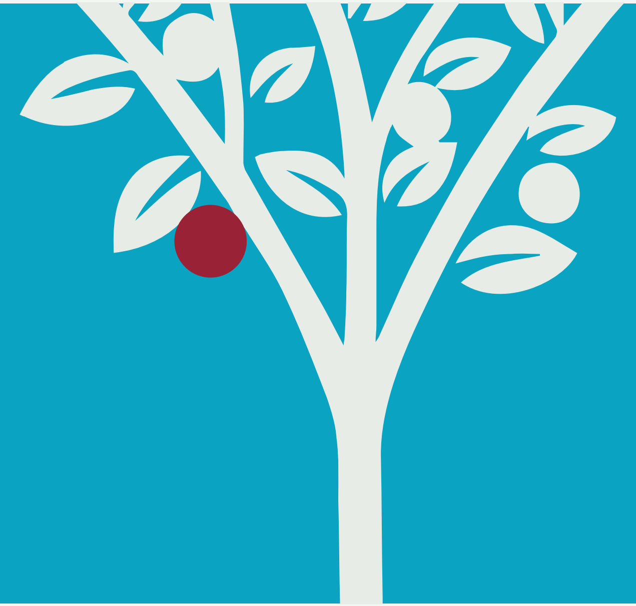
TAX EFFICIENT VENTURE CAPITAL SCHEMES - VCT, EIS, SEIS



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Prospective investors should be aware that the value of a VCT depends on the performance of its underlying assets, the value of which may rise and fall. The value of the VCT shares can therefore fluctuate and investors may not get back the amount they invest. In addition, there is no certainty that the market price of the shares will fully reflect the underlying net asset value, that investors will be able to realise their shareholding or that any dividends will be paid. Investment in a VCT should be viewed as a longer-term investment. Past performance is no guarantee of future results.

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AGENDA

- Venture capital schemes overview
  - Reason
  - Timeline
  - Types and funds raised
  - Investee company requirements
- Investor tax reliefs
  - Overview
  - Impact of income tax reliefs
    - Company succeeds
    - Company fails
- Venture capital schemes - drivers
- VCTs in action

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VENTURE CAPITAL SCHEMES OVERVIEW

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VENTURE CAPITAL SCHEME AIMS

- Encourage investment in UK SME qualifying trades
- SMEs (EU definition)- 2 out of 3 of:
  - Turnover: < €50 million
  - Balance sheet assets: <€43 million
  - Employees: <250
- Critically important to the UK providing over half of all private sector employment
- Source of finance
  - Early stage: personal savings, friends and family support, bank overdrafts and loans
  - Later stage: public stockmarkets, private equity
  - Middle ground lacking support: “Equity gap”

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VENTURE CAPITAL SCHEMES TIMELINE

1965:
CAPITAL GAINS TAX FOR INDIVIDUALS INTRODUCED

1980:
SHARE LOSS RELIEF (CAPITAL LOSSES ABLE TO BE OFFSET AGAINST INCOME TAX)

1981-1993:
BUSINESS START-UP SCHEME/BUSINESS EXPANSION SCHEME (BES)

1994:
ENTERPRISE INVESTMENT SCHEME (EIS)

1995:
VENTURE CAPITAL TRUSTS (VCT)

2012:
SEED ENTERPRISE INVESTMENT SCHEME (SEIS)

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VENTURE CAPITAL SCHEMES OVERVIEW

- VCT
    - An investment company listed on the main market of the London Stock Exchange
    - Independent board of directors appoints an investment manager and service providers
    - VCT invests in range of qualifying companies (target 70% plus on an ongoing basis)
    - Types: Generalist, Specialist, Limited Life, AIM
    - Investor tax relief on allotment of shares – via adjustment to PAYE code/through tax return
- EIS/SEIS
    - Unlisted fund structure or single company
        - HMRC approved funds – investor tax relief at investment in fund
        - Unapproved funds– investor tax relief at date of underlying investment
    - SEIS – difficult to deploy large amounts of capital given maximum £150,000 fundraise (typically single co or joint EIS/SEIS fund)

