Blackfinch Spring VCT

Tax-Advantaged Investments

VCT Review

OCTOBER 2019

Contents

Overview

Blackfinch Investments Limited ("Blackfinch" or "the Manager") is looking to raise up to £20 million, with an overallotment facility of £10 million, through the issue of new ordinary shares for Blackfinch Spring VCT plc ("Blackfinch Spring" or "the VCT") for the tax year 2019/2020 and 2020/2021. This is a new VCT, incorporated on 20th August 2019, with the current offer opening on 11th November 2019.

Investment Details:

Score:	84
Offer Type	Single fund (stand-alone)
VCT Strategy	Generalist
VCT AUM (Pre-Offer)	£0 Million
Manager AUM	£322 Million
VCT Risk Level	Medium-High

Investment:

Minimum subscription	£3,000
Maximum qualifying subscription per tax year	£200,000
Early bird discount	1.5% to end of January 2020

Closing Date:

19/20 Tax Year: 5pm 2 April 2020; 20/21 Tax Year: 5pm 31 August 2020. Cleared funds and documents must be received by 5pm on the relevant closing date

This document verifies that *Blackfinch Spring VCT* has successfully completed our independent due diligence process, having passed through all stages of the governance process in the run-up to the report's publication on the date listed below. It has therefore been awarded the MJ Hudson Cornerstone Trustmark.

Risk Warning for VCT Schemes

Individuals should always read and bear in mind the risk warning notices that are included within providers' investment offer literature / documentation, including prospectuses, information memorandums, securities notes, brochures and other related marketing literature. Whilst the following list is not exhaustive, some of the main risks to be aware of include:

- Investments are in small, unquoted companies and should be considered as high risk;
- An investment in a VCTs should be viewed as a long-term investment and should only be considered if you can afford to tie up capital for long periods;
- Legislation, along with the nature and level of tax reliefs is subject to change. There can be no certainty that investments will be eligible or remain eligible for VCT Relief;
- Historic investment performance may not be a guide to future performance, and any given investment may fail completely causing you to lose the full amount invested;
- Managers of VCTs will have inherent conflicts of interest as a result of, *inter alia*, existence of legacy holdings, investments in other funds managed by the same manager, the potential to earn performance related fees and the existence of different schemes with identical or very similar mandates;
- VCT investments should only be undertaken by sophisticated investors who understand, and have given careful consideration to, the underlying investment strategy and associated risks. For help in determining potential investment suitability, professional advice should be sought;
- There can be no certainty that VCTs will continue to pay out their current level of income or indeed any income;
- Investors will usually not be eligible for compensation if things go wrong;
- Although VCTs are listed there is generally little or no secondary market for the shares and investors are likely to be reliant on share buybacks to get their money back; and
- In order to retain the tax benefits, shares need to be held for a minimum of five years. Investors who are not able to commit to a five-year investment could consider investing through the secondary market which generally trades at a discount.

Executive Summary

MANAGER:

Blackfinch Investment Limited are an investment manager based in Gloucester. After parting ways with their Austrian parent company in 2016, it has increasingly sought to expand its footprint through the provision of products in the tax-advantaged market, including the current product under review, Blackfinch's first VCT offering. Although no longer eligible for tax reliefs because of recent rule changes, it has experience in managing a media EIS, and raised £25.6m into an asset-backed EIS (split across leisure, construction, storage and shipping sectors). In 2018, the Manager launched a non-tax-advantaged Service, which is now established and has raised £31.8 million. Blackfinch currently have an AUM of £322 million, and has ambitious growth targets, most notably to increase its AUM to levels in excess of £1 billion by 2020.

PRODUCT:

The Blackfinch Spring VCT, which was only recently incorporated in August 2019, seeks to offer investors a diverse portfolio of VCT qualifying investments. The strategy will focus on what Blackfinch have defined as "tech-enabled" companies, and as such all potential investee companies are expected to have a technology focus. However, the VCT is expected to provide diversification across numerous different sectors in which these companies operate. The VCT will be run by the same team charged with managing the Blackfinch Ventures EIS, and under a very similar mandate. However, investments in the VCT will likely be made in later stage companies, preferably at Series A funding rounds with a target average allocation of £1 million. As such, the Ventures EIS is expected to provide a natural pipeline of investments, in addition to this we have been provided with an existing pipeline providing the opportunity for early deployment. As this is a new VCT, unlike most other VCTs on offer, it does not have an existing portfolio and dividend payments are not expected to start until at least 2024.

SUMMARY OPINION:

Blackfinch has been, until recently, known primarily for their media, asset-backed, and BR products in the tax-advantaged space. However, since the Patient Capital Review, and in common with a number of managers who had offered products with strategies no longer allowed under the new rules, Blackfinch has sought to pivot into the venture capital space. The Manager has spent the last few years developing the business to set it up for rapid growth and thus providing a good support network for this new VCT. Whilst the recent departure of David Craven, who was employed to build out the Ventures team, is a setback, he has been rapidly replaced by Reuben Wilcock. Wilcock has a demonstrable record of venture investing, having founded four companies and sold one, was previously a member of the University of Southampton's IP Panel for over five years, and also founded and ran the Future World's accelerator. He has sought to build out the team through a number of key hires and, has introduced a streamlined and focused investment process.

Investments will be made into companies which have demonstrated commerciality through revenue generation, and are expected to have received previous funding, mitigating many of the risks usually associated with early stage investments. Further, investee companies will benefit from what Blackfinch define as "UltraNEDs", individuals from Reuben Wilcock's wider network. These individuals will be placed on the board of investee companies and will provide expert advice in specific areas and assist with the growth and development of investee companies. This product could be considered by investors who might feel that the need to diversify away from some of the more established VCTs; however, it should be noted that the level of diversification within the Fund will be limited until the offering is fully invested, and that one of the key benefits of VCTs, namely tax-free dividends, will possibly not be available for four years. Further, the investment team has been working together for less than a year, and thus has a very limited track record. As such, whether the investment team can deliver on its objectives will only become clear in the years and months to come and therefore cautious investors might wish to wait until the strategy is better established.

Positives

AT THE MANAGER LEVEL:

- The Manager has made several new hires across the company, particularly on the business development side of the business, which bodes well both for fundraising capacity as well as investor servicing and communications;
- Senior management have a substantial ownership stake in the business, which aligns them somewhat with the success of their main products;
- The Manager recognises the need to grow the infrastructure to keep up with increases in headcount and products offered, and has already undertaken steps to help enable the Manager to grow without incident in terms of this necessary support in realising the Manager's ambitious growth plans;
- The independent members who sit on the investment committee and the restructuring of the governance structure to build in more checks, for example, between the compliance function and the investment function, is a welcome development;
- Following the launch of the Blackfinch Spring VCT, the Manager will be able to offer products across the EIS, BR and VCT, thus diversifying its product offering across the tax-advantages space;
- The Manager has identified three new products which they intend to launch over coming years that should help the Manager diversify away from a reliance on simply the tax-advantaged space; however, we understand that the launch of these products has been delayed as Blackfinch focuses on its tax-advantaged offering.

AT THE PRODUCT LEVEL:

- Reuben Wilcock's venture team has recently been bolstered with the recent addition of Nic Pillow in August 2019; both Reuben and Nic are serial entrepreneurs within the tech-enabled space. Reuben Wilcock, in particular, has had many successful entrepreneurial endeavours of his own;
- The team structure and investment process has been well-thought out, and demonstrated to MJ Hudson Allenbridge; however, as a newly formed team, with a very limited track record, we are unable to comment on its effectiveness as of yet;
- The Manager has established clear criteria on portfolio construction, specifically with regard to stage of development and targeted sectors. Despite this being a new product, this should help investors have a clearer view of what a potential portfolio might look like;
- The opportunity for follow-on co-investment with the managers Ventures EIS portfolio not only means that the Manager will have increased visibility with regard to potential deal flow, but it will also be familiar with these investee companies;
- Further, as the VCT will invest alongside the Ventures EIS, the Manager will control a larger stake in each investee company, enabling it to exert great influence over investee companies, and where possible it will seek to influence selection of the Board;

- The shorter investment process in comparison to other VCTs of this type allows for quicker deployment of capital, mitigating the risk of cash drag; although it could also be argued that it will increase the risk that some risks will be overlooked;
- Portfolio companies will benefit from Reuben Wilcock's wider network of industry experts through the appointment of an "UltraNED" to the Board; these individuals will provide expert advice in order to assist investee companies in meeting their growth objectives;
- The VCT will seek to invest in later stage investments, preferably at Series A, and investee companies are expected to have demonstrated commerciality through revenue generation. This will help to mitigate, although not completely eliminate, the risks associated with early stage investments;
- In order to align the managements interest with that of the investors, founders will be required to re-vest their shares, which is expected to incentivise founders to remain with the company for up to four years;
- Performance fees are subject to a hurdle rate of 1.3x investment, which is above many other VCTs and, subject to a high water mark.

