27 November 2020

HARDMAN & CO. TAX ENHANCED

DEEPBRIDGE TECHNOLOGY GROWTH EIS

Deepbridge Advisers Limited/Enterprise Investment Partners

	Positives	Issues
Why Invest	▶ **Strategy:** Well-defined investment process to invest directly in companies in selected technology areas.	▶ **Concentration:** Portfolio may be up to nine investments, although smaller investors may get greater concentration.
The Investment Manager	▶ **Team:** The Deepbridge team is very experienced in the relevant areas, and its committees have very strong outside members.	▶ **Track record:** Although the team is experienced, to date, Deepbridge has had only one exit and one partial exit.

Nuts & Bolts

- **Investing:** Deployments take place on a monthly basis, so new money will usually be invested within that period.
- **Diversification:** Portfolio of between three and nine companies.
- **Valuation:** Unprofitable companies will be held at cost or at last relevant transaction. Profitable companies use a discounted average multiple from relevant companies.

Fees

- **Fees:** Only the performance fee is not charged directly to the company.
- **Performance fee:** Performance fee of 20% on gross returns over £1.20 on a per company basis.

Risks

- **Risk mitigation:** Deepbridge aims to mitigate risk by active ongoing support of the companies and choosing conservative business plans. The companies are revenue-generating, but still immature – with the risks that brings.
- **Target return:** The target return for the fund is £1.60 for each gross £1 invested over three to four 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.

	Manager information	Contact details

Analyst

Brian Moretta

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Manager information

- *Scheme assets:* £75m
- *Scheme target:* £20m in 2020/21
- *EIS assets:* £108m
- *Total FUM:* £162m
- *Fund launch date:* 2013

Contact details

Managing Partner, Ian Warwick

Contact, Andrew Aldridge

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Table of contents

Factsheet

Deepbridge Technology Growth EIS	
Product name	Deepbridge Technology Growth EIS
Product manager	Enterprise Investment Partners LLP
Investment adviser	Deepbridge Advisers Limited
Tax eligibility	EIS
Target return	£1.60 for each gross £1 invested
Target income	None
Type of product	Discretionary portfolio service
Term	4-6 years
Sectors	Technology
Diversification:	
Number of companies	3-9
(Expected) Gini coefficient	0.11-0.33

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 £1.20 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	£71.7m
Fundraising target	£20m in 2020/21
Closing date(s)	Monthly deployments with no closing dates
Expected exit method	Trade sale, IPO, or other exit opportunity

Source: Deepbridge Advisers Limited, Hardman & Co Research

Fund aims

The Deepbridge Technology Growth EIS is a discretionary managed portfolio service focused on companies with technologies that are at the stage of being commercialised. Funds are invested into a portfolio of three to nine companies, which are in the areas of resource and energy innovation, medical technology and high-growth IT-based solutions. The target return is £1.60 for each £1 invested (gross) over a minimum of three years. There is no income target.

There are two parties involved in running the fund, although this will change in early 2021, when Deepbridge will take over the fund manager responsibility:

- **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 three to nine 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 £1.60 for each £1 invested, each company is assessed as having a return potential of 4-5x the amount invested. This suggests that each investment will be high-risk.

Sourcing and external oversight

Sourcing focused initially on the network of Deepbridge's partners, but has expanded to include universities, incubators and science parks. With investments in its two SEIS funds now progressing, Deepbridge estimates that approximately half of investments will be follow-ons. Its track record suggests that it is comfortably sourcing adequate investments.

The EIS has two sources of external oversight. The Investment Supervisory Board 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 is the case for many EIS managers, Deepbridge takes a board position on investee companies. However, one of Deepbridge's distinguishing features is that most of its senior staff have been entrepreneurs themselves, and can bring the appropriate support and insight that enables. As well as 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, with plans to add to the investment team in the next few months.

Track record

Having first started in 2013, the EIS has invested £75m into 30 companies to date (data provided to 31 August 2020), with one exit and one partial exit. Currently, no investments are marked down in value. The track record continues to show promise, although we look for more exits to show that this is being realised.

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 yet 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 a good ability to source and deploy assets, and we note the innovative monthly allocations, giving industry-leading visibility on deployments. However, it is too early to assess whether it can produce the intended returns in the target timescale. The external scrutiny that decisions are subject to does give comfort to investors that there is a good degree of oversight on Deepbridge's decision-making.

