Downing Ventures EIS

Brochure

Downing

Important notice

If you are in any doubt about the content of this Downing Ventures EIS brochure (“Brochure”) and/or any action that you should take, you should seek advice immediately from an independent financial adviser authorised under the Financial Services and Markets Act 2000 (“FSMA”) who specialises in advising on opportunities of this type.

Applications from retail investors will only be accepted if submitted through an FCA authorised adviser or intermediary whose details are completed in the Application Form. Nothing in this Brochure constitutes investment, tax, legal or other advice by Downing LLP (“Downing”).

This Brochure constitutes a financial promotion pursuant to Section 21 of the FSMA and is issued by Downing LLP, St Magnus House, 3 Lower Thames Street, London, EC3R 6HD, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

No person has been authorised to give any information, or to make any representation, concerning the Downing Ventures EIS (the “Service”) other than the information contained in this Brochure, the Downing Ventures EIS Terms & Conditions document, and the Application Form and, if given or made, such information or representation must not be relied upon.

This Brochure does not constitute a direct offer to sell or a solicitation of an offer to purchase securities and in particular does not constitute an offering in any state, country or other jurisdiction where, or to any person or entity to whom, an offer or sale would be prohibited.

Downing has taken all reasonable care to ensure that the facts stated in this Brochure are true and accurate in all material respects and that there are no other material facts whose omission would make any statement of fact or opinion in this Brochure misleading.

All statements of opinion or belief contained in this Brochure and all views expressed and statements made regarding future events represent Downing’s own assessment and interpretation of information available to it as at the date of this Brochure.

No representation is made or assurances given that such statements or views are correct or that the objectives of the Service will be achieved. Investors must determine for themselves what reliance (if any) they should place on such statements, views or forecasts, and no responsibility is accepted by Downing in respect thereof.

The Service is an alternative investment fund (“AIF”) for the purposes of the Alternative Investment Fund Managers Directive (“AIFMD”). It is not an unregulated collective investment scheme. The Financial Services Compensation Scheme, which provides compensation to eligible investors in the event that an FCA authorised and regulated party (Downing, the Custodian or a retail bank) fails to meet its liabilities, will apply to the Service.

We would like to take the opportunity to remind you that EIS investments are high risk and an investment through the Service will not be appropriate for all recipients of this Brochure. It is important you know about the risks involved with investing and we have set these out on page 4 of this document, and within the Service’s Terms & Conditions document. Please also remember that the value of an investment may go down as well as up and you may not get back the full amount invested. Tax rules and regulations are subject to change and may depend on personal circumstances.

If you have any questions, please call us on **020 7416 7780**. Please note, telephone calls may be recorded for monitoring purposes.

For UK investors only.

Information correct as at 31 December 2017 unless otherwise stated. Issued 5 June 2018.

Welcome to the Downing Ventures EIS

We believe that early-stage UK technology companies can offer great investment opportunities. Although high risk, they aim to provide access to high potential returns and attractive Enterprise Investment Scheme (EIS) tax reliefs.

Downing Ventures EIS focusses on a broad range of sectors, including enterprise software, health technology and e-commerce. We believe our experience of investing in early-stage companies means that we are well-placed to spot potentially attractive opportunities.

This Brochure is designed to give you an overview of the service and our approach to managing it.

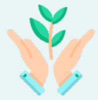
In this document we'll briefly explore our investment approach, our team and experience, and take a look at a selection of our portfolio. We'll also give you important information on charges and key risks.

More detailed information can be found in the Terms & Conditions document.

At a glance

Over 40
companies in the Downing Ventures portfolio

c.100
opportunities assessed each month in 2017



Over £30 million
raised by Downing Ventures EIS

The risks of investing

EIS investments are high risk. It's important you know what these risks are so you can make an informed decision.

A summary of the key risks associated with the service are listed below – please refer to the Terms & Conditions document for a full list of risks.