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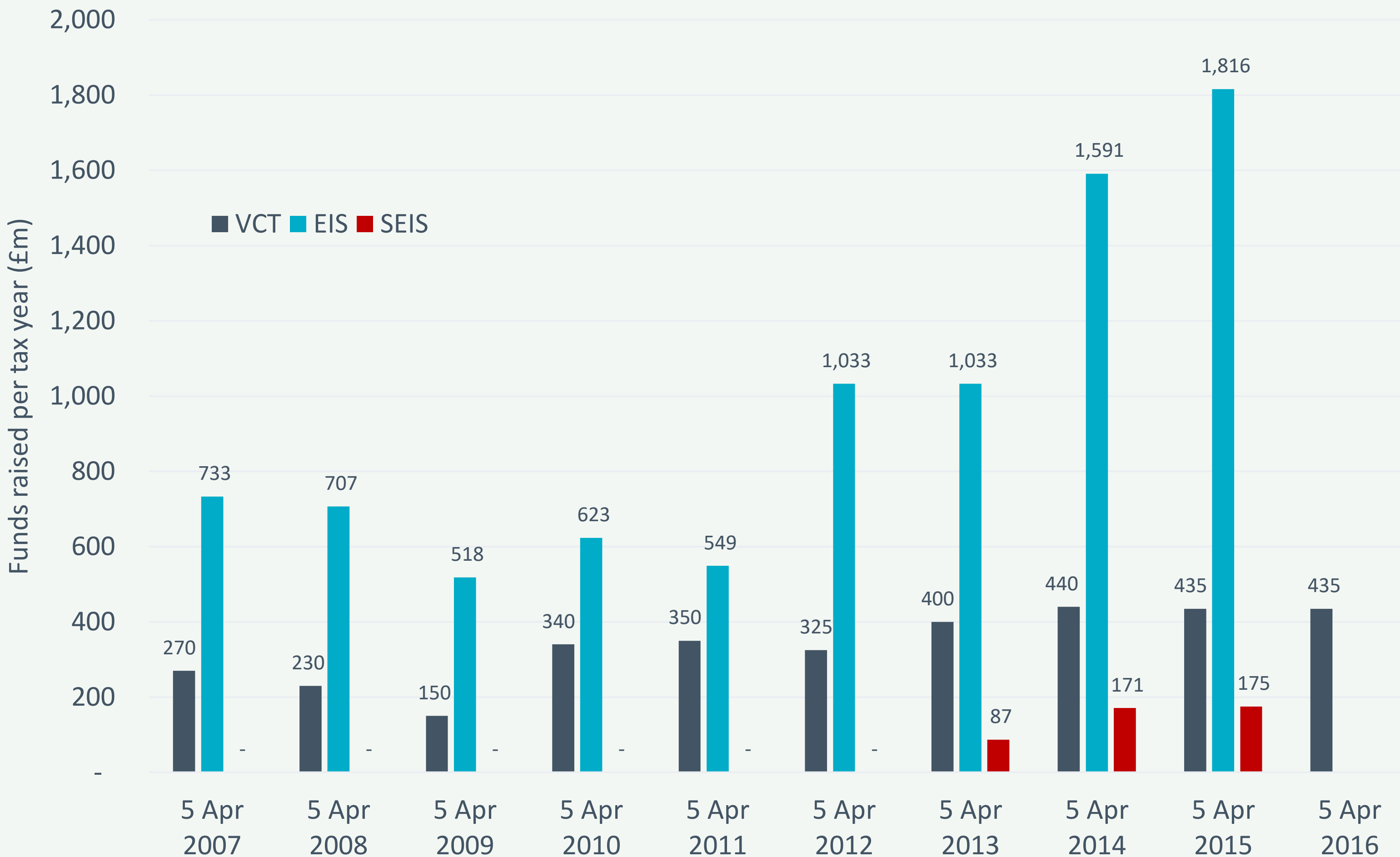
VENTURE CAPITAL SCHEMES - FUNDS RAISED



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INVESTEE COMPANY REQUIREMENTS

	VCT	EIS	SEIS
Residency	Permanent establishment in the UK		
Funding	Within 7 years of first commercial sale		Within 2 years
Employees	250 (499 – knowledge intensive companies "KIC")		25
Maximum gross assets	£15 million (pre investment) / £16 million (post investment)		£200,000 (post investment)
Maximum investment per company per year	£5 million		£150,000
Maximum lifetime investment per company	£12 million (£20 million KIC)		£150,000
Minimum equity requirement	10% per company (70% VCT overall)	100%	100%

