Downing Ventures EIS

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Brochure

Downing

Downing Ventures will invest in high risk, high potential return investment opportunities with a principal focus on early-stage UK technology companies.

Important notice

If you are in any doubt about the content of this brochure (the "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 will only be accepted if submitted through an Intermediary authorised and regulated by the Financial Conduct Authority ("FCA") whose details are completed in section 9 of the Application Form. Nothing in this Brochure constitutes investment, tax, legal or other advice by Downing LLP ("Downing") and your attention is drawn to the section headed "Key risks" on page 4 of this Brochure and "Risk factors" on pages 5 to 6 of the Memorandum. An investment through Downing Ventures (the "Service") will not be suitable for all recipients of this Brochure.

This Brochure constitutes a financial promotion pursuant to Section 21 of the FSMA and is issued by Downing LLP, Ergon House, Horseferry Road, London SW1P 2AL, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

For the purposes of the Alternative Investment Fund Managers Directive (AIFMD), it is considered that the collection of portfolios which are managed on a collective basis may constitute an alternative investment fund (AIF).

Any references to tax laws or levels in this Brochure are subject to change. Past performance is not a guide to future performance and may not be repeated. The value of Shares can go down as well as up and you may not get back the full amount invested. You should consider an investment through the Service as a medium to long term investment. Investments made through the Service are likely to be illiquid.

No person has been authorised to give any information, or to make any representation, concerning the Service other than the information contained in this Brochure, the Memorandum and the Application Pack, and, if given or made, such information or representation must not be relied upon. This Brochure does not constitute an 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.

This Brochure contains information relating to an investment through the Service. An investment may only be made on the basis of this Brochure, the Memorandum (in particular, the Investor Agreement) and the Application Pack. 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 are given that such statements or views are correct or that the objectives of the Service will be achieved. Prospective 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.

Information correct as at 17 August 2016

How to apply:

- Read this Brochure, the Memorandum and the Application Pack.
- Discuss the opportunity with your intermediary.
- Complete and send your application and subscription to:

  Downing LLP
  Ergon House
  Horseferry Road
  London SW1P 2AL

If you have any questions, please contact us:

Telephone: 020 7416 7780
Email: eis@downing.co.uk
Web: www.downing.co.uk

Contents

Service details

Estimated number of investments	8-10
Minimum individual subscription	£15,000
Maximum size of Downing Ventures*	£15 million

* The maximum Fund size may be increased at the discretion of the Manager, subject to the availability of attractive investment opportunities.

Downing contact details

Ergon House
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Introduction

Downing Ventures will seek to provide investors with the opportunity to invest in a portfolio of high risk businesses with the potential to generate significant growth, whilst also providing access to attractive Enterprise Investment Scheme (EIS) tax reliefs.

The Service will invest across a variety of sectors. The principal focus will be on the technology sector, but Downing also has considerable expertise in the leisure and renewable energy sectors and will consider higher risk/higher return opportunities within these areas.

It is anticipated that Investors will be given the opportunity to exit their investments between four and eight years from subscription.

Key objectives

- **Invest funds into early-stage, high-growth businesses:**
  Downing Ventures will invest in high risk, high potential return investment opportunities with a principal focus on early-stage UK technology companies.

- **Strategy:**
  The following factors should help to manage risk:
  - Diversification: subscriptions estimated to be spread across 8 to 10 growth businesses.
  - Due diligence: a high number of opportunities will be investigated before each investment is made (up to 30 opportunities per investment).

- **Tax benefits:**
  Provide Investors with attractive EIS tax reliefs, including 30% income tax relief, subject to a minimum three year holding period and personal circumstances.

- **Exit:**
  Provide exit opportunities between four and eight years from the date of subscription to each investment.

It should be noted that, as with any investments of this type, there is no guarantee that the key objectives will be met.

Key risks

Investors' capital is at risk. Set out below are the key risks involved with an investment through the Service. Please see pages 5 to 6 of the Memorandum for a full list of the risk factors.