- **Capital is at risk:** the value of investments and the income derived from them may go down as well as up and you may not get back the full amount invested.
- **Tax reliefs are not guaranteed:** the rates of tax, tax benefits and allowances that are described in this Brochure are based on current legislation and HMRC practice - these may change from time to time and as such, they are not guaranteed and are subject to personal circumstances.
- **Qualifying investments are not guaranteed:** there is no guarantee that sufficient investments in EIS companies will be made within the expected timetable, or at all. In addition, it is possible that the EIS companies may subsequently cease to qualify for EIS tax reliefs, in which case, the tax reliefs you receive could be delayed or lost.
- **Gearing:** although most of our Ventures EIS investments have little or no leverage, debt (or any other prior-ranking securities) used by qualifying companies will significantly increase risk.
- **Diversification:** this may not be achieved and investments may be in the same sector.
- **Investments made through Downing Ventures EIS are long term and high risk:** you should not consider investing if you think you could require access to your funds within approximately four to eight years from the date shares are originally acquired. **Please remember, investments made through our EIS will be in early-stage companies that are much smaller, unquoted technology companies that are higher risk than those listed on the London Stock Exchange. The chances of companies failing are high.**
- **You cannot rely on past performance:** please remember that past performance is not a reliable guide to future performance and there is no guarantee that the service's objectives will be achieved.

What happens if a company fails?

As is the nature of making early-stage investments, we expect some companies to fail. If a company does fail, investors can claim EIS loss relief and elect to set the EIS loss relief against income or capital gains (but not both). We will provide investors and advisers with all the necessary information to help with the application process once a company has been dissolved.

How to claim EIS loss relief against income

You can elect for the loss to be set against income arising in the current or previous tax year, but not both. If you don't have sufficient income to relieve the loss, the remainder will be treated as a capital loss and can be relieved against future capital gains. Investors should expect to have future income in order to utilise EIS loss relief.

How to claim EIS loss relief against capital gains

You may instead choose to claim loss relief against gains arising in the current tax year or carry the loss forward to set against future gains. Please note that the first £11,300 of any capital gains may not be taxable due to the annual exemption amount and you should consider if you have sufficient gains with which to set the loss against.

Our approach to investing

At the core of our investment strategy is an ethos of looking after your financial wellbeing; we treat your money as if it were our own and we invest our money alongside yours in every company we support.

Due diligence

In 2017, our team reviewed around 100 companies a month, yet only invested in a small number. Our due diligence process is rigorous, utilising our network of sector specialists to undertake customer, tech, product, market and financial reviews for both new and follow-on investments. Members of our Investment Committee will typically meet management teams before terms are agreed. All of our due diligence is then reviewed and approved by the Investment Committee before an investment is made.

Value-add

Once part of the Downing Ventures portfolio, companies have access to our value-add offering. This includes access to our networks in the UK and US, support with recruitment, sales, marketing and PR, as well as a calendar of events we run throughout the year. This gives our investee companies an opportunity to network together and hear from sector experts in their field. In addition, we have two members of the Downing Ventures team that do not engage in transacting deals and are dedicated to providing support to our portfolio companies.

Follow-on funding

We participate in follow-on rounds in the existing portfolio, typically alongside other co-investors. Entrepreneurs are attracted to our ability to 'follow our money' as we deploy VCT funds for later-stage rounds.

The US

We believe the US is an integral part of the Downing Ventures strategy. A number of our companies have a presence in America and we are now starting to see the portfolio attract US funding. Making regular trips stateside means we can build the relationships we have with VC and technology funds, opening up the American market as a potential expansion or exit route for our portfolio.

A spread portfolio

We focus on investing in businesses operating in a variety of sectors across the UK. By investing in a number of companies, unlike a single company EIS offer, we seek to provide a spread of risk to mitigate the effect of underperformance or failure by any individual company.

However, as is the nature of early-stage companies, some may succeed while others fail. While managing the Downing Ventures EIS, we expect to make some tough decisions about ceasing to fund some of our portfolio companies – our strategy is to identify those companies with the least potential early on and redirect funding and effort to those with the greatest potential for success.

To mitigate the effect of any underperforming companies, we typically aim to spread your investment across a portfolio of 10 - 15 companies, where possible in a variety of sectors, although please note that this cannot be guaranteed. While we are targeting capital growth, we would like to emphasise that this is not guaranteed and that EIS investments are high risk.

Target exit

We seek to provide investors with the opportunity to exit between four and eight years from the date shares were originally acquired, although for the majority of our portfolio companies, the investment lifetime is likely to be closer to eight years. Exit opportunities depend on the growth of the business and the market conditions at the time, and are not guaranteed. Although some businesses may exit via flotation, we expect most to be acquired by trade buyers looking to expand and enhance their operations.

What types of companies do we support?

We believe that there is currently an attractive environment for investment in early-stage technology companies, particularly in the UK.

