November 2018

Tax Efficient Review

Editor
Martin Churchill
BSc (Econ) FCA

EIS Growth fund

- **established provider**
- **Specialist, recycling/environmental focus**
- **with track record**

Earthworm EIS Fund

RISK WARNINGS AND DISCLAIMERS

This communication is provided for informational purposes only. This information does not constitute advice on investments within the meaning of Article 53 of the Financial Services and Markets Act (Regulated Activities) Order 2001. Should investment advice be required this should be sought from a FCA authorised person.

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GENERAL RISK WARNINGS

Your attention is drawn to the following risk warnings which identify some of the risks associated with the investments which are mentioned in the Review:

Fluctuations in Value of-Investments

The value of investments and the income from them can go down as well as up and you may not get back the amount invested.

Suitability

The investments may not be suitable for all investors and you should only invest if you understand the nature of and risks inherent in such investments and, if in doubt, you should seek professional advice before effecting any such investment.

Past performance

Past performance is not a guide to future performance.

Legislation

Changes in legislation may adversely affect the value of the investments.

Taxation

The levels and the bases of the reliefs from taxation may change in the future. You should seek your own professional advice on the taxation consequences of any investment.

ADDITIONAL RISK WARNINGS

Enterprise Investment Schemes

1. EIS companies are unquoted
2. The value of EIS Shares can fluctuate and Investors may not get back their investment;
3. There is no market for EIS Shares and Shareholders may not be able to realise their shareholding unless the EIS company is sold or floated on a recognised Stock Exchange. Dividends may not be paid.
4. Potential Investors should consider that past performance of the EIS Manager is no indication of future performance and there can be no guarantees that the EIS Company will meet its objectives.
5. Investment in unquoted companies can offer good investment returns, but, by its uncertain nature involves a much higher degree of risk than investment in a quoted portfolio.
6. Whilst it is the intention of the EIS Directors that the EIS company will be managed so as to qualify as an EIS, there can be no guarantee that it will maintain such status. A failure to qualify could result in the Company losing the tax reliefs previously obtained, resulting in adverse tax consequences for Investors, including a requirement to repay the 30 per cent. income tax relief.
7. Levels and bases of, and relief from, taxation are subject to change. Such changes could be retrospective.
8. A company can raise no more than £5m in any 12 month period after 5 April 2012 from any or all of the Enterprise Investment Scheme, the Corporate Venturing Scheme and Venture Capital Trusts.
9. The 2015 Finance No2 Act made the following changes:
   - The 'age limit' of an investee company must be less than seven years (but ten years for 'knowledge intensive' companies)
   - The 'lifetime limit' of tax advantaged funds that an investee company can receive is £12 million (but £20 million for 'knowledge intensive companies)
   - Since 6 April 2012 it has not been possible to fund management buyout (MBO) transactions using EIS money or VCT funds raised after that date. That rule also affects buy and build strategies and EIS money cannot be used to acquire shares in another company or the trade of another company (including goodwill and other intangibles).
10. Autumn Statement 2017 - from Royal Assent of Finance Bill 2017-18, a principles-based test will be introduced into the tax-advantaged venture capital schemes area. Tax-motivated investments, where the tax relief provides all or most of the return for an investor with limited risk to the original investment (i.e. preserving an investors' capital) will no longer be eligible. The new test will ensure that the schemes are focused towards investment in companies seeking investment for their long-term growth and development. The new test will not affect independent, entrepreneurial companies seeking to expand. Anew 'risk to capital' condition depends on taking a 'reasonable' view as to whether an investment has been structured to provide a low risk return for investors. The condition has two parts: whether the company has objectives to grow and develop over the long-term (which mirrors an existing test with the schemes); and whether there is a significant risk that there could be a loss of capital to the investor of an amount greater than the net return

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35 The Park
London
NW11 7ST
Tel: +44 (0)20 8458 9003

EIS Growth fund, established provider, Specialist, recycling/environmental focus, with track record