Diversification within the fund is limited, although typical of products in the EIS area. We note that about half an investor's portfolio will be follow-ons to existing Deepbridge investments, which may have diversification effects for serial investors. Individual companies that succeed are likely to give excellent returns, but those that do not may return little or nothing. This EIS 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

Deepbridge lists three sectors as its principal areas of interest for the fund as:

- energy and resource innovation;
- medical technologies; and
- business enterprise and other high-growth IT-based businesses.

Investors will note that these are quite broad categories, and very few technology businesses would clearly sit outside these. Deepbridge notes that, since the creation of its Life Sciences EIS, almost all medical technology investments have gone into that fund, instead of the Technology Growth EIS.

Although Deepbridge has invested in consumer-facing technology, the emphasis in the third category appears to be more on business-facing companies. Each sector was selected because the Deepbridge team felt it had expertise and good contacts in the various sectors.

Deepbridge focuses on technology companies that are at the early stages of commercialisation, i.e. post-proof of concept and already revenue-generating. It is clear that Deepbridge is bringing an international outlook and focusing on companies in the context of a global market. The intention is to provide some diversification within each investor's portfolio across these three sectors.

Deepbridge identifies three particular areas that it focuses on when conducting an initial overview of a business:

- **Commercial relevance:** in essence identifying whether there is 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.
- **Technological relevance:** broadly whether the technology is commercially feasible. Looking at whether the technology works in whatever stage it is at, whether it is scalable, and the time/investment required to get it to full commercialisation. This may also include flexibility and resources to carry on developing the product to keep up with market or technology changes.
- **Investment relevance:** following the other two, an assessment of how appropriate it is for EIS investors. The focus is very much on the ability to generate profits and the timescale in which those might be achieved. Although long-term potential is necessary, there needs to be a realistic expectation of progress in the target three to four-year investment horizon.

Although these have some overlap, they do give a reasonably well structured framework for investors to understand Deepbridge's process. Around three quarters of the new investments to date have been into companies that are already generating revenue, so the emphasis is on growing company sales, rather than proving that the technology works. The above areas are broadly covered at the initial review stage of an investment. Deepbridge also articulates a set of investment criteria, some of which are included in the areas above, which are covered at the due diligence stage. These also include:

- A desire to invest in either "disruptive" or "breakthrough" technologies – the team does not seem to be looking at applications of existing technology.
- Robust intellectual property, which will probably include something that is either patentable or has been patented. Investors should note that this is not a panacea, as such cases can consume considerable resources and take a long time to resolve.
- Experienced and engaged management team, who are also open to advice and guidance.
- Suitable financial systems and controls, and a willingness to let Deepbridge have oversight of them if necessary.
- Exit strategy within three to four years.

We would note that EIS investors typically take a 30%-40% stake of the equity in investee companies, and they are generally unquoted.

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

Deepbridge relies strongly on the network of contacts from its senior management to source deals. Although based in the north of England, it has no geographical restrictions or preferences, although, from conversations we have had with Deepbridge, its strongest areas appear to be outside the south-east.

It also cites some institutions, universities and research centres with which it has active relationships, including Scottish Investment Bank, Imperial College London and Daresbury Innovation Centre. Deepbridge appears to have grown the range and depth of these over the last few years, some of which are linked to the launch of other products.

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

Most of the companies in which Deepbridge has invested also have ongoing funding needs, and new EIS investors may participate in further funding rounds for existing SEIS or EIS holdings. Last year, investments were made into five new companies, with the balance being follow-ons. Deepbridge expects an investor's portfolio to be approximately half new investments and half follow-ons. Serial investors should note the consequences for portfolio diversification.

This is a delicate balance as, while it is a more certain source of future funding, the EIS requirement for a three-year investment for new shareholders may not match existing shareholders' time horizon. From a risk perspective, this may be a positive, as such companies will have already demonstrated an ability to meet milestones.

While Deepbridge is looking to give investors exposure to three to nine investments in this EIS, the expansion of sourcing options over the last few of years has raised the number of companies entering the pipeline to over 1,000 a year. This seems more than adequate, alongside follow-in investments, to meet the targets.