Issues to consider

AT THE MANAGER LEVEL:

- The Manager's Assets Under Management fell sharply on a one-off basis as it has moved away from Traded Endowment Policy funds, but has risen impressively since the Manager renewed attempts to establish itself in the tax-advantaged space;
- Blackfinch Investments saw a sharp decline in profits for the 2018 financial year; however, we understand that the rise in costs was driven by re-investment in the business to support growth, and the business remains well capitalised. Further, the wider Blackfinch group is performing well financially;
- While the Manager's growth in tax-advantaged products has been impressive over the last few years, there has been a lot of change in a short space of time: a recent office move from Malvern, a proposal to purchase an additional adjoining space at their new location, as well as some turnover in staff both leaving as well as several new hires. This could pose a challenge in terms of integration into the Manager's teams and wider culture;
- Blackfinch's growth targets are ambitious, they want to increase AUM from £322 million to £1 billion by 2020, which could be considered challenging, and a distraction from ensuring ongoing stability of the business;
- Blackfinch has previously stated an intention to move its asset base away from tax-advantaged investments, however the proportion of assets within its BR products have increased, and these products now account for almost half of Blackfinch's AUM, which does give rise to a risk of legislative changes impacting on those products.

AT THE PRODUCT LEVEL:

- The Investment Team's core has only recently been assembled, and David Craven, who joined Blackfinch in order to set up the Ventures team, recently departed, as such it will likely take some time to work together as seamlessly as a more established team might;
- Due to only having recently launched, and with a very limited track record for the Blackfinch Ventures EIS, it is not yet possible to fully assess the strategy for the product, beyond consulting the track records of Reuben Wilcock, and other members of the team;
- As a new VCT, it does not have an existing portfolio and does not expect to pay dividends until 2024 (i.e. for four years out of the 5-year minimum holding period required to benefit from tax reliefs); however, thereafter it expects to pay a dividend of 5% of NAV in line with the market;
- The VCT would be able to provide follow-on funding into other Blackfinch products; while this may enable the Manager to invest in a broader range of transactions and of a larger scale than it might have otherwise, it can also present conflicts of interest which will need to be managed carefully;
- The portfolio has no formal limitations on sector exposure, either via the number of investments, or the proportion of the portfolio that they make up, and in the earlier stages of the VCT, investors benefit from a lower level of diversification than many of its peers; however, this will naturally improve as the VCT grows.

Manager Quality

Manager Profile

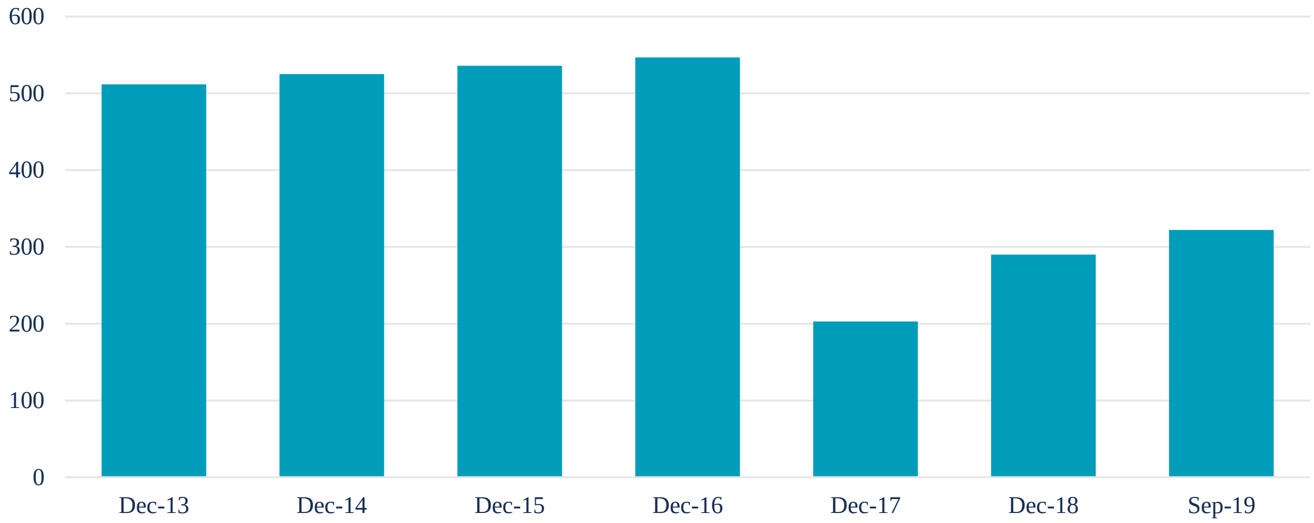
Blackfinch Investments Limited ("Blackfinch") was founded by Richard Cook in 2013, being known as Neville James up to that date. Historically, Neville James belonged to a UK Group ("The Blackfinch Group" or "The Group") which specialised in Traded Endowment Policies ("TEPs") and which was founded in 2004 by Richard Simmonds, as Managing Director, and Richard Cook who joined shortly after as a partner and COO. The company grew as an asset administrator and broker over this period and, after the credit crisis of 2008, the company evolved to provide UK-based private portfolios for high net worth individuals. Currently the Manager offers SEIS, EIS, and Business Relief ("BR") products, along with this new VCT in review. Approximately 16% of the assets of the Manager are currently in EIS and SEIS products, and the growth in fundraising, specifically for the Manager's BR products, has been impressive.

The Management Team is made up of Richard Cook, as the group's CEO, and Richard Simmonds as CIO, although Blackfinch points out that Jerry Price, the Chief Distribution Officer has previously been involved in key management decisions when necessary. The Manager has a total headcount of 84 employees and is headquartered in Gloucester (after moving across from Malvern), it has no other offices. Over the last year the Manager has been making a number of new hires across the company. They have stated that this has been done in order to build the company for scale, adding sufficient layers of senior management, director level heads, and managers across teams. Additionally, it has increased the headcount of the sales team from 12 to 20 people and made significant growth in a number of areas including: Ventures, Blackfinch Wealth, Blackfinch Tech, and Blackfinch Investments. This has all been put in place to help the company achieve its short-term growth plans, previously Blackfinch have stated that it wants to increase firm AUM to £1 billion by 2020.

The Group is primarily owned by the two corporate directors and their families: Richard Cook with 53%, Richard Simmonds with 24.5%, Ingeborg Heins with 18.5%, Baldenhall Consulting with 2%, and Stone Barn Consulting Limited (owned by Richard Cook) own an additional 2% each.

Blackfinch's assets under management saw a sharp and immediate drop three years ago. The Manager has stated this is principally down to part of a transition agreement that saw the current Directors take over the business from the previous Austrian shareholders at the end of 2016. The agreement saw the cessation of Blackfinch's management of a majority of institutional Traded Endowment Policy funds which contributed greatly to their AUM figures. Blackfinch has therefore concentrated its efforts and resources on the creation and management of its tax-advantaged product range, servicing the needs of UK investors via the IFA market. Blackfinch's management believes this focus will give it the capacity to further grow this core offering into the wider IFA market. As of 19th September 2019, Blackfinch had an AUM of £322 million, having increased levels by over £100 million since December 2017, which whilst impressive, is still well short of the rate of growth needed to reach their stated target.

CHART 1: FIRM AUM AS AT AUGUST 2019 (£ MILLIONS)



Source: Blackfinch; AdvantageIQ

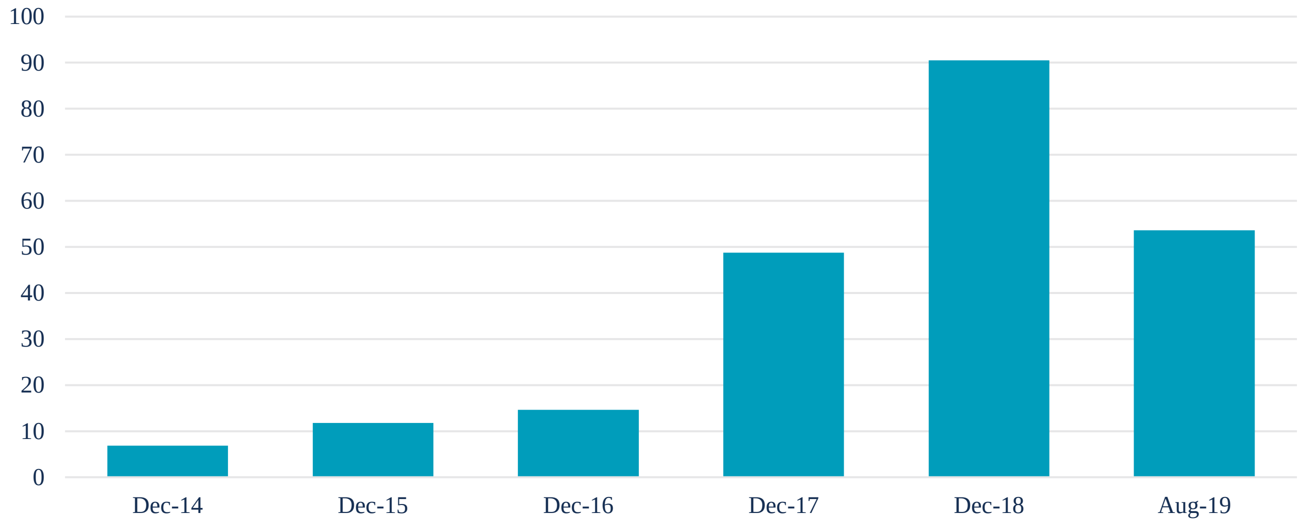
The Manager has previously stated its intention to diversify away from tax-advantaged products, as outlined in the table below. However, we understand that the planned launch of these products has been postponed, as it focuses on establishing its existing product base, and specifically its ventures business. While this is a prudent approach, until such time as these products are introduced, achieving AUM levels near £1 billion appears unlikely by 2020.

