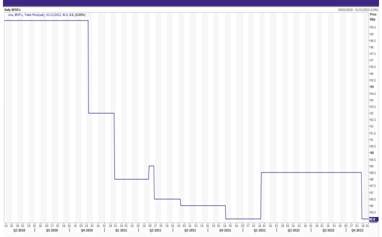
VCT Specialist: Technology



Source: Refinitiv

Market data

EPIC/TKR	**BFSP**
Price (p)	**85.0**
12m high (p)	88.5
12m low (p)	85.0
Shares (m)	19.4
Mkt cap (£m)	16.5
NAV (£m)	18.0
NAV/share (30 Sep'22, p)	89.13
Discount to NAV	4.6%
Country/Currency	UK/GBP
Market	LSE

Objective

Founded in 2019, Blackfinch Spring VCT will invest in technology and technology-enabled companies that are scaling up.

Manager contact

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Manager data

VCT assets	£17.6m
Offer size	£20m + £10m
EIS & VCT assets	£88.5m
Total FUM	£699m
Launch date	2019

Diary

Early bird ends	26 Jan'23
Tax year close	3 Apr'23
Offer closes	23 Aug'23

Analysts

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BLACKFINCH SPRING VCT

Blackfinch Investments Limited

Why invest

Positives	Issues
▶ **Strategy:** Exposure to a portfolio of scale-up, technology-enabled companies, with good management and large markets.	▶ **No dividend yet:** This VCT was only launched in 2019 and is targeting a first dividend in 2024.

Fund manager

Positives	Issues
▶ **Team:** There is a diverse range of experience in the team, with a clear strategy and well-designed processes.	▶ **Track record:** The Ventures team is still relatively new and has a limited track record.

Nuts & bolts

- **Offer:** To raise £20m, plus a £10m overallotment, with a closing date of 3 April 2023 for the 2022/23 tax year, and final close on 23 August 2023.
- **Diversification:** As of September 2022, the VCT had 17 active investments, but Blackfinch has an active deal pipeline, and this is improving steadily.
- **Buybacks:** At a 5% discount to NAV, subject to available reserves and board approval.

Fees

- **Fees:** Fees and expenses are subject to a 3.5% cap (excluding performance fee).
- **Performance fee:** 20%, subject to a 130p minimum.

Risks

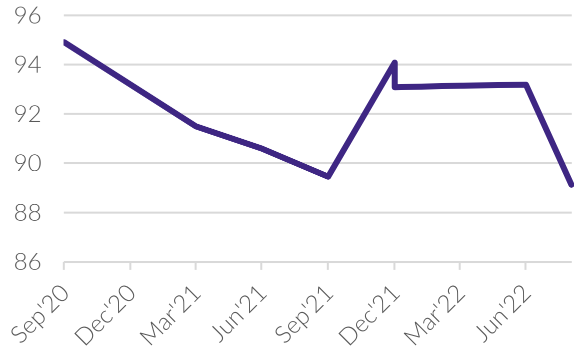
- **Target returns:** A target return of 2.5x for individual investments suggests that the strategy is high-risk investment.
- **Companies:** Early-stage, technology-enabled companies at the start of scale-up. There will be a spread of company returns, as the successful investments will do very well, but those that fail may do so completely.

Financial summary and valuation

Year-end Dec	2020	2021	1H'22
NAV/share (p)	94.08	93.08	93.19
Dividend paid (p)	n/a	n/a	n/a
Yield	0.0%	0.0%	0.0%
Return	n/a	-1.1%	0.1%

Source: Hardman & Co Research

Performance – NAV per share



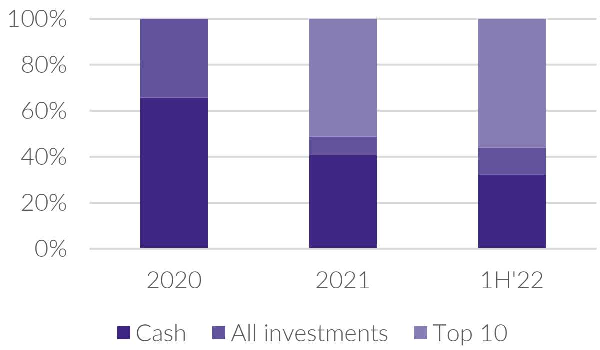
- As a new VCT, Blackfinch has experienced drag from initial expenses and cash drag
- Over past 12 months, NAV has decreased 0.4%

Dividends and yield

n/a

- No dividends paid yet

Asset allocation



- Cash drag has reduced over time
- Cash and top 10 investments are now comparable with other VCTs

Source: Company data, Hardman & Co Research

Factsheet

Blackfinch Spring VCT	
Product name	Blackfinch Spring VCT
Product manager	Blackfinch Investments Limited
Product advisor	n/a
Tax eligibility	VCT
Target return	2.5x on portfolio companies
Target income	5% dividend yield from FY'24, plus specials when appropriate
Type of product	Venture Capital Trust
Term	Evergreen
Sectors	Technology
Diversification:	
Number of companies	Currently 17
(Expected) Gini coefficient	n/a

