Initial charge	10%/5% +VAT	£9,000	£9,000	£9,000	£9,000
Net investment		£91,000	£91,000	£91,000	£91,000
Annual fees					
None		£0	£0	£0	£0
Gross fund after investment return		£45,500	£91,000	£136,500	£224,975
Exit fees					
Performance	20%	£0	£0	£7,280	£24,975
Net amount to investor		£45,500	£91,000	£129,220	£200,000
Gain (pre-tax relief)		-£54,500	-£9,000	£29,220	£100,000
Gain (post-tax relief)		-£27,200	£18,300	£56,520	£127,300
Total fees to manager		£9,000	£9,000	£16,280	£33,975

Source: Hardman & Co Research

Notes: post-tax relief figures assume initial income tax relief only; other reliefs may be available to investors

Notes

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