TABLE 1: FUTURE PRODUCT LAUNCHES BY BLACKFINCH GROUP

PRODUCT	TARGET RAISE	TIME PERIOD	DETAILS	TARGET
UK Farmland Investment Fund	£80 million	2-3 Years	Structured as a Property Authorised Investment Fund (PAIF).	Private client, institutional and retail channels, available through SIPP and ISA.
Bond Offering	TBD	TBD	Focused on property lending listed bonds.	IFA networks, private banks and wealth managers.
Investment Trust	TBD	TBD	Focused on property lending and renewable assets.	IFA networks.

Source: Blackfinch; AdvantageIQ

CHART 2: FUNDRAISING TRACK RECORD (£ MILLIONS)



Source: Blackfinch; AdvantageIQ

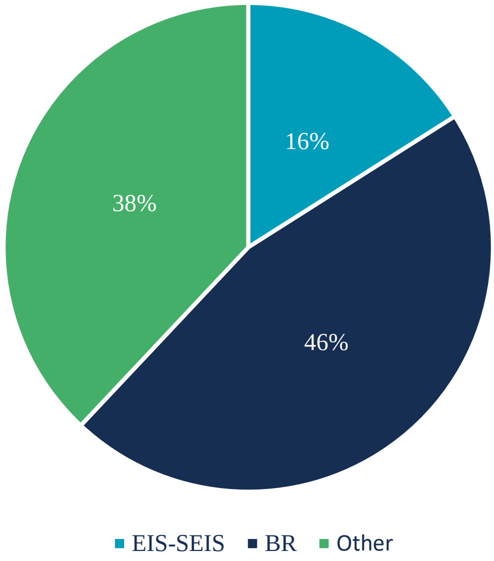
As shown by the chart above from 2014 to 2018, the Manager raised funds at a growing rate. Although it remains to be seen whether it can surpass the level of funds raised in December 2018, where it attracted over £90 million of inflows; nonetheless, the recent fundraising levels are encouraging.

Future expansion into product lines outlined above would require considerable growth in terms of staff and office space. Accordingly, Blackfinch has already increased its head count from 63 to 84 in the last year and, the Manager has recently acquired more office space within the same office park and increased total headcount to around 95 employees, in line with longer term ambitions.

Since MJ Hudson Allenbridge's last Blackfinch review in April 2019, the proportion of the Manager's AUM in tax-advantaged investments has increased from 52% to 62%, despite the previous intent to diversify away from these products. Further, BR products account for 46% of total AUM. The launch of additional non-tax-advantaged products has been pushed back to focus on the launch of this VCT. Therefore, for now Blackfinch is still very much focused on tax-advantaged investments.

The Manager currently offers a number of products, across EIS, BR and more recently VCT. Blackfinch's SEIS and EIS products include Blackfinch Media EIS Portfolios (£18.7m AUM), Blackfinch SEIS Music Portfolios (£0.8m), Blackfinch AFEIS Portfolios (£25.6m), and Blackfinch Ventures EIS Portfolios (£7.1m). Blackfinch's three IHT products, namely Blackfinch IHT Portfolios (£121m), Blackfinch AIM IHT Portfolios (£20.6m), and Blackfinch Thrive CMS (£10.7m), with these three products collectively accounting for the majority of AUM. Listed as "Other" in the chart below, are the Traded Endowment Policy Service ("TEPS") (£90.3m) and Blackfinch's Managed Portfolio Service (£34.2m). TEPS are administered and serviced with regards to legacy relationship with the Austrian ex-parent shareholder company. This relates to payment of premiums, servicing queries, collecting and checking bonus rates, and collecting maturity payments. This agreement runs off over the coming two to three years as policies mature.

CHART 3: ASSETS UNDER MANAGEMENT BREAKDOWN (AS AT AUGUST 2019).



Source: Blackfinch; AdvantageIQ

In terms of client services, Blackfinch has a dedicated team of 12 individuals, which is currently run by Jerry Price. As has been noted, Blackfinch has recently significantly increased the number of Business Development personnel to better manage workload and increase the Manager's geographical footprint, as it strives to reach its goals to increase rapidly its assets under management. Investor communications take place via quarterly reports and valuations, with commentary on investment performance and underlying trading activity. As the investment and marketing teams both grow this year, the company aims to create regular newsletters to constantly evolve and improve their service and communication. We understand that the firm has introduced an online platform, through which investors can access their portfolio, along with valuations and a record of all correspondence with Blackfinch. We understand that there are intentions to enable online applications by Q1 2020, which should assist, and improve, the client onboarding process.

Blackfinch is regulated by the FCA. As such it is subject to FCA rules which require them to manage conflicts of interest fairly and in the best interests of investors. The Manager has an in-house compliance team and detailed compliance procedures in place to meet FCA requirements. Having reviewed these procedures, we found them to be adequate for a Manager of this size. The Manager has only received two complaints in the last 12 months. One of which required escalation to the Financial Ombudsman Service (FOS), and had been found in favour of the Manager by the Ombudsman, the second relating to an incorrect valuation listed on a statement which was corrected (although the valuation had already been submitted to the client's accountant). The Manager reimbursed the client for the Accountants fee and also provided a voucher to both the adviser and client as a way to repay them for the time they had spent resolving this.

Overall, we believe the Manager to be successfully operating with its current structure and to be developing well. Furthermore, Blackfinch is developing new products, with the relevant addition of resources, to make new opportunities available to investors. This is also a positive move in terms of continuing to limit any concentration risk. Although launching new products comes with its difficulties, the Manager is ensuring it is well-equipped in the long term to remain successful in an increasingly competitive market. In addition, rapid growth comes with its challenges such as the integration of a new team and dealing in a new product space.

Financial & Business Stability

As previously stated, Blackfinch Investments Limited (previously Neville James) was 100% acquired by Blackfinch Investment Group International Limited in January 2010 and remains a 100% subsidiary. The Manager was owned by an Austrian holding company up until 2016, when Richard Cook and Richard Simmonds & Family purchased the shares of the other owners and became joint owners of the business. The tables below outline the most recent financial performance for both Blackfinch Investments and broader Blackfinch Group.

TABLE 2: KEY FINANCIAL METRICS SUMMARY OF BLACKFINCH INVESTMENTS LIMITED

	2015	2016	2017	2018	4 YR CAGR
Revenues	£1,043,240	£1,240,964	£3,021,639	£4,866,983	47.0%
Revenue Growth (%)		19.0%	143.5%	61.1%	
Costs	390,831	622,825.0	1,888,176	4,243,107	81.5%
Cost to Income ratio	0.37	0.31	0.62	0.87	
Operating Profit	£652,409	£618,139	£1,133,463	£623,876	
Net Profit	£517,035	£486,790	£900,381	£490,494	-1.3%
Net Profit Margin (%)	49.6%	39.2%	29.8%	10.1%	
Net Assets	998,805	1,485,595	2,385,976	1,784,849	15.6%

Source: Financial statements of Blackfinch Investments Limited for the financial year ending 31 October 2015, 31 October 2016, 31 October 2017, and 31 October 2018.

Below we consider the financial performance of the overall Blackfinch Group. It is important to note that the Group changed its structure in 2016, and as such the figures do not represent the same entity over each period, but rather reflect the continued performance of the Group as a whole.