Fees	Amount	Paid by
Initial fees:		
Initial fee	2.5%	VCT
Arrangement fee	3.5% (typical)	Investee company (depends on deal size)
External diligence fees		
Annual fees:		
Annual advisory fee	2.5% + VAT, discounted to 2% + VAT	VCT – see page 10 for more details
Adviser ongoing charge, Execution-only intermediary ongoing fee, Direct Investor ongoing fee	Up to 0.5%	
Directors' fees/monitoring fees	£12,000-£24,000	Investee company
Administration services	Higher of 0.3% of NAV and £60,000 plus VAT	VCT – see page 10 for more details
Exit fees:		
Performance fee	20%	Investor – aggregate returns over 130p

Advisor fee facilitation	Yes
Advisor fee amounts	As agreed with investor
Advance Assurance	Yes, for each investment, or opinion from a tax specialist
Reporting	Quarterly valuations and reports every six months as of 30 June and 31 December
Buybacks	At 5% discount to NAV
Fundraising:	
Minimum investment	£3,000
Current funds raised	£17.8m
Fundraising target	£20m, plus £10m overallotment
Closing date(s)	Early bird 26 January 2023, 3 April 2023 (tax year)

Source: Blackfinch, Hardman & Co Research

Fund aims

The Blackfinch Spring VCT will give investors exposure to a range of early-stage, technology-enabled investments. It is targeting a dividend yield of 5% from FY'24, with special dividends if realisations permit.

Summary of risk areas

Note: *There are generic risks from investing in EIS, VCTs or unquoted companies, in addition to the specific ones commented on below. Comments on relative risk refer to other VCT investments, and not to wider investments.*

Investments

Portfolio risk

Each investment will be providing risk capital to an unquoted, early-stage, technology-enabled company ready to scale up. Although diversification is improving and top holding concentration is in line with the sector, as a newer VCT, it still has fewer holdings than is the case for its peers. The intention is to get to new investments being less than 5% of NAV. This would improve diversification substantially.

The target average return of 2.5x capital suggests a high risk, and seems appropriate for the strategy.

Sourcing and external oversight

Although Blackfinch Ventures is a relatively new operation, much work has been done on establishing sourcing, with technology being used cleverly. The run rate for potential investments looks adequate, and has now been sustained for a while. A majority of the Investment Committee is external to Blackfinch, with one of the internal members being from outside the Ventures team, and has a variety of backgrounds.

Ongoing support and monitoring

Blackfinch dedicates part of its investment team to supporting and monitoring companies after investment. As well as taking observer rights, a Venture Partner is appointed to the board of each investee company. There is ongoing KPI monitoring too. While it is still somewhat early to assess how well this will work in practice, the signs are that investee companies believe they are getting the right support.

Exits

With only one successful exit from the EIS Portfolios so far, there is limited data for the team yet. As is normal for the sector, the primary focus is expected to be trade sales.

Manager

Team

The Blackfinch Ventures team is small but brings a range of experiences. The head of the team, Dr Reuben Wilcock, has very strong entrepreneurial experience. Although he is probably a key man, that risk has been much reduced in the past year, with additional recruitment, including a new Senior Manager. The rest of the team has significant venture capital investing and entrepreneurial experience. Blackfinch does have plans to grow the ventures business, and is recruiting as it scales up.

Track record

Although Blackfinch has been present in the EIS market for a number of years, the Ventures operation is relatively new and, consequently, has a limited track record. So far, it has had one successful exit (2.6x MoIC) and four failures, one of which was in the VCT. Investments in the VCT show an aggregate unrealised gain of 9%. Over the year to 30 June 2022, the VCT's NAV increased 2.9%. This compares with the Generalist VCT sector average of 3.9%; credible given the cash drag in this period.

VCT performance

	2020	2021	1H'22
NAV per share	94.08	93.08	93.19
Dividends	n/a	n/a	n/a
Total return		-1.1%	0.1%

Source: Hardman & Co Research

Regulation

Product

While some investments may get Advanced Assurance, Blackfinch obtains the opinion of a tax specialist on each investment. Until the VCT achieves 80% investment, its VCT status is provisional.

Manager

The manager of the fund is Blackfinch Investments Limited. It is FCA-registered (number 153860), with appropriate permissions. Submissions to Companies House appear to be up to date.

Risk analysis/commentary

Although Blackfinch is a new entrant into the VCT market, it has made significant progress since the report we published last year. Having invested substantially in its investment process, especially the technology side of it, it has continued to improve this over time. The short history makes it hard to assess how effective these processes are in practice, but the realised performance is good, and it has sourced investments that look to be of the types promised.

While many other VCTs are also making technology investments, the Spring VCT does not bring the baggage of historical strategies. This may give purer exposure, but that difference will diminish over time.

