

# THE ANGLO SCIENTIFIC EIS FUND

A GROWTH PORTFOLIO OF IDENTIFIED HOLDINGS WHICH IS OPEN FOR INVESTMENT ALL YEAR

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CREATING SOLUTIONS



## INVESTMENT PROVIDER (INNVOTEC) DUE DILIGENCE & COMPLIANCE NOTES OCTOBER 2016

Formed in 1986, Innvotec is probably the longest established, independent Fund Manager in the country, that specialises in Capital Appreciation Funds.

### WHERE OLD MEETS NEW

The following notes aim to help IFAs and other Professional Advisers with their Due Diligence and Compliance requirements. Further details can be found in the Fund literature and are available on request.

An Allenbridge Report on the Fund is available for review.

#### STRUCTURE

##### Fund Name

The Anglo Scientific EIS Fund ("AS EIS" or "The Fund").

##### Is the Fund A UCIS (Unregulated Collective Investment Scheme)?

No, the Fund is not structured as a UCIS.

##### FCA - Investment Type

The Fund is not a FCA "Non mainstream pooled Investment".

##### General Structure

Each investor will have their own portfolio.

The underlying shares in each EIS Qualifying Company will be aggregated together and registered in a separate account by Innvotec (Nominees) Ltd, (the custodian to the Fund) but the beneficial ownership in the shares will reside at all times with individual Investors who will receive the EIS certificates (one per portfolio company) directly to enable them to claim the appropriate tax relief.

##### Tax Status

An Unapproved EIS Fund.

##### Investment Dates

The Anglo Scientific EIS Fund is an "Evergreen" Fund that will make investments on or around the normal quarter days of 1<sup>st</sup> January, 1<sup>st</sup> April, 1<sup>st</sup> July and 1<sup>st</sup> October. In addition and depending upon the intervention or otherwise of non-working days and weekends, it is intended that investments will also be made on or around 4<sup>th</sup> April.

#### INVESTMENT PROVIDER

##### Provider Name

Innvotec Limited.

##### Date and Country of Incorporation

1986 in England.

##### Registered Number

02030086.

##### Website

www.innvotec.co.uk.

##### Registered Office

Stable Cottage, Castle Hill, Rotherfield, East Sussex, TN6 3RR.

##### Accounting Reference Date

30<sup>th</sup> September.

##### Company History

Initially set up as a majority owned subsidiary of Electra Investment Trust plc, Innvotec was bought out by its then 4 directors in 1996 and has remained independently owned by Directors and staff since. Of the 4 directors who bought the business out, 2 have retired, one has "spun out" to manage a "secondaries fund" leaving John Marsden as the sole remaining founder director. There are four other directors, of which three are executive. Innvotec is thought to be the oldest independently owned venture capital company in the United Kingdom.

##### Auditors

Carpenter Box.

##### Top 5 shareholders (in Innvotec)

John Marsden	58%	Director
John Whelan	11%	Director
Carol van Kempen	11%	Company Secretary
Navy Blue Holdings	10%	Strategic Investor
EH Holdings	10%	Strategic Investor

##### Credit Ratings

Good.

##### Professional Indemnity (PI)

Full PI cover is in place.

##### Group Structure

Innvotec is a Limited company with wholly-owned subsidiaries providing services such as custodianship, corporate directorships and monitoring.

##### Authorised by the Financial Conduct Authority?

Yes and with a CASS qualification as a medium-sized firm.

innvotec

#### *FCA Number*

122365.

#### *Compliance Officer & Money Laundering Reporting Officer*

John Marsden (MD).

#### *FCA Permissions*

A small authorised Alternative Investment Fund Manager (AIFM) with permissions to hold and control client money.

#### *Firm Type*

A small authorised AIFM (which is MIFID Exempt).

#### *Anti-Money Laundering procedures?*

Yes, for UK investors.

#### *Tax specialist*

Bircham Dyson Bell LLP appointed for legal and tax advice.

#### *Complaints handling processes*

Standard procedures in line with best practice.

#### *Privacy Policy*

A full privacy policy is in place. Innvotec is registered under the Data Protection Act 1998.

#### *Client money*

Innvotec can hold and control client money. All funds for clients are held in separate designated client accounts with NatWest Bank.

### **INVESTMENT MANAGEMENT**

#### *Total EIS/SEIS funds currently under management*

Approximately £10,000,000 but poised to grow considerably in the current tax year.

#### *Total funds currently raised by Anglo Scientific Limited to their portfolio of private companies*

Approximately \$100,000,000.

#### *Private Equity / Venture Capital Team*

Innvotec's business model is to work with strategic partners, (such as Anglo Scientific) who identify investment opportunities and, post investment, provide the hands on guidance considered necessary to commercially and financially deliver on the founders' vision. This leaves Innvotec to undertake the detailed due diligence, deal completion, legals and investor reporting. Innvotec also takes an active role in raising funds for individual companies within the portfolio.

#### *Personal Investments into the Fund.*

Individuals within Innvotec make personal commitments into the Fund. Anglo Scientific personnel invest as founder shareholders and subsequently in the businesses that they form.

#### *Employees location*

London and Birmingham.

#### *Performance fees*

Performance fees are based on a portfolio approach ie it is the performance across the entire portfolio that counts in the calculation. The Performance Fee is 30% of all profits once a "hurdle" has been reached and the necessary "hurdle" amount has been paid to Investors.

For example, the "hurdle" over 5 years is to return £1.40 per £1 invested, representing a 100% return on the net (after tax reimbursed) invested or an indicative 6.5% IRR on the gross invested, over the average life of the Fund.