TABLE 3: KEY FINANCIAL METRICS SUMMARY OF BLACKFINCH GROUP[1]

	2015	2016	2017	2018	4 YR CAGR
Revenues	1,364,653	1,658,887	4,072,540	8,156,174	56.4%
Revenue Growth (%)		21.6%	145.5%	100.3%	
Costs	1,282,774	1,426,642.8	2,565,700	5,464,637	43.7%
Cost to Income ratio	0.94	0.77	0.63	0.67	
Operating Profit	83,032	229,948	1,501,965	2,672,822	
Net Profit	35,664	161,085	1,181,125	2,212,197	180.6%
Net Profit Margin (%)	2.6%	9.7%	29.0%	27.1%	
Net Assets	95,014	519,540	1,131,585	2,252,161	120.6%

Source: Blackfinch. Figures are for the financial years ending 31 October
For the 2014 and 2015, numbers are sourced from the Blackfinch Group International Limited, in 2016 BF Inter Ltd was incorporated as the ultimate holding company. Accounts for 2016 have been calculated internally to represent Group figures. Figures for 2017 and 2018 are for BF Inter Ltd

Blackfinch has grown its revenue at a consistent rate over the last five years, which has run parallel to their expansion in number of employees and a larger scale operational office. Profit levels in the most recent financial reporting period (to October 2018), have declined; however, MJ Hudson Allenbridge have been informed that this decrease was driven by a rise in operating and administrative expenses as a result of the recent increase in the headcount, most notably across the sales team, where numbers have grown from 12 to 20 individuals.

Blackfinch Group has increased in profitability, despite a large increase in costs. Further, as has been mentioned, Blackfinch Group has invested in four main areas of the business: Ventures, Blackfinch Wealth, Blackfinch Tech and Blackfinch investments. Naturally, investment in these areas of the business will add to the cost base; however, the Manager is confident that these measures will assist in achieving its long-term growth targets.

In terms of senior management, Richard Cook and Richard Simmonds have worked together for some time, although they have made some senior hires in the last year or two in order to facilitate the aggressive growth plans of the management team, and we understand that Jerry Price will be involved in the senior management decisions when required. In addition to this, while this growth is to be welcomed, and the ambition shown is admirable, it will likely mean more change over the next few years as the organisation grows.

Quality of Governance and Management Team

The Manager outlined their governance structure as below in AdvantageIQ.

TABLE 4: OVERSIGHT COMMITTEES/WORKING GROUPS

COMMITTEE	DETAILS
Investment Committee	**Mandate:** Responsible for scrutinising all deals which are arranged and executed within the underlying trading companies. **Members:** Gregor Robertson (Leisure); Chris Stutter (Construction); Jamie Dellow (Construction); Terry Back (Media) Paul Chivers (Energy and Banking); Rupert Christie (Media) Andrew Troughton (Lending and Valuations) Admiral Rix (Shipping); Richard Cook (CEO); Richard Simmonds (CIO); Stefan Agopsowicz (Investment Director); William Simmonds (CTO); Ian Brown (Media). **Frequency:** Weekly
Risk Committee	**Mandate:** Review key risks within the products and businesses which we manage, as well as the corporate risks, the committee is tasked with ensuring that the company and products are aware of these risks and have processes and mitigation strategies in place where possible **Members:** Richard Cook, Richard Simmonds, Hamish Masson, Rebecca Copsey, Jerry Price and Robert Stainsby. **Frequency:** Quarterly

Conflicts Committee	**Mandate:** To deal with any conflicts which may arise in line with the conflicts policy. **Members:** Richard Cook, Richard Simmonds, Hamish Masson, Jerry Price and Robert Stainsby. **Frequency:** As and when required
Systems and Controls	**Mandate:** To review the oversight and monitoring of the company's systems and controls. Ensure that TCF processes and principles are being followed and adhered to. Address any known breaches and focus on improvement of processes to prevent in future. Focus on resource to ensure that the company can perform in line with client service targets and FCA rules. **Members:** This committee used to exist before there was an independent compliance officer. It no longer exists but will be brought back if required. **Frequency:** Monthly

Source: Blackfinch; AdvantageIQ

The manager is organised into nine departments: External Investment Management Committee, Investment Management team, Corporate Management and HR, Client Resources, Legal, Marketing, Product Accounting, Business Development, and Information Technology. Robert Stainsby is responsible for compliance (CF10), CASS (CF10a) and is the Money Laundering Reporting Officer (CF11) for Blackfinch, sitting on both the Risk Committee and the Compliance Committee.

MJ Hudson Allenbridge view the governance approach of the Manager as good for a manager of its size. We have previously reviewed minutes from the Investment, Risk, and Conflicts committees and found them detailed and suitable for purpose. Both Richard Simmonds and Richard Cook serve on all the committees, on top of their broader senior management roles. We particularly appreciate the separate compliance function and the separation of the risk committee and investment function. MJ Hudson Allenbridge find that although suitable in previous years, given the growth in size of the manager, we would expect to see a more formal spread of responsibilities going forward.

Blackfinch's management team seem well-qualified for the task and show good knowledge of the opportunities and challenges of running a firm of this kind. Their ownership role, and the fact that they have worked together for a while, are both strengths in terms of thinking of alignment and their likely continued stewardship of the firm into the future.

Product Quality Assessment

Investment Team

The Blackfinch Group is divided into three teams: Wealth, Investments and Ventures. The Ventures team will be responsible for both the VCT, and the Blackfinch Ventures EIS, which follow the same investment strategy.

David Craven who joined Blackfinch in September 2018, helped to set up the Ventures team; however, he left the business in April 2019. We understand that David Craven's departure was driven by of a lack of synergy with the vision for the fund and he has subsequently been replaced by Reuben Wilcock. The core investment team, comprising five individuals, will be responsible for sourcing, executing and monitoring all investments made via both the Blackfinch Ventures EIS, and Blackfinch Spring VCT, with Reuben Wilcock providing oversight. Reuben is a serial entrepreneur himself, and was previously a member of the University of Southampton's IP Panel for over five years, guiding the commercialisation of university spin-outs, and also founded and ran the Future World's accelerator, assisting and mentoring start-up companies. As such he has a depth of experience within the venture space; however, this will be his first instance managing investments within a formalised fund structure. He is assisted by Ventures Manager Nic Pillow, who also recently joined Blackfinch in August 2019. Nic previously led a global team at Nokia, where he exercised control over 15 of its software products, and latterly he co-founded an EdTech start-up. While Reuben and Nic will largely be responsible for oversight of the Ventures team, they will be assisted by CEO Richard Cook where relevant.

The investment team will operate in three separate and distinct teams, as seen below. While these teams will each take responsibility for individual elements of the investment process, Blackfinch have assured us that there is sufficient cross-over between each team to ensure full visibility across the entire process.

- **Pipeline team:** this team consists of two members: Pablo Fernandez (Investment Manager) and Winston Mathew (Ventures Analyst). Pablo has a broad-range of experience in banking and asset management, while Winston was brought into the team after being identified as a high-achiever from the Blackfinch Investments' property team. Their role is to undertake initial screening and filtering, reviewing the approximately 2000 incoming investment opportunities sourced annually. The pair will review new investments according to a set list of criteria (see *Investment Process*), before adding these investments to a "long-list" which will be discussed in short daily meetings with the broader team. The whole team will collectively agree on whether to progress the investment to a "short list", tasking the Pipeline team with collecting further information in this stage until, when highly qualified, the company will be invited to pitch. Following a successful pitch, the final task of the Pipeline team will be to produce a one-page investment memo to support a request made to the IC to move to "Term Sheet".

- **Deal team:** this team is headed up by Nic Pillow (Ventures Manager), with assistance from Hassaan Mehmood (Ventures Analyst). This team will address IC concerns, negotiate the term sheets, then undertake more in-depth due diligence on all shortlisted investee companies engaging with company management to source additional information. Nic and Hassaan, with help from Reuben, will then work with investee companies and external lawyers to negotiate terms before final investment.

- **Portfolio team:** The portfolio team will be responsible for the ongoing monitoring of the portfolio post-investment. As it stands, Reuben Wilcock is the only member of the team, following the departure of a temporary analyst. However, Hassaan Mehmood is now performing the administrative function, and the team receives support from James Cowles, an internal management accountant. Given the size of the current portfolio this does not give rise to any immediate concern and we understand that Blackfinch are actively seeking to find a more permanent additional member of the team; however, it will need to meaningfully increase the size of this team as it builds the portfolio.

We understand that Reuben Wilcock devised the team structure outlined above, having observed the structures of larger, successful and more established venture capital firms. According to Wilcock, this structure lends itself to scalability and, it is envisaged that in time, and as the ventures portfolio grows, it will be able to leverage this system to accommodate larger levels of deal flow.