Investors need to be aware that they will be investing risk capital into early-stage technology companies. The use of Venture Partners means that a more specialist director is being added to investee companies, and this takes some of the pressure off the small scale of the existing Blackfinch team. This should be good for the investee companies, although it is, again, too early to assess properly.

Blackfinch co-invests alongside the VCT. Although the amounts are small relative to Blackfinch as a whole, this does add to the credibility of the processes being followed.

Individual investments in the VCT are likely to follow the usual venture capital pattern: those that succeed are likely to produce exceedingly good returns, while those that do not may return little. While the current number of investments is limited, Blackfinch has made a lot of progress since the first funds were received, and it seems to be on course to address this reasonably quickly. It is way too early to assess the VCT's ability to deliver its dividend target, but investors should look for continued, prompt investment of existing funds to get it on course.

VCT history

Unlike many VCTs, Blackfinch Spring VCT has a simple history. It was created in 2019, and was the first, brand-new VCT for several years. As such, it does not have any legacy investments made under old rules.

Investment process

Deeper dig into process

Blackfinch is looking to invest in technology-enabled businesses. It seeks companies that are focused on research and development and innovation, giving an emphasis on those where the technology is creating the value. The team looks for high growth with reasonable exit timescales and a large (greater than £1bn) market. There are two main criteria that Blackfinch uses:

- The company should be ready to scale up. This goes beyond simple evidence of product-market fit, with meaningful market traction being required, and annual revenues typically £0.5m or more. It means an ability to control new customer acquisition and being able to supply the metrics to demonstrate this. Companies should have shown an ability to meet previous milestones too.

- Blackfinch is also looking for a strong management team. Motivation, alignment of interests and a strong work ethic are all seen as important. The decision-making process involves repeated contact with company management, much of which is recorded to allow other members of the team to review as necessary.

Within technology, there are no sector preferences, with the only desire being to avoid companies in regulated industries. This means, for example, that there will not be many medtech investments. The intention is to give investors exposure to a spread of technology areas.

It has noted evolving preferences. Prior to 2020, it was more open to having some investments that were all or nothing in nature, while, since then, there has been more focus on companies with some downside protection. Nevertheless, Blackfinch still looks for potential for a 10x return, if all goes well.

It should be noted that the criteria are slightly different from the EIS Portfolios product. The VCT is generally looking to invest at a later stage of development, broadly around Series A stage, although there may be some overlap, and investment may be made from both in the same round. The target average return on individual investments of 2.5x is, appropriately, slightly lower than that of 3x for the EIS.

Blackfinch, as a whole, has moved towards ESG-compliant investments, and the Ventures team is no exception. It looks for investments to have clear ESG values, with a senior member of the team taking responsibility for assessing the credentials. While not as aggressive as impact funds, this should reassure investors in a market that appears to finally be moving in that direction.

The targeted stage of development is common among VCTs, particularly those with a technology focus. While the formal criteria are limited, the team gives a good understanding of what it is looking for in a potential investment.

Current portfolio

Hardman & Co does not assess any portfolio investments, but describes these to illustrate what investors may get exposure to.

As of the issue of the prospectus in September, the investment portfolio consists of 17 active companies, which are listed in *Appendix 3* of this note. This represents decent progress from the 13 companies at the time of last year's report, with some companies having received further follow-on investments.

Blackfinch Spring VCT portfolio concentration, September 2022

		Valuation (£000)	Prop'n. of NAV
Unlisted investments			
Largest holding	Cyclr	1,679	9.3%
Top 5		6,374	35.3%
Top 10		9,830	54.4%
Top 20		n/a	n/a
Number of active investments	17		
Total investments		12,774	70.7%
Cash/other current assets		5,282	29.3%
Net assets		18,056	4.8%

Source: Blackfinch, Hardman & Co Research

A significant challenge for a new VCT is that new funds raised can give significant cash drag until invested. Blackfinch has managed this well, taking it down to 29%, from 41% (*pro-forma*) at our previous review, despite raising more money. This is within the range that more longstanding VCTs exhibit, although it is towards the upper end of that, and we expect it to reduce further from here.

Similarly, the concentration, while at the upper end of that of its peers, is within the range seen elsewhere. Although we would expect diversification to improve with further investments, we are now seeing valuation movements that offset this. At its current rate of investment, the VCT should get to 30 investments late next year.

Looking across the sectors, Blackfinch has brought exposure to several technology areas.

All investments to date are Qualifying. While new funds have two years to reach the threshold of 80% in Qualifying investments, we can see that total investments already exceed the NAV as of the end of 2021. This suggests that the rate of deployment to date will not be an issue, and Blackfinch has confirmed that the VCT is well ahead of requirements.

Examples

Blackfinch suggests Cyclr and OnePulse (the latter is the trading name of Startpulsing Limited) as good examples of recent investments that illustrate its thesis. For both companies, the VCT invested alongside the EIS fund as Blackfinch's first investment. This allowed a larger cheque size than would be suitable for either alone.

Cyclr provides a plug-and-play software that allows other software companies to connect their products to third-party data platforms. The graphical, no-code solution saves the effort of building integrations from scratch. It caters for over 300 of the most popular platforms, which allows it to easily add additional integrations.