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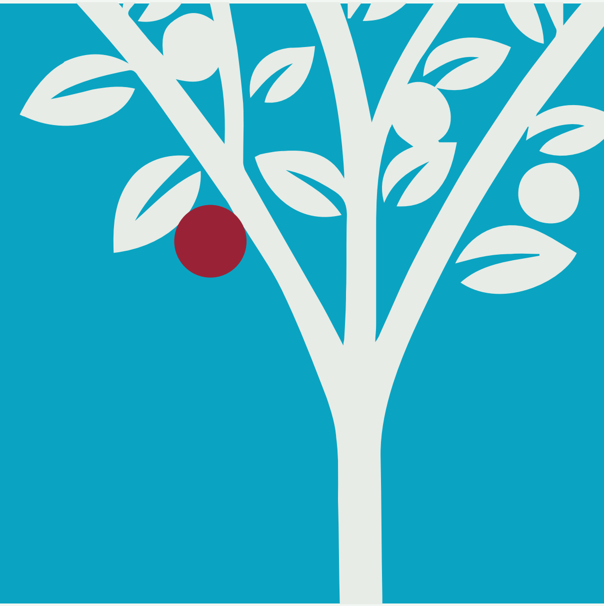
INVESTOR TAX RELIEFS



INVESTOR TAX RELIEFS

	VCT	EIS	SEIS
Investment per tax year	£200,000 - new and existing shares	£1 million	£100,000
Carry back to prior tax years	No	Yes	Yes
Upfront income tax relief (new shares only)	30%	30%	50%
Minimum holding period (new shares)	5 years	3 years	3 years
Capital gains tax deferral (EIS)/reinvestment relief (SEIS)	No	Yes (up to 28%)	Yes (up to 28%)
Dividends	Tax free	Taxed	Taxed
Capital gains	Tax exempt	Tax exempt	Tax exempt
Loss relief on disposal	No	Yes	Yes
Business property relief (IHT)	No	Yes (usually, after 2 years)	Yes (usually, after 2 years)

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IMPACT OF INCOME TAX RELIEFS

- The following two slides are intended as an illustration only. An investor should always seeks professional tax advice on managing the tax reliefs on initial investment and those on a failed investment
- For loss impact, the illustrations assume an additional rate taxpayer (45%) when the investment is liquidated
- The impacts of potential capital gains tax deferral/reinvestment relief are not shown

IMPACT OF INCOME TAX RELIEFS – COMPANY SUCCEEDS

	VCT	EIS	SEIS
Investment in company (new shares only)	£10,000	£10,000	£10,000
Income tax relief	-£3,000	-£3,000	-£5,000
Net cost after income tax relief	£7,000	£7,000	£5,000
SHARES SOLD - £20,000:			
Capital received	£20,000	£20,000	£20,000
Base cost of investment after income tax relief	£7,000	£7,000	£5,000
Gain on base cost - £	£13,000	£13,000	£15,000
Gain on base cost - %	186%	186%	200%
DURING INVESTMENT:			
Dividends	Tax free yield on base cost (eg 5% > 7.1%)	Taxed	Taxed

IMPACT OF INCOME TAX RELIEFS – COMPANY FAILS

	VCT	EIS	SEIS
Investment in company (new shares only)	£10,000	£10,000	£10,000
Income tax relief	-£3,000	-£3,000	-£5,000
Net cost after income tax relief	£7,000	£7,000	£5,000
SHARES LIQUIDATED AT NIL VALUE:			
Write off net cost against income at 45%	N/A	-£3,150	-£2,250
Net loss on investment	£7,000	£3,850	£2,750
Percentage of original gross investment lost	70%	38.5%	27.5%