Unlike many other VCTs open for investment, a member of the investment team will not sit on the Board of underlying investee companies; rather, the VCT will make use of what has been described as a network of "UltraNEDs". This group is comprised of experienced founders and industry experts, formed through Reuben Wilcock's existing network, and it is expected that they will be able to provide advice to investee companies in specific areas of expertise, assisting companies to scale and meet developmental objectives. Further, as these individuals are not direct members of the investment team, it effectively provides an additional resource to assist in the post investment monitoring process. We have requested examples of these individuals, and of the examples given, all appear to have relevant entrepreneurial experience in technology and ecommerce. These individuals will be paid by Blackfinch to attend at least six Board meetings per annum, however they will also be incentivised through a performance fee, in line with the rest of the broader investment team. Further, Blackfinch co-invests alongside its investors through Blackfinch holdings, that facilitates an options scheme for all current Blackfinch employees, thus providing a good alignment of interests with investors. Finally, the VCT also receives support from the wider Blackfinch team, including counsel from Legal Director Hamish Masson.

The Board of Directors is made up of Stefan Agopsowicz, who is a member of the investment committee and the investment director responsible for many of Blackfinch's products. The other two members are independent, one of which is Gordon Humphries, who has previously been audit and risk committee chairman of two other VCTs and has served on the ICAS audit and assurance committee. The other independent member is still being confirmed at the time of writing.

Although individual members of the team have previous venture experience, either as investor or founders, many members of the team have only recently joined Blackfinch within the past 12 months, and David Craven, who formed the team, has departed. As such, they have very limited experience of working together as a team. Further, while we are satisfied that the team structure is well thought out, it has only been operating under this framework for a short period of time. Further, there is an element of key person risk, with execution of the investment strategy and process, largely reliant on Reuben Wilcock, specifically with regard to post investment monitoring. However, we have been informed that incentive measures are being put in place in order to retain Reuben (along with other senior personnel), and in our meeting with Blackfinch it was stressed that the current investment team structure has been put in place in order to mitigate over-reliance on any individual. Nonetheless, until such time that additional members of the team have been added, and the current team are able to demonstrate a track record of investments, this risk remains.

Bios for the current team can be found in appendix 1.

Investment Strategy & Philosophy

The VCT follows a capital growth strategy, and intends to invest in unquoted early stage companies, which are expected to have some or all of the following characteristics:

1. Technology-enabled with a focus on research and development.
2. The capability to grow quickly through disruption of their markets.
3. Strong performance against previous investment round milestones.

Blackfinch have defined technology-enabled companies as those which use technology to aid the products' success, rather than having a product with technology at its core. While all potential investee companies are expected to have a technology focus, the VCT will diversify across the various sectors in which these companies operate. However, the strategy will avoid sectors where there are typically a lot of regulatory hurdles, such as Biotech and Med-tech.

Although investment in Series A rounds is preferred, investments will also be made in Seed, and occasionally in Series B. The investment team will seek companies that have already delivered on, or exceeded the milestones set out by previous investors. Importantly, companies are expected to have demonstrated commerciality, generally by way of revenue generation, although most investee companies are expected to be pre-profit. Further, companies must show evidence of product-market-fit, and demonstrate an ability to control the acquisition of new customers. Blackfinch has informed us that, in its experience, the acquisition of new customers is one of the areas in which investee companies tend to struggle the most, and as such it will place emphasis on this area. Lastly, as part of the due diligence process, Blackfinch will place significant emphasis on the founding team, its track record and cohesion; more importantly, it must be prepared to work with, and take guidance from the team at Blackfinch.

In many instances, the VCT will make follow-on investments in companies which have previously been invested in through the Blackfinch Ventures EIS portfolio, where the VCT will make investments at later stages of the investee companies' development. Not only does this mean that the investment team will be familiar with these investee companies, but it also means that Blackfinch can take a larger stake in the business. The VCT will make investment rounds of between £250,000 and £3 million, although the average cheque is expected to be approximately £1 million. In some cases, the VCT will drip feed the capital in tranches, on provision that underlying companies meet pre-determined targets. Typically, the VCT will make investments as equity-based, minority shareholdings and will target an exit multiple of between 2x and 3x. The average holding period is expected to be between 4 and 7 years. The VCT will target a net IRR of 9.7%.

As a new VCT, there is no existing portfolio and as such, it does not intend on paying a dividend until at least March 2024; henceforth, it expects to pay a dividend equal to 5% of NAV. As is the case with all VCT's, its ability to pay dividends is subject to the existence of realised profits, legislative requirements and the available cash reserves. Special dividends will be paid in the case where significant exits are realised by the underlying investee companies. Blackfinch offer an active buyback policy where it may repurchase shares which shareholders wish to sell at a discount of 5% to 10% to the latest published NAV per share, depending on timing and trading circumstances. However, the directors expect that there will be limited demand for share buybacks from shareholders within the first five years.

Blackfinch believes that through mentorship and guidance, it is able to meaningfully contribute to the growth of investee companies. One of the VCT's USP's is arguably the access to Reuben Wilcock's own network and experience, and more specifically the provision of an UltraNED to the Board of investee companies, along with CEO mentoring and performance monitoring. Further, through Blackfinch's partnership with Amazon web Services, Blackfinch can offer its portfolio companies up to $100k for this service, and this is taken up by a large number of investee companies. Through this active, value-add strategy, it is hoped that Blackfinch will be able to separate itself from investment teams within the industry. While Reuben Wilcock's background is impressive, and his experience in various sectors will doubtless be very attractive to a number of potential investee companies, the strategy is- by virtue of this being a new product- largely untested in the tax-advantaged space; nonetheless, it is a compelling proposition.

Pipeline/Prospects and Current Portfolio

As a new VCT, there is no existing portfolio. Investors, therefore, should look at the product's strategy in terms of portfolio construction, as well as the previous track record of the Team within the ventures space (as well as that of the Blackfinch Group) to get an idea as to the type of company that the Team might look to invest in. Blackfinch have proposed that the portfolio for Blackfinch Spring VCT will be similar to the Blackfinch Ventures EIS, but will include slightly later-stage companies, as well as being more 'tech-enabled' than 'tech-focused'. In order to illustrate the type of companies into which the VCT may invest, we have illustrated the current Blackfinch EIS portfolio below.

TABLE 5: BLACKFINCH VENTURES EIS PORTFOLIO (AS AT SEPTEMBER 2019)

COMPANY NAME	DATE OF INITIAL INVESTMENT	AMOUNT INVESTED	SHARE-HOLDING	DESCRIPTION
Warwick Analytics	April 2019	£692,153	26.8%	Data Analytics company.
Tended	April 2019	£810,000	28.7%	Technology start-up designing intelligent personal safety wearables and monitoring systems.
Kinteract	April 2019	£810,000	18.9%	Digital education platform.
Comparesoft	April 2019	£534,902	24.4%	Online enterprise software comparison portal.
BookingLive	August 2019	£406,019	20.96%	Provider of software systems to manage online bookings, payments and customer communications.
Kokoon	August 2019	£541,304	5.9%	Sleep technology company.
Average		**£632,396**	**19.27%**	

Source: Blackfinch

As can be seen above, Blackfinch has allocated, on average, just over £630,000 into each investee company, and has taken an average equity stake of approximately 20%. Combined with the potential for follow-on investment through the VCT, this could give Blackfinch more significant control over investee companies. However, it should also be noted that as the VCT is expected to make investments with an average cheque size of approximately £1 million and, depending on the level of funds raised, earlier investors are likely to face a level of concentration as the VCT deploys its capital. However, this will naturally become increasingly diversified over time as the VCT grows in size and additional capital is deployed.

Follow-on investment in to EIS portfolio companies will benefit from a higher chance of success due to Blackfinch's deeper understanding of their business and development. This potential advantage is somewhat tempered by the inherent conflicts of interest in setting a fair entry price for a follow-on investment. Co-investments of this nature may be made at different times and, potentially on different terms to those of Blackfinch Ventures EIS Portfolios. These follow-on investments will be the focus during the early stage of the VCT, as the VCT takes time to establish itself. In future years, Blackfinch Spring will instead focus on its own slightly later-stage deal flow whilst continuing to back its own most promising, high performing portfolio companies.

The following table illustrates Blackfinch's current pipeline for both the EIS Portfolios and the VCT, filtered by the various stages of the investment and due diligence process (see *Investment Process* below). Prospects are investee companies which have at least met the investment criteria, the Long List comprises investee companies which have been deemed appropriate to undertake desk based examination and further information gathering, investee companies on the Short List will have information under key headings drawn up, and the eight companies on the Pitch List would have been invited in to present. Four companies are currently under offer for the EIS and four are targeted for the VCT. As such, while at the broadest level, showing the "long list" of companies has a total pre-money value of approximately £380 million and capacity for investment of just over £22 million across 28 companies, there are 12 companies (on the Pitch List and under offer) with capacity for investment of £8.7 million. Of these, 7 companies representing over half the capacity, would be suitable for the VCT if, at the time of writing, it already had inflows. Naturally, earlier stage prospects will have matured to become investments under offer in early 2020 when the first VCT investments are expected to be made.