Earthworm EIS Fund

Scheme Type	Alternative Investment Fund
Business	Waste Recycling and Sustainable Food Production
Size	Open-ended
Promoter	RAM Capital Partners LLP
Fund Manager	EW Cap Ltd (Earthworm)
Minimum Subscription	£10,000
Minimum to proceed	None
Closing date	Open-ended
Facilitation payment	The Manager will facilitate payment of adviser charges from the investor to their adviser on an upfront and basis only (applicable to Advised Retail Clients)
Commission	3% adviser fee with 0.5% trail fee

Table 1: Tax Efficient Review summary of offering Pros and Cons

PROS	CONS
• First EIS vehicle returned £1.15 per £1 invested over a 4 1/2 year period. Second EIS vehicle returned £1.30 per £1 invested over 3 years and 5 months	• TER do not consider the first exit as an arm's length transaction
• Earthworm has raised £38m for this fund to date and the team focussed exclusively on the environmental sector.	• Earthworm has no experience of investing in the broader range of recycling and environmental assets currently being evaluated: recycling metals, plastics, carpets, tyres and other waste materials
• Earthworm is currently the only environmental EIS manager	

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Major changes since last review

Major changes since last review Issue 323 in January 2018:

- The funds raised will be investing in a broader range of recycling and environmental assets to include for example projects seeking to tackle a specific waste problem. Up until now the focus has been on organic and water waste. The fund intends to broaden these areas of investment and Earthworm are currently evaluating businesses aiming to recycle metals, plastics, carpets, tyres and other waste materials. In addition it might invest in sustainable food production.
- Earthworm achieved full fund management status in August 2018 and has since replaced the previous Manager, Thompson Taraz Ltd.
- A number of the SEIS companies set up to invest in renewable projects can no longer receive follow-on tax advantaged money as a result of the rule changes (see below)
- Earthworm had committed to reducing its annual management fee from 2% per annum to 0.5% per annum after 5 years but this is now changed to 7 years, a change not favourable to investors.
- Previously each investee company was 100% owned by its investors. This is no longer the case.
- Previously the targeted exit for the fund was 4-5 years but this is now targeted as 6 years.

Key Information Document

Since January 1 2018 a potential EIS investor must be furnished with a Key Information Document (KID). In the opinion of Tax Efficient Review, the use of KIDs by advisers and investors is not straightforward as EISs do not easily lend themselves to the prescriptive handling required by the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulations. After that date no EIS can be sold to an investor without a KID. The Earthworm KID is reproduced at the end of this review.

EIS Growth fund, established provider, Specialist, recycling/environmental focus, with track record

2017 Budget changes

The Finance (No 2) Act 2017-19 contains some changes to the EIS rules:

- A principles-based test has been introduced into the tax-advantaged venture capital schemes area.
- Tax-motivated investments, where the tax relief provides all or most of the return for an investor with limited risk to the original investment (i.e. preserving an investors' capital) will no longer be eligible.
- The new test will ensure that the schemes are focused towards investment in companies seeking investment for their long-term growth and development.
- The new test will not affect independent, entrepreneurial companies seeking to expand.
- A new 'risk to capital' condition depends on taking a 'reasonable' view as to whether an investment has been structured to provide a low risk return for investors. The condition has two parts: whether the company has objectives to grow and develop over the long-term (which mirrors an existing test with the schemes); and whether there is a significant risk that there could be a loss of capital to the investor of an amount greater than the net return.

We asked the Fund Manager for their view on the effect of these changes to this offer. Their reply was:

> "*Under the new rules which have come in since March 2018, post Royal Assent, our EIS fund refocussed on a wider range of growth and development opportunities and businesses seeking to scale up rather than backing companies looking to develop single projects. However, our environmental focus will remain the same making us the only environmental EIS fund available to investors.*"

Classification

Previously TER has classified EIS offers as either "Generalist" or "Lower return seeking" but following the changes lately the offers have changed and are now firmly "Growth" oriented.