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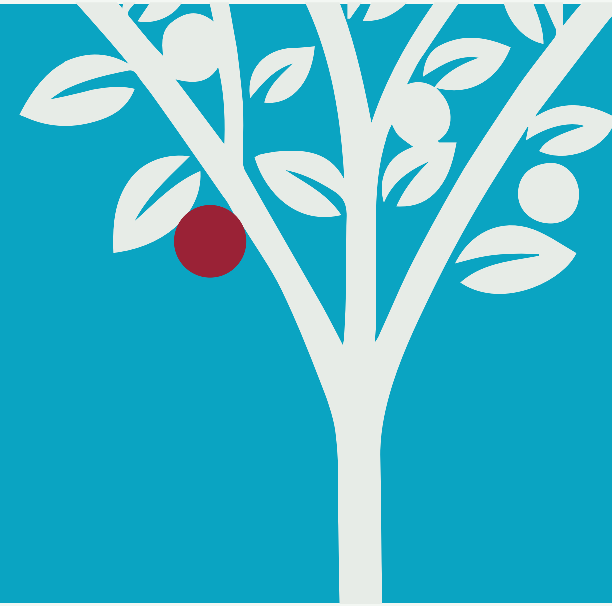
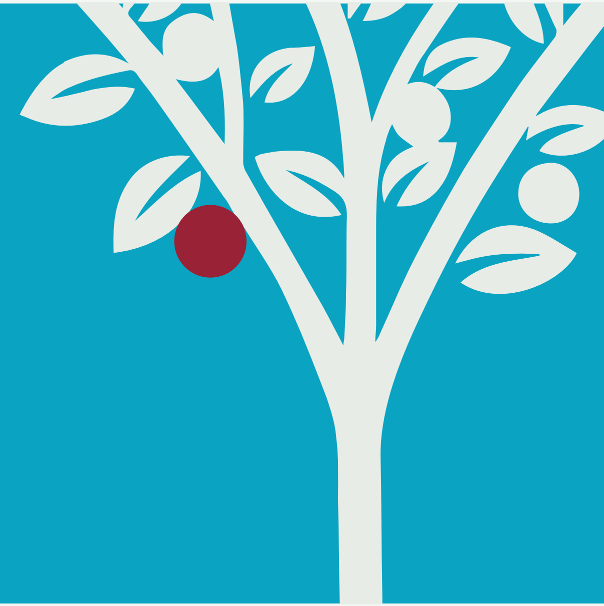
VENTURE CAPITAL SCHEMES - DRIVERS



VENTURE CAPITAL SCHEMES - DRIVERS

- Restrictions on pensions
    - Lifetime allowance reduction to £1 million
    - Maximum £40,000 gross contributions per year (£10,000 for high earners over £210,000 pa)
- Attractive tax advantages to investors
    - Upfront income tax relief (new shares - ALL) and further loss relief (EIS/SEIS)
    - Capital gains tax deferral (EIS/SEIS)
    - Tax free capital gains (ALL)
    - Tax free dividends (VCTs) in a low interest rate environment
- Accessibility - platforms
- Diversification, liquidity, measurable performance (VCTs)
- Mature industry with strong support from Government – 22 years and counting

VCTS IN ACTION



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ABOUT BERINGEA

Beringea LLC

FUM: **£280m**
3 Institutional Funds
29 portfolio companies
Michigan, USA

Beringea LLP

FUM: **£200m**
2 VCTs
1 BPR IHT Fund
Over **40** portfolio companies
London, UK

TOTAL ASSETS UNDER MANAGEMENT
C. £480m

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PROVEN VCTS' INVESTMENT STRATEGY

- Focus on growth capital investing; established companies with prospects for rapid growth
- Strong management team with substantial equity
- Investment sweet spot £1.5m to £5m
- Attractive entry price and ability to structure the deal to reduce risk
- Clearly identified route for a profitable realisation within a 3-4 year period
- Significant experience in key high growth sectors – e.g. digital media, e-commerce, SaaS, etc.
- Hands on Beringea management post investment

CASE STUDY

MONICA VINADER

Monica Vinader is a high end jewellery brand, currently a top performer in the jewellery category for both Selfridges and Harrods with a shop on South Molton Street.

In February 2016, the ProVen VCTs sold 60% of their shares in Monica Vinader, achieving a return of 12 times cost on their original investment.

Source: Beringea

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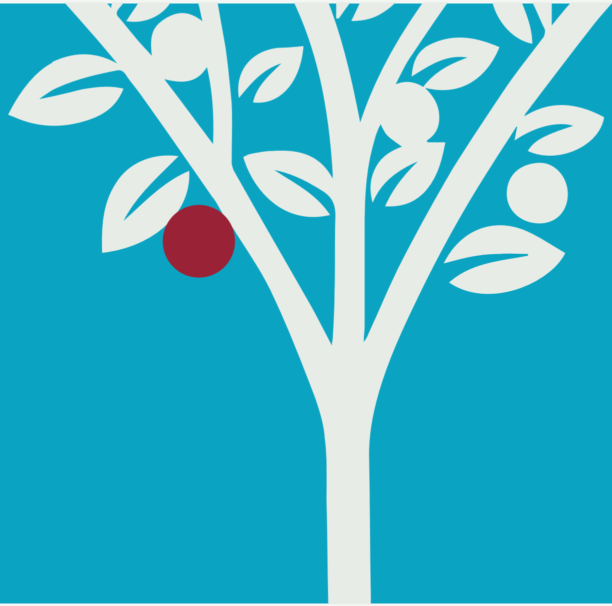

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