- **Taxation**

  Rates of tax, tax benefits and allowances described in this Brochure are based on current legislation and HMRC practice and depend on personal circumstances. These may change from time to time and are not guaranteed.

- **EIS Investments**

  There is no guarantee that sufficient investments in Qualifying Companies will be made within the expected timetable, or at all. In addition, Qualifying Companies may subsequently cease to qualify for EIS tax reliefs. In such cases, the tax reliefs could be delayed or lost.

- **Liquidity**

  Investors should not consider investing if they could require access to their Subscription within the short to medium term (up to eight years) and there is no guarantee that an exit will be forthcoming thereafter. Investments made through the Service will be in early-stage unquoted companies which are higher risk than securities traded on the London Stock Exchange.

- **Performance**

  Past performance is not a guide to future performance and there is no guarantee that the Service's objectives will be achieved. The value of investments and the income derived from them may go down as well as up and Investors may not get back the full amount invested.

- **Gearing**

  The level of debt (or any other prior ranking securities) used by Qualifying Companies will significantly increase risk.

Structure of the Service

The Service is a discretionary managed portfolio of Qualifying Companies, where each Investor will own, through a nominee, a beneficial holding in each Qualifying Company. The Service 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.

Track record

Downing manages Downing Growth EIS 1-3, which have a similar strategy to that of the Service. Downing Growth EIS 1 & 2 were launched in September and November 2008 respectively, and exits have been achieved for most of their underlying investments. Downing Growth EIS 3 was launched in February 2012 and has recently become fully invested. Two investments are currently valued at cost, one has been written up, one slightly written down and one investment has been fully written off. It is common with this type of Fund for the investments that fail, to do so prior to other investments becoming successes. The table below summarises their track records. It should be noted that past performance is not a guide to future performance.

Track record of Downing Growth EIS 1-3

	Number of investments	Tax year of launch	Net cost[1]	Exit proceeds paid	Remaining value[2]	Total Return	Tax-free increase[3]
Downing Growth EIS 1	4	2008/09	80p	110p	-	110p	+37.5%
Downing Growth EIS 2	5	2008/09	80p	151p	-	151p	+88.8%
Downing Growth EIS 3	5	2012/13	70p	-	90p	90p[4]	N/A

Source: Downing. Figures correct as at 31 March 2016

[1]Net cost is the initial offer price of 100p less income tax relief of 20% or 30%, which was available at that time.

[2]Valuations are as at 31 March 2016.

[3]Tax-free increase is calculated over the net cost.

[4]Two investments are valued at cost, one has been slightly valued downwards, one has been fully written off, and one has been valued upward.

Example growth investments

The investments listed below are examples of investments made by Downing Ventures EIS

Miappi

Social media, simplified

Miappi

Miappi lets brands unify the best of their social media (Facebook, Twitter, Instagram, etc.) and user generated content in one place. The resulting social hub can be designed, curated and moderated for impactful displays on websites, apps and at live events. In doing so, and thanks to the useful built-in analytics tool, Miappi helps clients understand how the platform and social networks interact in order to maximise the reach of their most valuable content to their audience.

Twizoo

Twizoo

Twizoo is the only technology in the world that can accurately identify and classify customer reviews left on social media (like Twitter and Instagram) with its patent-pending machine learning methodology. The results automatically display relevant customer opinions pulled from social media on any website, across all pages, and in real-time. Twizoo's product addresses the main flaw of the review websites that flourished over the past few years, which are that reviews are often out of date and inaccurate.

Investment strategy

Downing Ventures will invest funds into a portfolio of small businesses that have the potential to generate significant growth, whilst providing investors with access to attractive EIS tax benefits.

Each of these early-stage businesses will be high risk with a significant chance of failure. However, risk will be diversified by investing in a portfolio of 8-10 companies and through the generous tax reliefs (see page 9 for further details) – the intention is that any 'winners' should have the potential to cover the losses of a number of 'losers'.

Downing Ventures invests in the gap between angel investors and large venture capital funds. It is here that we consider there is the potential optimal combination of stage, ownership and risk for our investments.