Decision-making

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.

The initial assessment looks at how well a company fits the defined investment criteria. This includes how the potential investment will affect portfolio diversification – something that is a low priority for many other EIS managers. This is followed by a quantitative review, focusing on potential markets, IP, future funding needs and return potential.

Valuations are usually based off business plans, using discounted multiples of expected profits in three to four years' time. Deepbridge does examine the forecast revenue figures to check their validity, discounting for execution risk. Ultimately, the valuation is based off comparable companies using EBITDA multiples.

The next stage is the comprehensive due diligence. Deepbridge has minimum, pre-determined criteria, which will be supplemented by additional areas particular to each business. Proposed investments are then presented to the Internal Investment Committee for approval.

There is, additionally, a Supervisory Investment Committee, consisting of a dozen external industry experts (across the technology and life sciences areas). The latter may source external experts to validate technology, if required, although this may happen at an earlier stage in the due diligence process.

This 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 for monitoring any exits.

The Internal Investment 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. Approval is followed by detailed negotiations with the investee company to agree Heads of Terms. The shareholder agreement is seen as a particularly important element, making sure that EIS investors get appropriate rights.

After the Internal Investment Committee has agreed on an investment, it needs to be approved by Enterprise Investment Partners' Investment Committee. 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.

When there are third-party co-investors in a deal, Deepbridge tends to be the lead investor. Over 70% of the companies into which Deepbridge has invested through EIS have also received co-investments, but in only 7% of these was Deepbridge not the lead.

Overall, it usually takes about three months from initial interest to deployment of capital. It should be noted that, in most cases, the investment is not normally deployed in a lump sum, but is usually paid down over time and subject to the achievement of milestones. This has the advantage for investors that the EIS is usually making ongoing investments and can allow rapid deployment of investor funds. It also effectively means monthly tranches, as each month may see changes in the companies receiving investment. Deployments are also conditional on companies keeping on track, which helps with risk management. This is a very unusual arrangement among EIS funds, making Deepbridge one of fastest to deploy in the industry.

It should be noted that Deepbridge, members of its team or members of the Investment Supervisory Committee may invest alongside EIS 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 quarterly reports and valuations on their holdings, which is a recent improvement from half-yearly. 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 had 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. The team's experience of investee companies is that the management is often very good at technology, but is less experienced on business matters.

Like many 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, which can have cost savings while reducing execution risk.

By agreement, Deepbridge expects at least 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, that will be almost daily, although, for more mature investments, the contact may 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 sees this as an important part of its risk mitigation.

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. One (partial) exit to date came through a secondary market sale, although this is unlikely to be common.

Track record

Since its launch in 2013, the Technology Growth EIS has invested £75m into 30 companies. Some of these companies have received more than one tranche of investment, in addition to the flow contingent on milestones. In total, Deepbridge has made 838 individual investments. Since 2016, valuations are updated at least annually, and the figures with which Hardman & Co has been supplied are as of August 2020.

To date, there has been only one exit and one partial exit. The average gain on Resonant Software was 41% on £3.59m invested, although early investors received almost 3x their investment. The partial exit was Sky Medical Technology. An investor wanted to take a substantial stake, and gave Deepbridge investors the option to sell their shares. Some did so, but others kept their holding. Those that exited received returns of 2-4x their original investment, depending on when their investment was made. There have since been further secondary transactions at a higher valuation.

Of the 29 remaining companies, including Sky Medical, 14 have seen a positive revaluation since the initial investment, with no declines. The gains range from 1% to 360%. With some companies having seen multiple tranches of investment, the unrealised moves for some investors in the relevant companies may be lower than those figures. The average revaluation of the portfolio as a whole is 41%, or 36% on an unweighted basis.

Hardman & Co noted previously that the target for exiting in three to four years could be ambitious for a technology fund. So far, that has proved to be the case, although we note that the two exits came from the six investments that were over five years since inception. Deepbridge's belief is moving towards five to six years being a more reasonable norm.

Overall, the unrealised part of the track record seems to be developing nicely, especially the low failure rate, although we will look for more exits to show that the promise is being realised.

Fees

The fees for the EIS are set out in the table on page 3 and, other than the performance fee and non-advised investor fee, they 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 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 £1.20 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.