Why we believe now is a good time to invest in Ventures

- It takes significantly less capital to build a technology company than ever before.
- There are many markets that are ripe for disruption; businesses want quality information and efficiency gains, and consumers want technology that simplifies life and connects them to products, services and each other.
- There are numerous online and offline communities that breed talent and an ever-improving UK funding environment that recognises the investment potential and disruptive power of technology.
- There are a growing number of big technology players that can provide an exit route for early investors.

Early-stage investments

We seek to invest £500,000 to £1 million in early-stage businesses, often as part of larger rounds alongside other co-investors. We look for talented entrepreneurs; early traction; defensible technology or strategy; businesses that are ready to scale; and a large addressable market. The companies we support will typically be at a stage where they have launched a product, are generating some revenue, and have a strong management team and board in place.

Examples of sectors we invest in

Enterprise SaaS

SaaS (Software-as-a-Service) is a business model we like and understand, where we believe we can add significant value to the companies in which we invest. We look for enterprise software companies with products that are built with usability and user experience first, with a proven return on investment for their business customers. We are particularly interested in innovative marketing and big data technologies.

Large consumer markets

We seek to invest where we believe the market is large enough – looking for those sectors where the company would only need to capture <1% of that market to be a £100 million business. Capturing consumers online is incredibly expensive. We prefer companies that have an angle for customer acquisition and retention, often with a community behind them.

Healthcare technology

There is a growing number of life sciences and healthcare companies in the UK but not enough specialist investors, presenting an opportunity to invest at attractive valuations. We prefer opportunities that have a shorter route to exit, such as devices and software. Some of the businesses we back in this space are already generating revenue. We aim to mitigate risk through our partnership with Bioscience Managers, a leading life sciences fund manager with over three decades' investment experience in the sector. Bioscience Managers operates a high value-add model, providing assistance and support to portfolio companies via a global team and international network of independent industry advisers. Healthcare technology businesses currently make up less than 15% of the Downing Ventures portfolio.

Special situations technology

Some markets are only beginning to feel the effects of technological disruption, such as education, insurance, security and banking. We believe that there is value to be unlocked in these markets if the companies are led by experienced management teams.

Our partnerships and sources of deal flow

Our strong relationships in the UK ventures community and dedicated deal origination resource helps us source what we believe are the best investment opportunities.

We are focused on finding technology companies in the 'golden triangle' of Oxford, Cambridge and London, as well as the 'Silicon Gorge' area of the South West (Bristol and Bath), giving us unique access to all these centres of research and innovation.

We are proud to work with a number of different investment partners, from angel investors to VC funds and government agencies.

As well as our large network of accelerators, incubators and VC funds, we have a dedicated deal origination manager to source investment opportunities. Our large portfolio is also a source of introductions as many of the entrepreneurs and non-executive directors we work with act as ambassadors for Downing Ventures.

Although we review hundreds of opportunities, we only invest in a small number. Our selection process is rigorous, utilising the wider Downing team for decision-making and our network of experts for due diligence. No investment is made without review and approval from our Investment Committee.

Downing-managed Venture Capital Trusts (VCTs)

We co-invest alongside Downing-managed VCTs, including Downing FOUR VCT Healthcare and Generalist share classes.

This allows us to provide significant funding support as each company matures, which is attractive for entrepreneurs who would prefer to spend their time growing their businesses than raising money.