The Performance Fee "hurdle" should not be viewed as an initial target return. The intention is to generate a return of at least five times the Investor's total commitment.

#### *External Professional Advice*

The only services not provided in house are legal and taxation.

#### *Staff Turnover.*

None in last 15 years other than retirement.

#### *Connected Parties investigated / fined*

None.

#### *Collective Experience in Venture Capital, defined as investing in private UK based emerging companies with strong prospects of growth and on "exiting" significant capital appreciation*

Approaching 60 years combined.

#### *An outline of the numbers and responsibilities of the sales and administration teams*

Marketing of the Fund is carried out by the core Innvotec team in conjunction with specialist marketing consultants (Palladium Results Ltd and EIS.Marketing Ltd). Distribution partners are used on an ad-hoc basis for specific funds.

All administration including custodianship is undertaken internally by Innvotec.

### **INVESTMENT DUE DILIGENCE**

#### *Due Diligence / Investment Process*

Eight years ago Innvotec decided to enter the private investor sector with an EIS offering of the initial Anglo Scientific EIS Fund. The Fund has recently been restructured to move from a series of annual funds to become an "Evergreen" fund taking in commitment all year round. Due Diligence is carried out by both Innvotec and Anglo Scientific.

All investment sign off and adherence to regulatory process is the sole responsibility of Innvotec.

#### *Investment Process / Risk Management Monitoring*

Small dedicated team constantly monitors the performance of portfolio companies and the Fund itself.

#### *Investment Guidelines / Restrictions in place*

All companies will continue to benefit from the active and on-going support of Anglo Scientific.

Only those applicable to EIS plus the need to assemble a portfolio of at least 5 companies.

The AS EIS Fund can only contribute up to 75% of a Portfolio Company's funding round, meaning that third party investors confirm both price and underlying terms.

#### *Investment Allocation*

100% technology, 100% UK-registered businesses, 100% with Anglo Scientific's on-going involvement.

#### *Frequency of investment committee meetings*

Monthly or more frequently as required.

#### *Final Investment Decision*

Made by Innvotec's Investment Committee.

#### *Investment Reviews / Monitoring Frequency*

Regularly and at least monthly.

#### *Typical Turnover and development stage of a portfolio company*

The portfolio will comprise companies at various stages of development from early stage to those where exits can confidently be expected once the 3 year EIS holding period has passed.

Average £1m (but poised to rise fast) as the portfolio companies are developing and most are on the J-curve of revenue generation and corporate value.

#### *Main Circumstances for early exit from a company?*

Only if the return far outweighs the loss of tax reliefs.

#### *Screening Committee / Investment Process?*

Standard Investment Committee approval.

#### *Process for Monitoring Deals*

Quarterly accounts and updates plus frequent meetings.

#### *Gearing*

No gearing in the Fund and minimal gearing in the underlying portfolio companies.

## **INVESTMENT RISK MANAGEMENT**

#### *Risk Management Process*

Portfolio approach for EIS, typically 5 to 7 pre-identified companies, this means no more than 20% of the Fund into any one company. All companies are in the broad technology sector.

#### *Areas of risk that require Special Attention*

When dealing with emerging, cash consuming private companies the main risks are that progress falls short of plan, which can bring forward the need for additional investment and make further fund raising more difficult. Innvotec seeks to monitor underlying portfolio company progress constantly to assist in minimising slippage against plan and making subsequent fundraisings more straightforward.

## **INVESTMENT VALUATION POLICY**

#### *Value of Investments*

Standard BVCA/EVCA guidelines.

Each investment is valued at the latest price per share paid by a third party investor unless there is any permanent impairment in value or the latest share price does not reflect a growth in value that is unlikely to subsequently diminish.

#### *Investment Valuation Frequency*

Reviewed every quarter and updated in line with third party transactions in the shares.

Innvotec is also fully supported by the Anglo Scientific team for areas such as ensuring on-going EIS compliance within the portfolio companies.

The AS EIS Fund always invests alongside a number of other shareholders in the portfolio companies, giving further credibility to price per share paid and the portfolio company valuations.

#### *Performance Fee Calculation*

Based on the "wrap up" of the Fund in its entirety.

An example is available on request.

## **INVESTMENT EXIT POLICY**

#### *How are exits typically structured?*

Trade sale when the companies start to generate meaningful revenues and sales and threaten the position of established suppliers.

#### *Ideal criteria for a typical exit*

Target is 10x cost on all investments to compensate for any company that fails and to reflect the commercial and financial benefits within the underlying technologies and resultant products.

#### *Preferred exit method*

Trade sale.

#### *How many companies have you exited and over what time frame?*

Over 25 years, some 15 companies.

#### *Particular Industry Connections?*

Primarily technology with a current focus on communications on the go, medical technology and security.

#### *Typical Entry / Exit Multiples?*

Not applicable as entry values and exit multiples are determined by a host of different markers, including how disruptive to the established order the companies in the portfolio are likely to be. Exit values typically to be 50x operating profits on the basis that companies are likely to be sold just as they approach profitability.

## **ANGLO SCIENTIFIC EIS**

Full details on Anglo Scientific and the companies in the target portfolio are available in the Information Memorandum and on request. If, after reading the information available, a prospective investor also wishes to invest directly in a target portfolio company, please contact Innvotec for more details.



#### Further Information

If any further information relating to the Fund is required please contact the Fund Manager; Innvotec Limited.

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