From its own experience, the Blackfinch team knows the challenges of developing and maintaining integrations to third-party platforms. With a wide range of connections and easy-to-implement solutions, Blackfinch believes that this could be a key provider of "picks and shovels" for many SaaS companies.

The OnePulse app provides the means for brands to get real-time feedback from a large community on ideas. With responses coming in minutes, companies can tailor products and campaigns quickly to make sure that they have happy and engaged customers. The latter get the satisfaction of supporting brands they value, but also get paid.

With over 40,000 active members and customers, including Coca-Cola, M&S and Channel 4, OnePulse has demonstrated consistent growth. The latest funding round is to allow it to move overseas, as it expands into 10 international territories.

Sourcing deals

The Blackfinch team is split, with part of the team having specific responsibility for sourcing potential investments. Assessments are made alongside candidates for the EIS Portfolios. The VCT will invest in a mixture of companies that are new to Blackfinch and follow-on investments into companies that have received EIS investment. Over time, Blackfinch expects that the VCT will have a more distinct dealflow. The aim is to make 8-10 VCT investments a year.

Although the team has a network that it uses for sourcing deals, Blackfinch also takes a very proactive approach to sourcing potential investments. In particular, it tracks accelerators and incubators, looking to approach interesting companies before they require funds, and hoping to get preferential access as a consequence. The Head of Ventures previously ran an accelerator, which has helped build relationships in this area.

Use is also made of a research platform, which gives some visibility across the whole market. This tool is used to generate companies that may be approached proactively. Blackfinch also invites applications through its website, *LinkedIn* and other direct approaches, but notes that these tend to be of lower quality.

While there is no intention to bring a geographical focus, Blackfinch is finding that its location in Gloucester means that it tends to be more attractive to those outside the South East. Nevertheless, it will invest across the whole country.

From a standing start in 2018, Blackfinch is assessing over 1,000 potential leads a year. It has noted that, as its networks become more established, the quality of the dealflow is improving too. It is also well-enough developed to start making follow-ons into the existing EIS and VCT companies, which should boost deal flow. While that total covers both the VCT and EIS products, at that rate of generation, it seems likely that Blackfinch can source enough investments for both.

Decision-making

Blackfinch has established a seven-stage investment process (including post-investment monitoring). Although the Ventures team is relatively new within Blackfinch, it is clear that significant time and investment have been spent on putting a process in place. Having subsequently evolved this in 2021, Blackfinch now has an established process. Underpinning this is a technology platform that is used to manage all the stages of investment.

Each stage is subject to a “pass”, “hold” or “progress” decision. Holds are for companies that may be of interest but need to make further progress before being suitable. Daily team meetings are held, at which the pipeline is discussed and decisions for the early stages made.

Prospects are subject to an initial filtering by a senior team member before being added to a long list. This filtering looks at whether the business has a tech focus, is not too early- or late-stage, meets ESG criteria and is VCT-/EIS-eligible.

Companies on the long list are assigned to a member of the pipeline team. The team gathers standard information, which is collected under standard headings on the system. The team member also has a half- to one-hour recorded video conference call with the company management.

Roughly half of the companies progress onto a shortlist, often after obtaining more information, as required. Companies on this list get a pitch session.

The pitch seems to be at the heart of the Blackfinch process. Founders are instructed to give a 15-minute pitch, which will be followed by a deep-dive discussion. The sessions are scheduled for 3pm to allow them to run on as long as necessary – usually it takes more than three hours. When Blackfinch started, the whole investment team participated, but this has evolved to multiple people, with at least two senior team members. With Blackfinch conducting around 120 of these a year, this part of the process represents a significant commitment of resources. The sessions are recorded to allow review by the team or the Investment Committee.

They are followed by further investigation of relevant metrics, company performance and financials.

Investment Committee

The Investment Committee then has its first involvement. This stage is managed in an interesting way. The investment team presents a range of deals to the Committee in which it is happy to invest but that are of a greater amount than can be invested in. The input from the Committee forces the team to actively select, with the aim of getting to the very best deals. Selection is done via a blind ranking of companies.

When issuing term sheets, Blackfinch usually uses standard documentation, which it has developed internally. The exception is when there are earlier investors who may not like existing terms being changed. The team notes that this documentation is being improved upon on an ongoing basis.

The due diligence stage covers the usual areas, including technical, team, financial, tax, market and competitor analysis. Blackfinch notes that this process has got deeper over time, with increased reference calls. This includes building relationships with other professional investors in the company who can give further insight, particularly when they have been invested for some time. A tax specialist is used to review VCT/EIS eligibility in case anything has changed or been missed in Advance Assurance.

The technical diligence is increasingly happening remotely, using a technical expert from Blackfinch's network. The investment team also speaks to the employees of the company. Where there are co-investors, they are usually engaged with at this stage.