The Service will invest across a variety of sectors. However, we see particular attractions across the broad internet technology sector arising from a combination of factors which encourage the start-up and rapid growth of exciting new businesses and an exit environment which enables successful investments to be realised.

Early-stage technology investments

Web-enabled technologies have only recently achieved the levels of performance and affordability anticipated in the early days of the internet. We consider that now is a potentially favourable period for early-stage investors in the following sectors in particular:

- **Consumer internet:** Several large platform businesses have been fully developed and now dominate the landscape for the consumer internet - Google, Facebook, Amazon and others make it possible to build companies and acquire and service customers more cost effectively than ever before.
- **Defence technologies:** The defence sector is now more focused, and is spending more on innovative technologies, which may also have broader commercial applications.
- **Enterprise Software as a Service (SaaS):** Large companies are now happier to purchase technology products/services from smaller, more nimble solution providers.
- **Life sciences & medical technologies:** Driven in part by the rapid increase in computing power of the last five years, medical science is enjoying a period of sustained advancement.

Other areas of focus

Downing has considerable expertise in making asset-backed investments, primarily in the leisure sector (e.g. pubs, nurseries, health clubs, restaurants etc). Downing Ventures will consider investing in these sectors where there are higher risk/higher return opportunities where businesses trade from leaseholds (rather than freehold) premises or where there is prior ranking debt. Downing Growth EIS 1 & 2 were primarily invested in leisure sector businesses.

Downing Ventures will also consider higher risk/higher return opportunities in the renewable energy sector. Downing has previously invested approximately £200m in this sector.

Investment strategy (cont'd)

Exit

Downing Ventures will seek to provide exit opportunities within approximately four to eight years from the date that each of the underlying investments are made. We carefully analyse potential exit options at the time of making initial investments. If there is no clear route to exit, we don't invest.

We believe that a crucial component of any early-stage technology investment is to consider the US, particularly with regard to exits. Downing Ventures has a relationship with Colesbury Capital in the US and, through that partnership, the interests of our portfolio companies will be represented in that market – both for US venture capital follow-up financings and seeking exits to the large US technology companies.

Dealflow

Downing Ventures expect to analyse up to 30 opportunities for each investment we make. We have several well established sources of potential investments, including the following:

dstl

[dstl]

The Defence Science & Technology Laboratory (Dstl) is a trading fund of the Ministry of Defence. Its stated purpose is to maximise the impact of science and technology for the defence and security of the UK. Ploughshare Innovations Ltd was formed in 2005 to manage and exploit intellectual property within Dstl.

Downing Ventures has been chosen as the preferred partner for investment opportunities to further develop technology which Ploughshare Innovations Ltd is seeking to exploit on behalf of Dstl.

Other VCs & Family Offices

Venture investing tends to be a collaborative area of the capital markets and, therefore, we have excellent relationships with other venture capital firms, family offices and angels. We would rather invest in partnership with other smart investors, than alone in a vacuum.

Networks

Downing Ventures, or individuals in the team, are members of carefully selected networks that can produce interesting investment opportunities. Examples of such networks include angel investment networks, geographic specific groups, academic groups and crowdfunding platforms.

Downing Ventures

Downing Ventures specialises in high risk, high growth potential investment opportunities, with a focus on early-stage UK technology companies.

Downing Ventures is managed by Downing Ventures, which is a division of Downing LLP. Downing was established in 1986 and specialises in the structuring and management of tax efficient products. It has raised over £1 billion, of which more than £170 million is in respect of investments that qualify for EIS relief.

The Downing team includes 27 investment professionals, all of whom are active in the venture capital and private equity market.

The two members listed below will have particular responsibility for Downing Ventures.

Matt Penneycard

Matt has been engaged in the venture capital arena since 2002, initially with Octopus Investments and Hermes Private Equity. In 2009 Matt co-founded DTI Capital in New York, making several VC investments (cost c$7m), four in the USA and one in the UK. The fund focused on financial technology and defence/security technology. Over the last four years, Matt has also been an angel investor in the US and UK, investing in 12 seed stage businesses. Matt joined Downing in 2014 to head the Downing Ventures team.