Other than where indicated, the fees and charges are quoted net of VAT. Where investee companies have sufficient VAT-able revenue, the VAT can be offset but, when a business is unsuccessful, that may not be the case.

Fundraising targets

The target fundraise is £20m in the 2020/21 financial year. Deployments take place monthly, so it is expected that new money will be invested in that timescale. The fund itself is evergreen, but the closing date for money to be invested in the 2020/21 financial year is 25 March 2021.

The minimum subscription is £10,000 per investor. The minimum subscription per company is around £2,500, so investors who commit less than £20,000 will get exposure to fewer than nine companies.

On average, EIS3 certificates were issued 15 weeks after deployment and 18 weeks from the subscription being received.

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, and it 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.

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 first Hardman & Co review of a Deepbridge product, we noted that the team was small. It has grown substantially since then, and currently has 45 members of staff, almost doubling over the last three years. The bulk of this growth has been on the support side, as Deepbridge has developed its in-house capabilities, and on sales.

The staff on the investment side of the business has grown at a slower rate. The last year has seen the addition of another tech analyst and a coordinator for the life sciences team. The current business plan is to add another two to the investment team in the next six months, as well as replacing a recent departure. This is welcome, as the current partners are approaching their capacity for the close involvement in investee companies that the Deepbridge process demands.

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.

Adrian Neilan – COO and Investment Director, Technology

Started his career at Hewlett-Packard, working up to IT Director over 10 years. He followed this with seven years as CEO at the Irish Greyhound Board and six years as Commercial Director of Trinity College, Dublin. He joined Deepbridge in 2019.

Dr Savvas Neophytou – Partner, Head of Life Sciences

After gaining a PhD in psychopharmacology, 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

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.

Bernard Ross

Another experienced biotech innovator, in the early 2000s, he held senior roles at two NASDAQ-listed companies, Corspan and Bioaccelerate. After two years as CEO of Accura Animal Health, he founded and has been CEO of Sky Medical Technology.

The Investment Supervisory Committee for the fund consists of Rick Parry, Chris Wood, Matthias Mueller and Bernard Ross. 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 EIS (on the same terms).

Appendix 1 – due diligence summary

Summary of core due diligence questions		
Manager		**Validated by**
Company	Enterprise Investment Partners LLP	
Founded	2010	Hardman & Co
Type	Limited liability partnership	Hardman & Co
Company number	OC357090	Hardman & Co
Ownership	Three members	Hardman & Co
FCA registration	604439	Hardman & Co
Solvency	Yes	Company
EISA member	Yes	Hardman & Co
Advisor		
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	Kin Capital Partners LLP	Information Memorandum
FCA registration	656789	Hardman & Co

Source: Hardman & Co Research

Regulation

Enterprise Investment Partners LLP currently has three members: Christian Elmes, Richard Hoskins and Kin Group Limited (formerly known as Kin Investment Services Limited). The latter has more than 75% of the voting rights, and is owned equally by the two aforementioned partners.

It has appropriate permissions for a fund manager. The company has an adequate balance sheet as of the last accounts (March 2020), with £169,00 of equity reserves. 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 Capital is now authorised as a fund manager, and will take over management of the fund in 2021.

Deepbridge Advisers Limited has accounts made up to July 2019, and submissions to Companies House appear to be up to date. For capital, Deepbridge Capital LLP is a BIPRU50k firm. At 31 July 2017 (latest accounts), its net members' interest was £992,000, with capital well in excess of its requirement.

Appendix 2 – example fee calculations

This calculates the estimated total amount payable to the manager under certain assumptions.

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

Source: Hardman & Co Research

Calculations

		Hardman & Co standard			Target
Gross return		**-50%**	**0%**	**50%**	**60%**
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					
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 £1.20	£0	£0	£6,000	£8,000
Net amount to investor		£50,000	£100,000	£144,000	£152,000
Gain (pre-tax relief)		-£50,000	£0	£44,000	£52,000
Gain (post-tax relief)		-£20,000	£30,000	£74,000	£82,000
Total fees paid		£18,475	£18,800	£25,125	£27,190

Source: Hardman & Co Research
Notes: Some fees may be payable for longer, but we have used five years, in line with our standard assumptions

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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

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