A key part of the Blackfinch approach is the use of Venture Partners. These are highly experienced people, with significant sector, technical or business experience. Initially, Blackfinch looked to bring them in after the investment was made, but it is now involving them at an earlier stage, so that they can assist in the diligence process. Final agreement from the Investment Committee is then required, before progressing to the next stage.

Full Form includes any final negotiations, as well as signing papers and making the investment. Blackfinch estimates that it can go through the process in four to eight weeks, but this depends on the company and the diligence required.

Any follow-ons will undertake a slightly different process. The previous diligence and ongoing contact reduce the depth of investigation that is required. Depending on the length of time, some items, such as technology or disclosures, may be checked again. The Investment Committee paper tends to be much shorter than for brand-new investments, although it may reference other material if required.

Overall, the decision-making process seems well-structured, with an unusual systematic use of technology, and it more than satisfies best practices within the sector. The Venture Partner addition is not unique but does complement more standard processes.

Typical investments

Generally, it wishes to be leading rounds and have control over the timetable. Blackfinch also makes a small, direct co-investment into each investee company.

With the current size of the VCT, investments typically will be up to £1.5m; the lower size of existing investments reflected the size at the time. There is an intention that those that are making satisfactory progress will get follow-ons in due course to raise their weight. The intention is to grow the initial investment to £1m-£2m, as the VCT grows its capacity, with new investments making up less than 5% of the portfolio. It can be seen that this will take NAV to grow to more than £20m, and it is well on course to achieve that.

While the VCT is aimed at a later stage of company development than the EIS Portfolios product, there is an overlap, and both may look to invest in the same round. There is an allocation policy in place that balances the priorities of both. Generally, allocations will be *pro-rata* to undeployed funds, although there are exceptions for pre-existing investments and short-term timing requirements. Blackfinch expects this to become rarer over time.

Blackfinch has developed a standard term sheet for investments. The terms are largely normal for the sector, with one exception: founders are expected to re-vest their shares over the four years after investment is received. This is an interesting way of reaffirming their commitment to the company.

Exits

Exits are expected to be via the usual routes, with trade sales dominating. Blackfinch guides investors to expect two to seven years for realisations.

Governance and monitoring of investments

VCT

Advance Assurance may be sought from HMRC on investments prior to completion. All investments will be reviewed by a tax specialist, regardless of whether Advanced Assurance has been received or not. Currently, it uses its panel of lawyers for this advice.

All custody and administration is handled internally by Blackfinch.

The NAV will be calculated quarterly, using IPEV guidelines, which is more frequent than for some other VCTs. A new policy has been brought in. Under this, companies will usually be held at cost for six months after investment, unless there is another round. After three months, the valuation will be based on metric multiples from comparable companies. These are audited by BDO. The usual listing requirements are an Interim Report as of 30 June each year and an Annual Report as of 31 December.

Investments

As indicated above, Blackfinch will find a Venture Partner to take a board position with the company. It is expected that the Venture Partner will support the company through mentoring and guidance. The choice is made through working out where the company's gaps are – so directors can add value to the investee company. In practice, some have fitted so well that they have become further involved with the company. Although the directors are clearly Blackfinch's representatives, Blackfinch does not delegate its rights to them.

Blackfinch also takes information and observer rights. It expects to receive monthly financial figures, which are compared against those forecast in the company's model. If there is significant deviation, then there will be follow-up with the company. A member of the team attends all the board meetings, usually remotely. These are expected to be the main route of communication, although there is also some *ad hoc* contact and direct support.

Blackfinch aspires to be the first port of call for help. It has found that some investments have been sceptical on this at outset, but seem to have been converted, which suggests that the approach is working. It has also become more proactive about addressing problems, usually drawing upon its network for additional support when required.

An in-house, cloud-based dashboard system has been developed to support monitoring. At the time of investment, 5-10 KPIs are contractually agreed with each company, and these will be monitored at least monthly, alongside the financial information.

Blackfinch has also partnered with Amazon Web Services, and its investee companies can get up to $100k of credits for the service.

Given the areas in which Blackfinch is investing, it seems likely that many investments will require follow-on funding. There is the intention to do some within the VCT, where good progress has been made and the investment criteria are still satisfied.

ESG

Since our first product review for the, then new, Ventures team a couple of years ago, Blackfinch has strongly positioned itself within an ESG framework. To a large extent, this was formalising what it was already doing. The Ventures team has built in an ESG aspect almost from inception.

The Ventures team works on the basis that it wants everything to make a positive difference, although that could be an economic benefit. Several companies have been rejected at later stages in the investment process, because they have not been able to live up to appropriate ESG criteria. The team works actively with companies to make sure that they have the right values.

While we would characterise this as being closer to compliant than impact, Blackfinch was relatively early in establishing a constructive policy.