Chris Allner

Chris is a partner of Downing LLP and heads the Investment Team. Chris has over 30 years of venture capital and private equity experience, most recently as Head of Private Equity at Octopus Investments, where Matt also worked, and Chairman of the Octopus Ventures Investment Committee. Prior to that, he was a Director at Beringea and Bridgepoint with previous experience at 3i and Charterhouse. Chris has transacted over 50 investments and has sat on the boards of a number of unquoted and quoted portfolio companies and is currently on the Board of Claresys, Curo, FirstCare and Angela Malik. Chris joined Downing in March 2012.

Investments are only made after rigorous due diligence is carried out and having received approval by Downing's Investment Committee.

Key tax reliefs

Downing Ventures will invest in EIS qualifying companies. EIS was introduced by the UK government to encourage individuals to invest in small unquoted trading companies by providing an attractive range of tax reliefs.

EIS tax reliefs and conditions

- **Income tax relief:** 30% income tax relief on the amount subscribed to EIS Companies is available on an aggregate maximum investment of £1,000,000, provided the investments are held for the Three Year Period. Income tax relief is limited to the Investor's income tax liability in the relevant tax year.

- **Tax-free capital gains:** Tax-free capital gains on EIS Investments held through the Service and disposed of after the Three Year Period.

- **Inheritance tax relief:** The value of investments held through the Service for two years or more at the date of death should qualify for IHT relief provided the EIS Companies continue to trade.

- **CGT deferral relief:** The opportunity to defer unlimited capital gains realised up to three years before, or up to one year after, the date of the investment into EIS Companies.

- **Loss relief:** The amount of any loss (after taking account of income tax relief obtained) can be set against individuals' taxable income or capital gains.

Illustrative returns

A table is set out below to illustrate the value of the income tax relief and loss relief (ignoring all other reliefs). Based on a £50,000 subscription spread across five EIS investments (ignoring any initial charges), it has been assumed that the overall proceeds were equal to cost at £50,000. However, in the scenario set out below, the investor would realise a tax-free profit of £19,050 (38.1%) comprising £15,000 (30%) income tax relief and £4,050 (8.1%) loss relief. This table has been set out for illustrative purposes only and no forecast of performance is implied or should be inferred.

	EIS 1 £	EIS 2 £	EIS 3 £	EIS 4 £	EIS 5 £	Total £	Total pence
Invested	10,000	10,000	10,000	10,000	10,000	50,000	100
Income tax relief	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(15,000)	(30)
Net cost	7,000	7,000	7,000	7,000	7,000	35,000	70
Assumed proceeds	0	5,000	10,000	15,000	20,000	50,000	100
Loss relief @ 45%	3,150	900	N/A	N/A	N/A	4,050	8.1
Net (loss)/gain	(3,850)	(1,100)	3,000	8,000	13,000	19,050	**+38.1p**

Assumptions: (i) Investor is a 45% taxpayer who elects to set off loss relief against income (ii) initial charges have been ignored (iii) benefit of capital gains deferral relief and IHT relief has been ignored (iv) the above proceeds have been assumed to average cost and (v) the figures above are based on the disposals occurring more than three years after the investment (otherwise there would be clawback of some or all of the income tax relief).

This "Key tax reliefs" section provides only a brief summary of the EIS tax reliefs. Further details are set out in the Memorandum. The value of the tax reliefs will depend on personal circumstances, which may change. Tax legislation is also subject to change. In addition, the availability of tax reliefs depends on the Qualifying Companies maintaining their qualifying status. Please refer to the HM Revenue & Customs website for further guidance on the tax reliefs available on EIS investments or consult your adviser.

Charges

If you are investing through an adviser	
Downing's initial charge:	2%
Initial charge to your adviser:	agreed with your adviser
Downing's annual fee:	2% plus VAT per annum
Ongoing fee to your adviser:	agreed with your adviser

If you are investing through an intermediary who doesn't give you advice (execution only)	
Downing's initial charge:	4% (2% of which will usually be paid to your intermediary unless indicated otherwise on your application form)
Downing's annual fee:	2.5% plus VAT per annum (0.5% of which will usually be paid to your intermediary for 4 years)

Further details of how the charges are applied are provided in the Memorandum.