TABLE 6: SUMMARY OF EXISTING PIPELINE (AS AT SEPTEMBER 2019)

INVESTMENT PROCESS STAGE	NUMBER	TOTAL PRE-MONEY VALUATION (000')	TOTAL ROUND SIZE (000')	TOTAL TICKET SIZE (000')
Prospects*	28	£125,007	£22,324	£22,324
Long List*	19	£101,100	£25,350	£16,150
Short List*	13	£82,300	£19,900	£10,150
Pitch List	8	£45,500	£8,700	£4,450
Offer Term Sheet	4	£24,500	£3,750	£2,000
Total	72	£378,407	£80,024	£55,074

Source: Blackfinch

Note: *figures for some investee companies within these stages are only estimates and not yet confirmed.

The table below outlines the four investee companies which have been earmarked for investment through the VCT. Each company will be offered an investment of between £500,000 and £1,000,000 and therefore below the targeted average allotment of approximately £1 million. However, it is encouraging to note that Blackfinch have already lined up capacity to invest as much as £2.75 million, providing scope for rapid deployment of initial funds raised. We have been told that one of these Investments is a follow-on from the EIS portfolio, and that further follow-on deal flow from the EIS is likely to come about in quarter one of 2020.

TABLE 7: COMPANIES IN 'OFFER TERM SHEET' STAGE (AS AT SEPTEMBER 2019)

COMPANY	SECTOR	DESCRIPTION	PRE-MONEY (000')	ROUND SIZE (000')	TICKET SIZE (000')
A	Marketplace	A company that has developed an app for booking treatments at a user's home and selected salons and spas.	£8,000	£1,500	£500
B	Food Technology	A company that has developed new technology for extending shelf life in fruits and vegetables.	£5,000	£1,000	£750
C	Social Travel	A company that provides hyper-localised dining and travel experiences for city dwellers and travellers.	£6,000	£1,000	£500
D	Wearables	A company that develops wearables for accident detection and personal safety in the workplace.	£4,000	£2,000	£1,000
Total			**£23,000**	**£5,500**	**£2,750**

Source: Blackfinch

Blackfinch is targeting a raise of £30 million, and whether it will be able to achieve this remains to be seen, specifically as it is a new VCT without an existing portfolio and the absence of dividend payments until at least 2024. Further to this, in order to reduce the effects of cash drag, it is imperative that it is able to deploy funds raised in a timely manner. It is encouraging therefore, to note that four deals, totalling over £2.75 million are already earmarked, with a significant pipeline that will yield VCT investment opportunities when inflows begin, which should assist in this regard. Since the launch of the equivalent EIS strategy, almost 18 months ago, the Manager has invested £4 million into six companies and is in the final stages of investing over £2m into a further 4 companies. If £30 million were to be raised this would require a very significant increase in the speed of deployment in order to avoid a cash drag.

In terms of the valuation process, Blackfinch make unquoted investment valuations in accordance with the International Private Equity and Venture Capital Valuation (IPEV) guidelines.

Investment Process

The Manager has described its investment process as follows in AdvantageIQ:

TABLE 8: INVESTMENT PROCESS

PROCESS	DESCRIPTION
Deal sourcing	The Manager uses links to UK accelerators, incubators and start-up hubs to source potential investments as well as the team member's own connections to founders. The Manager also sources highly qualified deal flow using a cutting-edge research platform which tracks high-growth startups in the UK. Carefully designed searches across sector, buzzword, valuation, time since last funding and accelerator attendance give access to some of the strongest, yet least-known, investment opportunities in the UK. Using this data-driven strategy allows the Manager to proactively approach companies before they start their next funding round. Inbound leads are also captured through an enquiry form on the Manager's website, direct email, LinkedIn and other online platforms. Referrals provide a further rich stream of deal flow and can arrive from many sources including founders of existing portfolio companies, the UltraNED network and other teams within Blackfinch's Group. The net result is that approximately 1,000 to 2,000 leads are considered each year, from which the Company plans to make in the region of 5 to 15 high-growth investments annually.
Deal filtering and selection	Prospects that meet the requirements of tech-enabled, correct stage and VCT suitability are placed in a "Long List" and founder discussions allow the collection of key information under standard headings including raise details, technology state, team, competition, unit economics, traction, pipeline, market and investment use. Regular filtering meetings with the senior team determine whether to pass, hold or progress the opportunity in which case it enters a "Short List" with specific areas of concern highlighted for further analysis. Areas of concern typically include further details of existing traction, sales pipeline, customer journey, introductions to existing investors or customers, and product demonstrations following which a decision is made whether to move to the "Pitch" stage. Recorded pitch sessions often continue for many hours and involve deep dives into data, metrics, performance and financials. The aim of these sessions is to gain enough information to decide whether to progress to "Term Sheet" stage. Investment committee ("IC") approval is required to issue a Term Sheet, which ensures strong governance on decision making before legal costs are incurred. Term Sheets include requests for founders to re-vest their shares, typically incentivising the key team to stay in the company for up to 4 years. "Investor Consents "are also asserted to provide a veto over significant decisions that could devalue investor's shareholdings. Specific conditions or bespoke deal terms imposed by the IC are included at this stage.

Due diligence process	A comprehensive approach is taken in the Due Diligence stage which covers technical, team, financial, tax, market and competitor risk. The company is requested to upload answers and supporting documents in response to a carefully considered and standardised due diligence questionnaire. A sub-section of these are sent to the specialist tax advisor, Philip Hare & Associates, to verify whether the company is likely to be VCT qualifying. The remaining questions cover areas including board records, product details, competitors, customers, supply chain, financial modelling, pricing, staff, directors, intellectual property, GDPR, borrowings, agreements and litigation. These are read and verified by the team's analysts. Technology risk is assessed by a sector expert from the Manager's external network who spend time within the company performing a deep dive on the technology state. This may involve assessing everything from architecture to code level in the case of software or walking through schematics, mechanical designs, supply chain and firmware in the case of hardware. A senior member of the Manager's team also attends during these sessions, to assess team dynamics and expertise. Comprehensive market and competitor reviews are performed by the team as part of the due diligence process, as well as analysis into the company's financial model, to assess the sensitivity of its performance against sales and other factors. Calls are made to customers of the company to understand the value proposition form their perspective and discover any issues they are facing. A risk table is produced outlining the key areas of concern for the investment, and mitigations against these risks. This table is supplied to the company after the investment is made along with the technology due diligence report. If not already in place, relationships will be formed with Principals in other funds who have previously invested or are co-investing in the round, in order to smooth the process and benefit from their opinions on company performance. This can generate significant insight. The result of the due diligence phase is a fully furnished IC report.
Deal approval	The full report is presented to the IC for approval to proceed to Full Form agreement stage. The investment committee includes Blackfinch CEO Richard Cook, CIO Richard Simmonds and other key senior investment professionals in the Blackfinch team who scrutinise the investment opportunities as they are presented. The IC report presents the opportunity considering the following areas: • An overview of the company and its core team, experiences and skill sets. • Detailed information on the product and its current development state. • Unit economics and underlying monetisation model. • Description of the market, competition and competitive advantages. • Traction including growth metrics and future pipeline. • Product feedback from existing customers or users. • Analysis of the company’s financial model and projections. • The investment details, use of proceeds and portfolio fit. • A summary of risks across all key areas with potential mitigations. In some cases, the Manager's standard template Shareholders Agreement and Articles of Association will be used, and in others the existing legal agreements already in place are modified in order to assert term sheet conditions. The IC approval is required for all deals to proceed to signed contracts.

Source: Blackfinch; AdvantageIQ

The investment process has been well-thought out, and demonstrates a good level of rigour. It may raise some concern that all inbound leads will be examined by just two individuals, meaning that some potentially lucrative opportunities are overlooked. However, Blackfinch have noted that these individuals only filter companies against a hard set of criteria at this stage, for example VCT qualifying, valuation, sector, and ticket size, and all remaining opportunities are discussed with the entire ventures team during a daily "huddle"; as a result, Blackfinch feel that the chance of erroneously eliminating deals in the early stages of the process is highly unlikely. Further, given multiple stages to the investment process, as different teams handle different stages of due diligence, it will promote full visibility of the pipeline and also means that numerous members of the team will get the chance to independently scrutinise each deal. Lastly, MJ Hudson Allenbridge are impressed by the number of sources through which the VCT receives deal flow, particularly the use of platforms and specialist research tools.

Blackfinch are somewhat unique in that it will try to complete the investment process in a timely manner, which can be as short as 6 weeks, where many other managers can take between three and six months. While quick turnaround in the investment process will assist with deployment, if done in haste, it could also mean that key areas are overlooked, or potential issues missed. However, Blackfinch Spring have offered assurance that the process has been thoroughly analysed and re-structured by Reuben Wilcock, with efficiency in mind. For example, requiring an in-depth and, in many instances lengthy pitch meeting, in excess of three hours, allows Blackfinch to scrutinize investee companies to a level which other managers may not. This, according to Blackfinch, reduces the likelihood of discovering areas of concern further down the investment process. In order to illustrate its process, Blackfinch has provided evidence through both a short (pre-investment committee) and long form investment committee paper; both of which provide a good level of detail. However, given the investment team's currently limited track record, whether its investment process can deliver, remains to be seen.