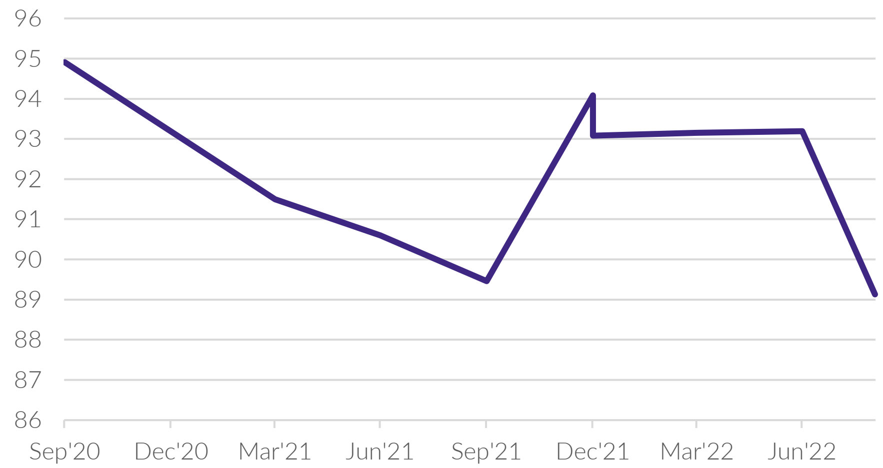
Track record

This is still a relatively new offering by Blackfinch, with the Ventures team having started in 2018. The latter has invested over £35m in its EIS Portfolios product, as well as £18m for the VCT. We note that the growth in the former product should mean increased opportunities for the VCT to do more follow-on investments. Blackfinch has raised significant funds for other EIS schemes, but these were different in nature from the current offerings. Consequently, the track record is still somewhat limited. Hardman & Co has been supplied with data as of September 2022.

So far, the Ventures team has had five exits, of which one was successful. This is typical in a venture capital portfolio where, unfortunately, the failures usually arrive before the successes. Of these, one liquidation (Movebubble) was in the VCT. The successful exit was for a 2.6x multiple. One of the liquidations returned a small amount.

As *Appendix 3* shows, within the VCT, there are eight investments showing unrealised uplifts with no other writedowns, for a 9% overall portfolio movement. The EIS portfolio is a little more mature, and is showing a 19% uplift on £30m of investments.

Spring VCT published NAV per share (p)



Source: Hardman & Co Research

The NAV performance to date is also limited. The first year of the VCT was affected by setup costs. Since then, it has generated some performance: the NAV per share increased 3% in the year to June 2022. While this was all from unrealised movements, it was despite a significant cash drag and an environment in 2022 that has not been supportive for valuations. Unfortunately, the falls in the multiples of comparable companies in 3Q led to it giving back most of those gains, despite continued growth in the portfolio. Despite this, there are initial signs that Blackfinch has invested sensibly and that the portfolio is making progress.

VCT financials

Blackfinch Spring VCT financial results			
£m	FY'20 (16 months)	2021	1H'22
Income statement			
Realised gains/losses	0	-0.549	
Unrealised gains/losses	0	1.172	0.443
Investment income			
Manager fees	-0.068	-0.243	-0.195
Other expenses	-0.203	-0.283	-0.152
Net profit	-0.271	0.097	0.095
EPS (p)	-7.50	1.00	0.58
Balance sheet			
Investments	1.26	6.96	11.87
Cash	2,47	4.97	5.85
NAV	3,68	11.76	17.56
NAV per share (p)	94.08	93.08	93.19
Number of shares	3,911,937	10,809,654	18,844,394

Source: Hardman & Co Research

We note that another 514,000 shares have been issued since June. Given that the VCT is relatively immature, there is little comment to be made. Blackfinch has made steady progress, with cash reducing from 67% of NAV at the end of 2020 to 29% in the most recent figures.

Uninvested cash will be held overnight at banks and invested in money markets. Clearly, there is limited scope to add to returns for the foreseeable future, without investing in risky assets.

Dividends and buybacks

No dividends have been paid to date, and the short history means that no distributable reserves have been accumulated yet. The target is for a 5% dividend yield from FY'24. It is way too early to make any assessment on the likelihood of meeting that target. We do note that rapid asset growth may lead to cash inflows diluting the early investments. Steady inflows could make the dividend target easier to achieve, and Blackfinch has probably been closer to the latter.

The stated buyback policy is at a 5% discount to NAV. This will also depend on available reserves and board approval.

Fees

The fees are set out in the Factsheet on page 3, but have some items that may be clearer with a little explanation.

Initial fees

The initial fee is net of adviser charges, and less any applicable discounts. The latter may include the early-bird discount or the loyalty discount. Execution-only clients may get an uplift in the number of shares of up to 3% if there is no payment to the intermediary.

Annual fees

The effective annual advisory fee is 2% + VAT, as 0.5% p.a. is rebated to investors. The investor can use the rebate to pay the ongoing fees or direct investor ongoing premiums, with any money left over being used to buy the investor more shares in the VCT. This is a technical adjustment, as payments to advisers can only be made by the manager, and not the VCT.

Where the VCT is following on an EIS investment, the directors' and monitoring fees will usually be payable only once. Blackfinch can envisage circumstances, typically with large investments, where two directors could be appointed.