Adviser charges

Adviser charges are costs that you have agreed with your adviser, in payment for the advice they have provided to you. If agreed between you and your adviser, Downing can facilitate adviser charges from your investment. For ongoing adviser fees, four years' of charges will be deducted from your subscription and set aside in a client cash account with ongoing adviser charges charged annually and paid from this account. If the funds in this account become exhausted, any further ongoing adviser charges will accrue against your portfolio until liquidity is available for these charges to be taken.

Annual management fee

Out of its fee, Downing will be responsible for all the usual running costs of Downing Ventures, namely custodian and nominee fees, bank charges, administration and reporting to investors.

Performance incentive

In order to align interests between Downing and Investors, no performance incentive is payable until Investors receive cash proceeds equal to the total invested in Qualifying Companies. The performance incentive will then be payable at a rate of 20% of the exit proceeds between £1.00 and £1.10 and 30% thereafter (in respect of each £1.00 invested).

This performance incentive may be payable as a fee or by way of proceeds from equity in a Qualifying Company.

Charges to investee companies

An arrangement fee of up to 2% plus VAT of the amount invested will be charged to each investee company. Non-executive directors' fees of up to £5,000-£10,000 per annum may be payable by investee companies. Downing does not charge any other fees such as monitoring, service or exit fees. The cost of all deals that do not proceed to completion will be borne by Downing.

Although most fees and costs are payable by the Qualifying Companies to increase tax efficiency, and not by the Service directly, they will, in effect, reduce the returns generated by the Qualifying Companies for Investors. Any unpaid fees due to the Manager will be recouped from the proceeds of the sale of investments.

Worked example of adviser charges

Assuming a £100,000 investment and adviser charges (agreed between the client and the intermediary) of £2,000 for the initial advice and £500 per year (ignoring Downing charges). This example has been provided for illustrative purposes only - the Manager does not suggest any applicable level for adviser charges, which need to be agreed between advisers and investors.

	£	£
Gross investment		100,000
Initial adviser charge	2,000	
Funds set aside to pay ongoing adviser charges (£500 x 4 years)	2,000	(4,000)
Invested in Qualifying Companies		96,000
Income tax relief (30% x £96,000)		28,800

What happens after investing?

Investor submits completed Application

Within 7 days: **acknowledgement of receipt of application by post**

During investing period of up to 12 months:
underlying investments made and notification by post
A contract note will be posted to Investors following each underlying investment being made.

Within approximately 6 months of each investment: **EIS3 Forms distributed to Investors**
As soon as the Manager invests in a Qualifying Company, and such company has been trading for a period of four months, an EIS application will be made to HMRC by that Qualifying Company. On receipt of clearance from HMRC, the Qualifying Company will send an EIS3 Form to each Investor in respect of that investment. This can then be used to claim tax relief (see below).

December 2016 and half-yearly onwards: **half-yearly reports by post**
Investors will receive half-yearly reports, updating them on the Service (sent each year in June for the period to 31 March and in December for the period to 30 September).

2020 onwards: **exit**
It is anticipated that the investments will be realised in approximately four to eight years from the date the underlying investments are made.

Claiming tax reliefs

Claiming income tax relief

Once Investors have received their EIS3 Forms, they should enter the amount invested on their tax return for the year they are entitled to claim the income tax relief. If Investors have already submitted their tax return, then the claim section of the EIS3 Form should be completed and sent to their tax office.

Please note that Investors will receive one EIS3 Form per Qualifying Company (i.e. Investors do not receive one form for their entire investment through the Service), and these are likely to arrive separately over time.

Claiming capital gains tax deferral/re-investment relief

The claim section of the EIS3 Form should be completed and sent to the Investor's tax office if the tax return detailing the gain to be deferred has previously been submitted.

Notes

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