Risk Management

The first stage for the risk management for any VCT occurs at the due diligence phase, and during this process, the team looks at all key areas of the business to identify specific risks. It will then look to understand the risks and the potential impact and then report this in the final investment committee paper. Red flags that are carefully explored include:

- **Technology/Product:** The product is not fit for purpose, there are issues found with the underlying technology of the product, or the user experience is poor.
- **Regulatory:** The product has significant regulatory hurdles, the market has significant regulatory hurdles (e.g. Med-tech), or the investment has achievable regulatory hurdles but excessively long resulting time to market.
- **Commercial:** over-reliance of the company on a single customer for its success, or sustainability of the unit economics of the underlying value proposition.
- **Financial:** unrealistic financial projections which fail sensitivity analysis, unrealistic salary expectations for the stage of the company, or accounting irregularities which are unexplained by the founders.
- **Team:** a bloated top team with some not contributing much, lack of experience and clear vision causing poor decision making, aligned to short term renumeration rather than company growth, or an over-reliance on outsourcing.
- **Market & Competition:** the addressable market size is less than £1bn, or there is significant competition with low defensibility.
- **Tax:** The tax advisor makes it clear the company is unlikely to qualify under the VCT rules.

As discussed previously, the VCT intends to diversify the portfolio both in terms of stage and sector, though the broader sector focus will be in 'tech-enabled' companies. It is therefore encouraging to note that as part of the due diligence process, Blackfinch will undertake an examination of the underlying technology, using a third-party expert, prior to investment. Further, where the VCT makes follow-on investment into companies within the EIS portfolio, the investment team will be afforded greater visibility with regard to the companies' progress.

To ensure interests are aligned to increasing company value, Blackfinch Spring's term sheets include requirements for founders to re-vest their shares, typically incentivising key team members to stay in the company for up to four years. "Investor Consents" are also asserted to provide a veto over significant decisions that could devalue investor's shareholdings. During the due diligence process, the team looks at all key areas of the business and identifies risks in those areas. They then look to understand the risk and its potential impact and then report this in the final investment committee paper.

In terms of monitoring the investee companies, financial records and KPIs set against the agreed business plan are recorded monthly. Blackfinch will look to support and guide the investee through the UltraNED and wider network of external contacts if required. If companies with poor performance fail to improve, follow-on funding may not be provided, particularly if opportunities arise in the context of new investments. Reasons for denied follow-on funding include:

- Exceptionally poor and difficult to rectify company performance;
- Insufficient funds available in the context of new investments;
- Significant change in market conditions due to external factors;
- Competitor landscape changing significantly resulting in a clear new market winner.

Furthermore, an immediate review of the investee company would be considered if concerns arise under the following circumstances.

- Financial performance via the management accounts;
- Changes to the business plan;
- Board meeting observations;
- UltraNED updates and opinions;

We present the following as a potential conflict of interest that investors should be aware of:

- The co-investment of capital by different Blackfinch managed products specifically the Blackfinch Ventures EIS; and

- The potential for follow-on funding; there is a risk that investments held in the Fund will receive follow on funding from new investors in the Fund or from other managed funds. Hence, the valuation approach for follow on funding is an important consideration.

In order to manage the conflict which may arise where there is investment through both the VCT and EIS, Blackfinch will apply an allocation policy. Under this policy, the individual investment mandates will determine, independently, and through respective Investment Committees, what level of investment is appropriate. EIS Portfolios will then receive priority over the VCT to take up the round, and any space left will be filled by the VCT. We understand that this has been implemented in order to allow EIS Portfolios to benefit before the VCT takes over in the later stage rounds. Any exceptional conflicts will be resolved by the chair of the Investment Committee, and if unable to be resolved will be referred to the Conflicts Committee.

Key Features

The table below outlines the fee structure for the offer. Investors will be charged an initial fee of 2.5%, although there is an early bird discount, whereby this fee is reduced to 1.5% for any subscriptions received before January 2020. Blackfinch will take a performance fee of 20%; it is encouraging to note however, that this is only taken on returns above a high water mark equal to the higher of 130p and the highest performance value per share at the end of any previous accounting periods.

Blackfinch will charge investee companies an arrangement fee of 3%, and Blackfinch also reserves the right to charge investee companies additional fees including legal fees, as well as an exit fee or corporate finance fee at exit. It could be argued that this level of fee to investee companies could detract from Blackfinch's ability to effectively compete for deal flow.

Finally, the annual running costs of the VCT will be capped at 3.5%, which includes the Annual Admin fee and the Directors fee.

TABLE 9: FEES

FEE (excluding VAT)	CHARGED TO:	
	INVESTMENT	INVESTEE COMPANY
Initial Fee	2.5%	-
Arrangement Fee	-	3.0%
Annual Management Fee	2.5%	-
Annual Admin Fee	0.3%	-
Custodian Fee	-	-
Dealing Fee	-	-
Director's Fee	0.195%	-
Exit Performance Fee	20%[1]	-
Hurdle	1.3x or high watermark	-
Available discounts	Early bird discount: 1.5% to end of January 2020	
Adviser/Intermediary charges	Maximum 5% plus ongoing adviser charge of up to 0.5%[2]	
Execution Only Fees	Broker Initial commission of up to 3% plus ongoing broker fee of up to 0.5%[3]	
Direct Application Fees	Initial fee becomes 5.5%	

Note: Blackfinch charges legal fees to underlying companies and reserves a right to charge an exit fee or corporate finance fee at exit.

[1]The amount of the performance incentive fee will be equal to 20% of the amount by which the performance value per share at the end of an accounting period exceeds the high water mark (being the higher of 130p and the highest performance value per share at the end of any previous accounting periods), and multiplied by the number of shares in issue at the end of the relevant period.

[2]Ongoing advisor charge of up to 0.5% per annum of the investment amount's latest NAV can be facilitated, rebated from the AMC, to an adviser in respect of their ongoing advisory services for up to 10 years. If the investor chooses to pay their adviser less than 0.5% annually, the remaining amount will be used for the issue and allotment of additional new shares for the investor, at the most recently announced NAV per Share.

[3]Ongoing broker commission of up to 0.5% per annum of the investment amount's latest NAV can be paid, from the AMC, to the broker for up to 10 years. If the broker charges less than 0.5% annually, the remaining amount will be used for the issue and allotment of additional new shares for the investor, at the most recently announced NAV per Share.

Performance

As this is a new product there is no past performance to speak of. Investors should be advised to weigh the relative merits of the product's team, strategy, risk management etc. when gauging likely future performance. While the Blackfinch Ventures EIS may serve as a proxy for performance, all current investee companies within the portfolio remain valued at cost, as such we are unable to ascertain the potential returns which may be generated by the strategy.

Appendix 1: Key Personnel

Key Investment Professionals

NAME	JOB TITLE	DATE STARTED	BIOGRAPHY
Reuben Wilcock	Ventures Director	2019/02/11	Reuben's expertise in advising early stage companies has developed through a background spanning academia, technology start-ups and start-up acceleration. He has founded or co-founded four technology start-ups including Joulo, a smart home energy spinout which won the 2013 British Gas Connected Homes award and was acquired by Quby in 2014, and Bar Analytics, an IoT start-up that enables global brands to monitor beer quality and sales. With a PhD in Electronics, Reuben has extensive product design experience with deep technical knowledge of hardware, software and manufacturing. He is an inventor on five patents and named author on over 45 peer reviewed publications ranging from integrated circuit design to genetic algorithms. Before joining Blackfinch, Reuben was a leading figure in entrepreneurship at the University of Southampton where he sat on its IP Panel for five years, guiding the commercialisation of research innovations through licensing and spinouts. Reuben is a Royal Academy of Engineering award winning entrepreneur, and the lifetime membership that affords has offered visibility of some of most innovative university spinouts in the UK. In 2015 Reuben founded and ran the Future Worlds accelerator, mentoring over 250 entrepreneurs and 50 companies over a four-year period. Companies included the housemate's app YSplit, 5G silicon IP spinout Accelercomm, Edtech app Perfect Score, AI computer vision company Aura Vision, IoT transport startup Route Reports and HGV data analytics company Dynamon. Whilst at Future Worlds, Reuben also developed the business plan and was the execution partner for the Z21 Fund, run in partnership with the Solent LEP. He has a BEng, a PhD, is a member of the IET, a fellow of the ERA Foundation and member of the Royal Academy of Engineering Enterprise Hub.
Richard Cook	CEO	2008/04/01	Richard founded Blackfinch and has led the growth and expansion of the company within the UK investment market. A talented entrepreneur, he conceptualised and launched the current brand in 2012, providing the vision and leadership that has taken the company through from launch to over 70 employees, two locations and over £320m funds under management. Through constant evolution, Richard has demonstrated his ability to adapt to meet the demands of the investment market and changing regulations, a characteristic shared with the founders of the companies Blackfinch invests in. He has been Chief Executive Officer of Blackfinch since its inception and involved in the structuring and management of investment assets for over 15 years, previously working in senior banking roles within Merrill Lynch and the Bank of New York. Richard plays a key role in