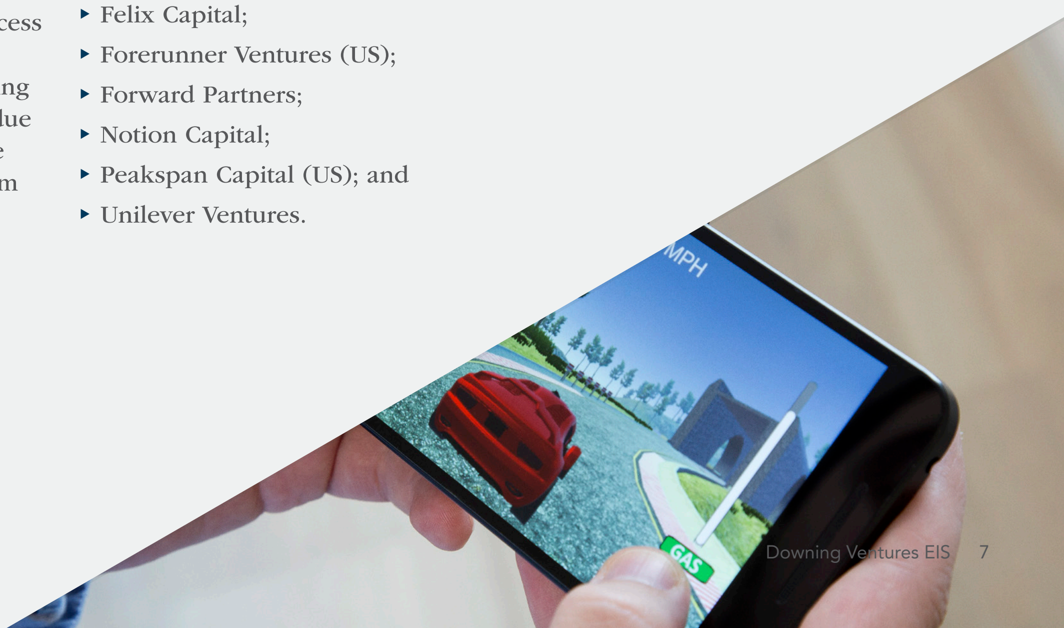
VC funds

We have a strong network of VCs in the UK, Europe and USA that we have co-invested with, including:

- Accelerated Digital Ventures;
- Anthemis;
- Balderton Capital;
- BGF Ventures;
- Daily Mail and Generation Trust;
- EC1 Capital;
- Felix Capital;
- Forerunner Ventures (US);
- Forward Partners;
- Notion Capital;
- Peakspan Capital (US); and
- Unilever Ventures.

Government agencies

- European Space Agency: we recently completed an investment in Hummingbird Technologies alongside the ESA. Hummingbird's software uses images and data from drone and satellite technology to provide farmers with maps of their crops at a canopy level.
- London Co-Investment Fund (LCIF): the LCIF is the Mayor of London's £25 million fund, of which Downing Ventures is one of the selected venture capital co-investment partners. So far, we have supported several companies together, including Glisser, hackajob, Baby2Body and Craft.



The Downing Ventures team

Our Downing Ventures team has over 70 years of combined venture capital experience. Investments are only made after due diligence is carried out and they have been approved by our Investment Committee. The team members listed here are experienced in working with early-stage companies.

Chris Allner

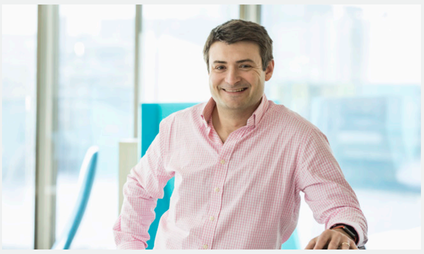
Partner, Head of Investment

Chris is a Partner of Downing LLP and heads up the investment team. He has 35 years' venture capital and private equity experience, most recently as head of private equity at Octopus Investments. Chris has transacted over 50 investments, from start-ups to well-established companies, and has sat on the boards of a number of unquoted and quoted portfolio companies across a variety of commercial sectors.

Kostas Manolis

Partner, Head of Unquoted Investments

Kostas is a Partner of Downing LLP. He works across the investment team and is a member of the Ventures Investment Committee. He has more than 15 years' private equity experience as investor, board director, portfolio manager, advisor and business angel. Kostas holds a degree in Biochemistry, a PhD in Molecular Genetics and is a Chartered Accountant.



James Lewis

Investment Director

James is involved in sourcing and evaluating transactions, alongside managing a number of portfolio companies. James qualified as an ACA with PwC in London and Hong Kong. Immediately before joining Downing he returned to London to run the finance and operations of a small UK-based drinks company.

Richard Lewis

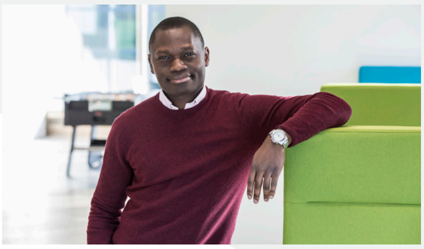
Investment Director

Richard focusses on supporting businesses seeking growth capital. He has 15 years' experience, including nine years at Mitsui & Co, completing growth and venture capital investments in the UK, US and Israel. Prior to joining Downing, Richard worked at Radius Equity as the Head of Investment. Richard has an MBA from Manchester Business School.