Performance fee

This is payable at 20% in any given year, subject to exceeding the high watermark. It is defined as the higher of 130p per share or the highest performance value per share in any preceding accounting period. It is payable on the performance value per share, which is defined as the total of:

- NAV;
- all performance fees previously paid or accrued; and
- cumulative dividends paid prior to the reference date, including those that are ex-dividend.

These figures are all adjusted for the number of shares in issue as of the relevant dates. The 130p threshold means that earlier investors are likely to get a benefit relative to later investors.

Expenses

The total expenses of the offer are estimated at 5.5% of the gross proceeds, including the initial fee.

The VCT will incur the usual range of third-party costs, including audit fees, directors' fees and listing costs. Blackfinch has agreed to cap the running costs, plus the trail commissions payable at 3.5% of NAV, with it bearing the balance above that. The cap will likely be effective until the VCT is noticeably larger than it is now, although Blackfinch notes that it is not far off now. This rate would put the Spring VCT towards the upper end of the generalist sector.

Current offer

Blackfinch aims to raise £20m under the current offer, with a £10m overallotment. There are early-bird discounts of 1.5% until 3pm on 26 January 2023, and then 1% until 3 April 2023, which is the close for the 2022/23 tax year. The offer runs until 23 October 2023. The expectation is that there will be closes with allotments at the end of each of those discount periods and first allotment on 30 November 2022.

The minimum subscription is £3,000. Existing Blackfinch investors will get a 1% loyalty discount applied to the offer price.

Investment manager

Blackfinch Investments Limited started over 25 years ago as Neville James Limited – a market maker in the traded endowment market. For most of the past decade, it has focused on the tax-enhanced market, with a range of EIS, BR and property-related offerings. Having been based in Malvern for many years, it recently moved to Gloucester.

Prior to 2017, Blackfinch's EIS offerings were focused on areas that are no longer eligible. Blackfinch Ventures is a relatively new operation, looking to invest in companies that satisfy the risk-to-capital criteria. The Ventures team highlights the benefits from being part of a larger, well-established group, with good legal and IT support available.

The Investment Committee consists of the CEO, another internal member and three independent members, indicated below. The members have a wide range of experience, are mostly relatively new to Blackfinch and bring independence to their oversight.

In addition to those listed below, the Ventures team includes six other members, as well as 17 active Venture Partners (increased from 11 a year ago), with a pool of 88. Although the team is not large, Blackfinch believes the size is appropriate for the next couple of years of growth.

VCT governance and board

With its short history, Spring VCT has not yet achieved the 80% target for Qualifying Investments. It currently has provisional approval as a VCT, which will be made permanent when that target is reached.

Peter Hewitt – Chairman

Has an extensive career as an entrepreneur and director. Having started with his own estate agency, he led Wigmore Group from near insolvency to an exit. He has been on the boards of 13 listed companies, including three other VCTs. He is currently a Senior Advisor at Brennan & Partners, and founder/Co-Chairman of Universal Defence and Security Solutions.

Kate Jones – Independent Director

Having started at M&G on LDI mandates, spent five years at Barclays in senior roles in the same area. In 2009, she joined BlackRock, before becoming Head of Investment Services at Schroders through to 2014. Since then, she has taken consultancy roles, as well as being a Director of the Pension Protection Fund and Non-Executive Chair of JPMorgan Funds.

Dr Reuben Wilcock – Head of Ventures, Blackfinch

Having gained a PhD in electronics, has been a serial entrepreneur. He co-founded Dolphin IP (fabless IP core chip design), Bar Analytics (IoT for liquid dispense monitoring) and MyJoulo (smart energy), and he founded Custom Idea (geotagging for Nikon cameras) and Future Worlds (University of Southampton accelerator).

Investment team

Dr Reuben Wilcock – Head of Ventures

See *above*.

Richard Harley – Senior Ventures Manager
Was a partner at Somecrazy, and cofounded Scholarpack, an edtech data and data analytics platform, in 2011. He led this to an exit in 2018. He started angel investing in 2019, and joined Blackfinch in 2022.

Nic Pillow – Senior Ventures Manager
Has a technology background, having started as a software developer with Aethos Communication Systems, followed by roles at Logica, Portal Software and Apertio. In 2008, he became head of Product Management for a global team at Nokia. He co-founded and was CEO for three years at Rhizome Live, a SaaS company, before joining Blackfinch in 2019.

Richard Cook – Founder and CEO
Had short spells in banking roles at Merrill Lynch and Bank of New York, before founding Blackfinch in 2004. He has been CEO since 2009, and chairs the Ventures Investment Committee.

Dr Dan Appleby – Senior Analyst, Investment Committee
Having gained a PhD in nanoelectronics, spent 17 months as an engineer at Intel. In 2016, he moved to asset management at Fidelity, working on various technical and quant projects. He has led research and analysis at Blackfinch since 2018.

Paul Chivers – Investment Committee
Has had an extensive career in finance, focusing on energy and commodities. He has held roles up to senior levels at Crédit Agricole Indosuez, Deutsche Bank, BNP Paribas and Mercuria Energy Trading. He is currently on the board of Exeter Science Park.