			the Ventures process, helping assess the quality of opportunities that are put forward to the Investment Committee as its chair. His experience as the founding entrepreneur of Blackfinch itself, coupled with a track record of identifying and growing early stage companies for past and present EIS Portfolios has been a pivotal element in bringing Blackfinch Ventures to where it is today.
Richard Simmonds	CIO	2015/01/02	Richard has 15 years' senior experience in financial services spanning projects, corporate finance and fund management, with a specialism in asset-backed fund management. Prior to joining Blackfinch, Richard held roles at NatWest, FTSE and Credit Suisse in London and New York. Richard holds an Executive MBA, the Certificate in Discretionary Investment Management, and the Diploma in Financial Planning.
William Simmonds	CTO	2018/05/18	William is an experienced technology professional and business leader having worked across the industry for 17 years. He brings a wealth of experience across multiple verticals, with his most recent years focused on technology leadership, strategy and systems architecture across highly scalable and secure systems. His passion lies in enabling and transforming businesses and products through technology. He has a background in consulting, having held senior engineering roles with Compare the Market, easyJet, ASOS, Mercedes-AMG Petronas Formula 1 Team and British Gas.
Pablo Fernandez	Ventures Manager	2018/11/28	Prior to joining Blackfinch, Pablo was an investment manager in a variety of disciplines in Morgan Stanley and Caixabank. His broad-based experience covers a range of roles in Private Banking and Asset Management in strategy, investment management, project management, marketing and innovation. He has a strong academic background with a BA degree from Complutense Madrid, MA in Marketing in Esade and an Executive MBA in IE. Pablo is fluent in Spanish, English and Italian.
Hamish Masson	Legal Director	2018/01/08	In-house legal counsel, Hamish Masson leads the Blackfinch legal team and has 15 years' experience working as a corporate lawyer on debt finance, mergers and acquisitions, private equity and venture capital transactions. Previously, he worked at the law firms Addleshaw Goddard, DLA Piper and Harneys advising in areas ranging from early stage start-up funding to private equity deals across a full spectrum of investments from small scale angel to multi-billion multi-jurisdictional acquisitions. Hamish has an LLM from the University of London and an LLB from the University of Durham.
Nic Pillow	Ventures Manager	2019/08/19	Nic led a global team at Nokia who exercised control over 15 of their software products and was responsible for growth in annual revenue for his area from £50m to £250m. After leaving Nokia he co-founded his own startup, Rhizome Live, a SaaS business in the EdTech sector, raising £400k investment and access to a top accelerator. Prior to

			Nokia, Nic held positions ranging from Product Manager at Logica to Solutions Architect at Portal Software. He also has an impressive academic background which culminated in an Engineering PhD from the University of Oxford's Robotics Research Group.
Hassaan Mehmood	Ventures Analyst	2019/06/17	Hassaan joined Blackfinch in June 2019. He currently works across the ventures team, sourcing and executing deals, whilst also being responsible for the portfolio monitoring of previous investments. Hassaan is a high achieving recent graduate in Economics and Management who has previously gained experience with one of the UK's largest asset managers, M&G Investments. There, he gained a strong technical background, working in a variety of roles ranging from public equity investment to private equity investment as well as structured debt investment.
Winston Mathew	Ventures Analyst	2018/11/27	Winston joined Blackfinch in November 2018. He currently works across the ventures team where he is sourcing and executing new deals. Winston has a master's degree in Mechanical Engineering from Imperial College London where he took several business and innovation modules. He initially joined Blackfinch Investments in the Property team dealing with debt investments, where he was identified as a high achiever, before joining the Ventures team in July 2019.
Stefan Agopsowicz	Investment Director	2009/01/02	Stefan is a member of the Investment Committee and the investment director responsible for Blackfinch's Adapt AIM portfolios, legacy EIS portfolios, technical team and dealing team. He brings experience in HMRC and FCA compliance, product design, portfolio and model management, venture capital investment, scrutiny and monitoring of smaller companies, and deal structuring and completion to the management team, having worked in the financial services industry for 17 years. Prior to his current role, he sat on the property development, asset-backed lending and renewable energy investment committees for Blackfinch's unquoted IHT product, having previously worked on each of their respective investment teams. Before beginning his career in investment management, Stefan spent several years working in information technology and software development, where he cultivated a strong knowledge and understanding of the technology sector and was instrumental in the launch of a number of successful start-ups. Stefan holds a MPhys from the University of Manchester.
James Cowles	Management Accountant	2018/08/13	James joined Blackfinch with over fifteen years accountancy experience in financial services and currently supports the Portfolio team within Blackfinch Ventures. He previously held roles at The Commonwealth Bank of Australia and The Royal Bank of Scotland in London and also held the post of Senior Commercial Accountant at the Institute of Chartered Accountants of England and Wales. James is a qualified member of the Chartered Institute of Management Accountants.

Source: Blackfinch; AdvantageIQ

Blackfinch Spring VCT Board of Directors

PETER HEWITT (CHAIRMAN)

Peter has been a director of 11 public companies over the last 30 years, chairing 6 of these including 7 years as Chairman and CEO of an AIM quoted construction and facilities management business, which he founded and built from zero to £25m turnover and 400 people in 4 years. He is Co-Chairman and co-founder of Universal Defence and Security Solutions Limited, a non-executive director of Puma 10 VCT PLC, a fully listed public company and a senior adviser at Brennan and Partners. Peter is a former Alderman of the City of London and inaugural Chairman of the City's £20m Social Investment Fund, creating investment strategy and policy. Peter is also an individually Chartered Fellow of the Chartered Securities Institute; a Justice of the Peace on the supplemental list and an Honorary Group Captain in 601 Squadron, RAuxAF.

RICHARD COOK

As above

KATE JONES

Over a 20 year career in the financial services sector, Kate has held senior roles in BlackRock as Head of Structured Solutions (Europe) and Schroders (Head of Investment Services) and currently sits on the boards of JP Morgan Asset Management Limited (as a non-executive director) and at the Pension Protection Fund (as a non-executive director). Kate is also Chair of the Board of Trustees for RedSTART, a financial education charity which aims to give all young people in the UK access to quality financial education, and a trustee of Smart Pension DC Master Trust.

Appendix 2: UltraNEDs

NAME	BIOGRAPHY
Seb Chakraborty	With a 20-year career as a technology leader and entrepreneur, Seb co-founded Hive, growing the product from conception to being in more than 1.4 million homes in the UK. Hive is part of the Centrica Group and a sister company to British Gas and he is currently Global CTO at the organisation. Previously working as Head of Architecture at Telefonica, Seb then moved to become CTO of Digital UK, helping Telefónica UK's (O2) businesses with their technology scaling and integration challenges. In these roles he has seen through many design, manufacturing and scaling challenges, the growth of large tech teams, and every other aspect of a fast-growing technical organisation. He is currently a UltraNED for three of the Blackfinch Ventures EIS portfolio companies.
Ashley Unitt	Ashley has led technology innovation at his own and others' companies for nearly 30 years. He has a track record in delivering brilliant solutions, reducing costs, and building world-class teams and companies that operate on a global scale. In 2000 he launched software as a service (SaaS) firm NewVoiceMedia, providing tech for contact centres that dramatically improves customer service and drives more effective sales and marketing. He was Chief Technology Officer (CTO) for 16 years before a highly successful exit in 2018 for $350 million. Ashley is now Chief Scientist at NewVoiceMedia along with working as a Blackfinch UltraNED for two of the Blackfinch Ventures EIS portfolio companies.
Andrew Doe	Andrew brings deep knowledge of digital and e-commerce, having founded his own companies before working with major brands. In the 1990s he was at the forefront of digital change, including as the founder of retail business and UK dot com success story the Confetti Network which raised $20m and grew to over 100 staff before being acquired. Since Confetti, Andrew has been in demand as a consultant and director for leading UK brands. Roles have included e-commerce director, regional director, and non-executive director for Royal Mail, Carphone Warehouse, Mothercare, and Premier Farnell among others. An investor and mentor in early stage tech startups, Andrew works as a Blackfinch UltraNED for one of the Blackfinch Ventures EIS portfolio companies.

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