Mike Kennedy

Portfolio Director

Mike joined Downing in 2017 to lead our engagement with our portfolio companies. Mike has over 10 years' experience in the venture capital industry with 3i plc, YFM Group and Electra Partners and is co-founder and director of Inogesis, a start-up connecting blue-chip organisations such as Unilever and GSK to solve business challenges collaboratively.



Michael Tefula

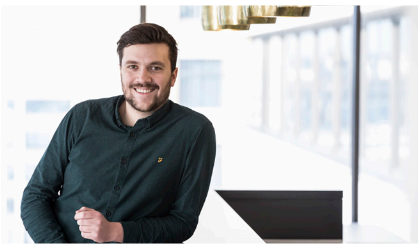
Associate

Michael completed his MBA at Oxford University and is a published author of three books on entrepreneurism. He joined Downing Ventures in late August 2017 as an Associate, having previously worked at the Oxford Seed Fund, Business Growth Fund and Deloitte. Michael's role at Downing focuses on sourcing new deals within the growing Ventures portfolio.

Sophie Andre

Portfolio Analyst

Sophie joined Downing in 2016, having previously worked in client relations at a large investment manager. She focuses on portfolio monitoring and building a platform of support services for our investee companies. Sophie also manages co-ordination with other parts of Downing, including fund administration, marketing and sales.



Alex Cochand

Deal Origination Manager

Alex joined Downing in 2016 as a Deal Origination Manager and is responsible for the sourcing of new investment opportunities. Prior to joining Downing, he worked at Bluebox Corporate Finance where he advised a range of businesses on both fundraising and sale mandates. Alex has passed all three exams in the CFA designation.

Kathy Gromotka

Associate

Kathy joined the Downing Ventures team as Associate in March 2018, where she is responsible for sourcing deals. Prior to this, she worked at Microsoft where she was responsible for sales strategy and operations management. She also worked at Bloomberg, where she managed a New York-based sales team. Kathy holds an MBA from Oxford University.

Our wider investment team of over 40 professionals provides additional support and resource to our core Ventures team, including deal origination and transacting investments. Our in-house legal team helps structure and execute the majority of our Ventures investments and our portfolio reporting team supports the regular monitoring of our companies, valuations and reporting.

Taking a closer look at some of our investments

Hackajob *www.hackajob.co*

Sector: enterprise SaaS

hackajob is an online recruitment platform that connects technical candidates (software engineers and developers) directly with employers. Prospective employees complete coding assessments tailored to each technical role, with the top applicants sent through to the employers for interview. This provides companies looking to recruit with more efficient, targeted access to better talent. hackajob has worked with large clients such as Apple, Sky Scanner and Argos to hire software engineers and developers. We invested in two funding rounds and the business has since grown substantially and is profitable.