Joe Hartman – Investment Committee, Venture Partner
Cofounded 118MOB, which exited in 2005. He worked in M&A at BDO UK, before joining Octopus Investments, where he had various investment roles. After six years, he left to cofound Arenaroom, followed by Gray Consultancy in 2020.

Charlie Cannell – Investment Committee, Venture Partner
Started in advertising in 1997, focused on the internet. Since then, he has worked for various agencies, including LBi, AMV and Brunswick, as well as three years with BT. He co-founded Kadence in 2013 and spent seven years as Digital Director at Inflexion Private Equity.

Appendix 1 – due diligence summary

Summary of core due diligence questions		
Manager		**Validated by**
Manager	Blackfinch Investments Limited	Hardman & Co
Founded	1992	Hardman & Co
Type	Private limited company	Hardman & Co
Ownership	Blackfinch Group Limited	Hardman & Co
FCA registration	Yes – 153860	Hardman & Co
Solvency	Confirmed	Hardman & Co
PI arrangements	Yes	Hardman & Co
VCT	**Blackfinch Spring VCT**	**Validated by**
Founded	2019	Hardman & Co
Type	Public Limited Company	Hardman & Co
Year-end	31 December	Hardman & Co
Last accounts	Interims – 30 June 2022	Hardman & Co
Custodian		
Company	Blackfinch Investment Limited	Prospectus
FCA registration	Yes – 153860	Hardman & Co

Source: Hardman & Co Research

Blackfinch Investments Limited was started as Neville James Limited. It has had two other name changes – AVD Wealth Limited (2010) and Blackfinch Investment Solutions (2013) – before taking its current name in 2015.

The manager of the fund is Blackfinch Investments Limited. It is FCA-registered, with appropriate permissions for both investment management and custodian operations. The latest accounts (31 December 2021) had total equity of £2.6m, which is greatly in excess of its capital requirement.

The ultimate parent of Blackfinch Investments Limited is BF Inter Limited. This is majority-owned by Richard Cook, with Richard Simmonds also holding a significant interest. There are another three smaller, related shareholdings.

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
Company investment	£750,000
Return	Constant each year

Source: Hardman & Co Research

Calculations					
		Hardman & Co standard			Target
Gross return		**-50%**	**0%**	**50%**	**150%**
Amount (pre-tax relief)		**£100,000**	**£100,000**	**£100,000**	**£100,000**
Initial fees	**Rate**				
Initial fee	2.50%	£2,500	£2,500	£2,500	£2,500
Transaction fee (paid by company)	3%-5%	£3,000	£3,000	£3,000	£3,000
Total		**£5,500**	**£5,500**	**£5,500**	**£5,500**
Net investment within VCT		**£97,500**	**£97,500**	**£97,500**	**£97,500**
Annual fees					
Advisory and administration fees	2.3% + VAT	£10,764	£13,455	£16,146	£21,528
Other corporate costs (capped – not to Blackfinch)	1.2%	£5,616	£7,020	£8,424	£11,232
Annual fees – from company					
Director/monitoring fee	£12,000 per company	£7,800	£7,800	£7,800	£7,800
Gross fund after investment return and expenses		£32,370	£77,025	£121,680	£210,990
Exit fees					
Performance	20%	£0	£0	£0	£16,848
Net amount to investor		£32,370	£77,025	£121,680	£194,142
Gain (pre-tax relief)		-£67,630	-£22,975	£21,680	£94,142
Gain (post-tax relief)		-£37,630	£7,025	£51,680	£124,142
Total fees to manager		£24,064	£26,755	£29,446	£51,676

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

Appendix 3 – portfolio

Blackfinch Spring VCT portfolio, September 2022				
£000	Cost	Valuation	% of NAV	Uplift
Unlisted investments				
Cyclr Systems	1,300	1,679	9.3%	29%
Startpulsing	1,200	1,553	8.6%	29%
Transreport	770	1,113	6.2%	45%
Brooklyn Supply Chain Solutions	900	1,029	5.7%	14%
Staffcircle	1,000	1,000	5.5%	0%
Client Share	700	798	4.4%	14%
Illuma Technology	700	700	3.9%	0%
Watchmycompetitor.com	700	700	3.9%	0%
Spotless Water	459	637	3.5%	39%
Cultureshift Communications	500	622	3.4%	24%
Placed Recruitment	600	600	3.3%	0%
Currensea	600	600	3.3%	0%
Kokoon	500	500	2.8%	0%
Odore	430	430	2.4%	0%
Measure Protocol	400	400	2.2%	0%
Edozo	200	214	1.2%	7%
Tended	200	200	1.1%	0%
Movebubble	550	0	0.0%	-100%
Total investments	**11,709**	**12,774**	**70.7%**	**9%**
Cash		5,282	29.3%	
NAV	**17,396**	**18,056**		**4%**

Source: Blackfinch, Hardman & Co Research

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