Hummingbird Technologies *www.hummingbirdtech.com*

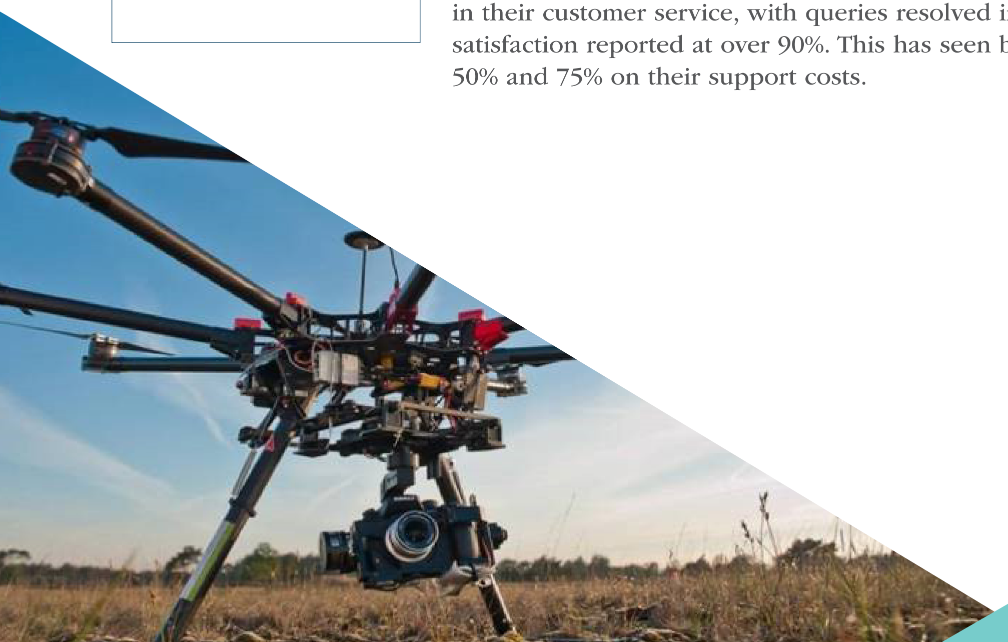
Sector: enterprise SaaS

Hummingbird Technologies is a crop analytics platform that is powered by machine learning and aerial imagery. The innovative London-based business uses high-resolution images from drones, aircraft and satellites to asses and predict crop health. Within 24 hours, farmers receive critical data that helps drive management decisions that can improve crop appearance and yield. We invested in Hummingbird Technologies alongside the European Space Agency, Sir James Dyson and Velcourt, the UK's largest farming operation. The funding will be used to further cement the company's position in the UK and capitalise on opportunities in Russia, Ukraine and Brazil.

Limitless Technology *www.belimitless.io*

Sector: enterprise SaaS

Limitless Technology is a UK-based provider of a crowd-sourced customer service platform, with clients including Unilever, Daily Mail Group and National Express. The platform harnesses the power of engaged company ambassadors to help resolve customer issues. Users of the company's platform have seen significant improvement in their customer service, with queries resolved in less than five minutes and customer satisfaction reported at over 90%. This has seen brands experience savings of between 50% and 75% on their support costs.



Live Better With *www.livebetterwith.com*

Sector: healthcare

Founded in 2015 by entrepreneur Tamara Rajah, Live Better With is an e-commerce healthcare platform aiming to help people with long-term medical conditions, focusing on non-medical products that make day-to-day life better for people who suffer from these illnesses. The company is based in the UK but sells and ships products all over the world. The online platform continues to grow and has built up a community of more than 45,000 patients and carers to date.

LoyltyLion *www.loyaltylion.com*

Sector: enterprise SaaS

One of the first investments in the Downing Ventures portfolio, LoyaltyLion povides customer engagement and loyalty software to over 3,000 fast-growth e-commerce retailers around the world. Customers using the software have seen an increase in retention, repeat purchases and annual revenue. The company has also attracted investment from e-commerce director for ASOS, James Hart, and Jan Boluminski, co-founder of the world's biggest loyalty coalition, PAYBACK.

MoveGB *www.movegb.com*

Sector: consumer

MoveGB provides customers with access to thousands of gyms, pools and studios under one membership with over 35,000 workout activities, 5,500 venues and 200,000 members across the UK. In November 2017, the business was named the third fastest growing tech company in the UK in the Deloitte Fast 50, and has been featured in Forbes and Metro. MoveGB has recently raised a substantial series A round and continues to expand its operations.

Open Bionics *www.openbionics.com*

Sector: healthcare

Open Bionics is creating low-cost bionic hands through 3D-printing, revolutionising the design and fitting process for amputees and clinicians. Through a royalty-free partnership with Disney, the company has developed prosthetic arms for children with covers from the Star Wars, Marvel and Frozen universes. Open Bionics was named by Forbes as one of the 'British medical start-ups to watch in 2018' and has also featured in Business Insider, BBC News, ITV and The Guardian.

Attractive EIS tax reliefs

The service offers tax reliefs that could benefit those looking to save income tax, shelter assets from inheritance tax or defer a capital gain (subject to personal circumstances).

Listed below are the main tax reliefs available under the Service.

Income tax relief of 30%

You'll receive 30% income tax relief on your subscription, up to a maximum £1,000,000 investment in this tax year (subject to your income tax liability and personal circumstances). You can also carry back to the previous tax year, again limited to £1,000,000.

Please remember, you'll need to hold the shares for at least three years from the date of issue or start of trading (whichever is later). If you sell them within this time, you will need to repay this tax relief.

Inheritance tax (IHT) relief

If you have held the investments for at least two years at the date of death, they should qualify for IHT relief, provided the EIS companies continue to undertake a qualifying trade.

CGT deferral relief

You can defer unlimited capital gains realised up to three years before, or up to one year after, the date of the investment into the underlying companies.

Tax-free capital gains

Any gains you make when selling your shares (after the minimum three-year holding period and on which income tax relief has been given and not withdrawn) will be free from capital gains tax.

Up to 45% loss relief

In the event a loss is made on the sale of any EIS investment in the portfolio, irrespective of the overall performance of the portfolio and on which income tax relief has been given and not withdrawn, this loss can be offset (net of any income tax relief you've received) against income at your marginal tax rate, or capital gains.

Please remember, this is a brief summary of the latest tax reliefs available, based on Downing's understanding of current legislation and HMRC practice, which are subject to change in the future and your personal circumstances. We always recommend you seek appropriate professional advice before making an investment. Please note, this information does not constitute tax advice. Please refer to the HMRC website for further information on tax reliefs available on EIS investments or consult your adviser.

Example investment timeline

Although we aim to invest funds raised as soon as possible, our focus is on finding the best companies in which to invest. Set out below is an example investment timeline.

We aim to allot our investors' subscriptions within the same tax year. However, it can be difficult to allot full subscriptions the closer we get to the end of the tax year (from autumn onwards). If we are unable to invest a subscription before the end of a tax year, investors will still have the option to carry back the tax reliefs.

Please note that all our communications sent to investors are also sent to their financial advisers.

Year 1	▸ We send acknowledgement letters to investors typically within seven business days of application. ▸ We aim to allot funds to EIS-qualifying companies within 12 months. ▸ Investors are sent EIS3 certificates (to claim 30% income tax relief) within four to six months of an investment being made in each EIS company, subject to HMRC approval.
Year 2	▸ Every quarter, investors receive valuation statements. ▸ We send half-yearly reports with full details of each investment company, covering the six-month period to 30 June and 31 December. ▸ Two years after the investment is made, it should qualify for IHT relief (shares must be held at death).
Year 3	▸ The three-year holding period comes to an end. ▸ Follow-on EIS investment rounds are made into successful businesses. ▸ We continue to support investee companies strategically with regular communication, monitoring, advice and access to our networks of later-stage VC funds.
Year 4	▸ As the businesses in the portfolio mature, we can follow our initial early-stage EIS investments with VCT funding. ▸ This will help the companies continue to scale, attracting further investment from later-stage funds. Additionally, as the business matures, the chances of investors losing their EIS tax reliefs should an exit occur within three years is reduced.
Year 5 onwards	▸ At this point, we begin to exit from individual EIS companies. ▸ Any gains on exit are free from CGT. ▸ Loss relief is available on losses made on the sale of investments.

Please note this is an example timeline set out for illustrative purposes only and is not guaranteed.

Our charges

We are always open and transparent about our charges. We make sure all the information is provided upfront so you can be confident there will be no surprises.

	If you are investing through an adviser	If you are investing on an execution-only basis
Downing's initial charge	2%	4% (2% of which will usually be paid to your intermediary unless otherwise indicated on your application form)
Downing's annual charge	2% p.a.	2.5% p.a. (0.5% of which will usually be paid to your intermediary for four years)
	Out of our annual fee, we will be responsible for all the costs of managing the Downing Ventures EIS, including custodian and nominee fees, bank charges and reporting to investors.	
Performance fee	20% of the exit proceeds between £1.00 and £1.10 and 30% thereafter (in respect of each £1.00 invested). The performance fee is only payable once you receive cash proceeds equal to the total invested in EIS Companies (£1.00 per £1.00 invested). If you choose to continue holding your shares after the first opportunity to exit, the performance fee will be payable based on the amount that would have been received had you elected to exit.	
Arrangement fee	Up to 2% of the amount invested will be charged to each investee company.	

VAT will be charged where applicable.

Initial and ongoing adviser charges can be facilitated through the service (see the application form for more details). Any initial adviser charges and four years of ongoing adviser charges (if any) will be deducted from your subscription prior to investment, reducing the amount of EIS relief you receive.

What to do next

Before applying, please read the Terms & Conditions document (including the risk factors) and get in touch with your financial adviser to discuss the appropriateness of our EIS for you.

When you are ready to invest:

- Complete and follow the instructions within the Application Form.

If you would like any more information, please call us on **020 7416 7780** and we will be happy to help (please note that we cannot provide investment or tax advice).

After you submit your application we will send you:

- An acknowledgement that we have received your application (typically within seven business days).
- EIS3 certificates for you to claim your income tax relief (expected within four to six months of each EIS company investment being made, subject to HMRC approval).
- Quarterly valuation statements (once your funds have been invested).

Downing

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