We now have three classifications:

1. The previous "Generalist" offers we now call "Growth EIS – established provider with track record". This category includes providers such as Earthworm, Calculus, Draper Esprit, MMC, Oxford Capital and Parkwalk.
2. Some previous "Lower return seeking" providers are changing their strategy to embrace Growth and we call them "Growth EIS – established provider with refocused strategy". This category includes Great Point, Ingenious, Guinness, Puma and Triple Point.
3. The number of EIS providers offering "Growth" products has increased since the changes and there are a large number that previously we have not reviewed, either because they might have been selling "Growth" offerings into the EIS market for a while, but they had not gained much traction with TER subscribers. We refer to these as "Growth EIS – not reviewed previously".

This offer is of the first type.

In addition we segment between those

- with a relevant track record
- those without a relevant track record.

Earthworm has successfully achieved two exits:

1. Earthworm Ltd, which exited at £1.15 per share in 2016. However, we do not believe that this provides sufficient evidence of a track record given that the exit was not made to a third party, rather the shares were bought back by the existing management team at a price accepted by the independent board of Earthworm Ltd.
2. Earthworm Energy Ltd at £1.30 in December 2017. The company received £3.34m to "invest in a professional development team to assist customers in a range of renewable energy sectors" (Source: Earthworm website). Earthworm Energy Ltd was a developer of renewable energy projects and the exit was achieved by selling three prime solar assets which the company developed through planning and construction to the Next Energy Solar Fund. Next Energy Solar Fund is an institutional fund managed by Next Energy Capital with £650m under management. A price of £1.30 was paid to all Earthworm Energy investors and the

Fund Manager chose to waive their 1.5p performance fee in favour of investors.

Earthworm has no experience of investing in the broader range of sustainable food production, recycling and environmental assets currently being evaluated (recycling metals, plastics, carpets, tyres and other waste materials). However, the two exits to date indicate that in our view Earthworm does currently have a track record

Review based upon

This review is based upon meetings with Ben Prior (founder of Earthworm), other members of the Earthworm team and the Information Memorandum (" EW-Cap-EIS-Fund-Document-HQ-2018-V2-FINAL.pdf" "Earthworm EIS Fund" undated but Risk Factors contains date of 01/08/2018).

Offering type

The Fund is an alternative investment fund managed by EW Cap Ltd ('the Manager'), a private company registered in England and Wales. The Manager will act as the investment fund manager in making investments in EIS qualifying companies in the recycling and waste management sectors. Earthworm achieved full fund management status in August 2018 and has since replaced the previous Manager, Thompson Taraz Ltd. .

The Fund is a Complying Fund and so is not a UCIS. This means that the Fund is not subject to the marketing restrictions introduced by the Financial Conduct Authority ("FCA") in respect of "non-mainstream pooled investments" and can be marketed to retail clients. However, participation in the Fund is restricted to investors who can be categorised as equivalent to elective professional clients within the meaning of the FCA Conduct of Business Rules; that is to say, to investors who have been assessed by their independent financial adviser as having the expertise, experience and knowledge to make their own investment decisions regarding participation in the Fund and to understand the risks involved.

The advice in relation to this has been provided by RW Blears.

TER by reviewing the product does not validate, ratify, endorse or confirm its classification nor has it asked to be shown nor seen the advice provided by RW Blears.

Prime Chartered Accountants and RW Blears have been retained to provide ongoing general tax advice and accounting services.

Advance Assurance

Companies that are hoping to attract subscriptions under the EIS can seek an assurance from HMRC, in advance of inviting applications for shares, to the effect that it is accepted that the conditions of the scheme will be satisfied. The response to a request for an assurance will take the form of a statement as to whether, on the basis of the information provided, HMRC would be able to authorise the company to issue certificates under ICTA/S306 (2) or ITA/S204 in respect of the shares to be issued, following receipt of a form EIS1 satisfactorily completed.

For this Fund, we are told that no investment will be made into a company unless advance assurance has been received prior to the date of investment.

When can investors expect to receive their tax certificates

The tax relief rules for EIS investment are complex and need careful planning as both initial income tax relief and , if applicable, Capital Gains Tax deferral are involved. Without careful planning investors could find that claims for initial income tax relief fall into tax years where they might lack capacity and CGT deferral could fall outside the three year period after the capital gain crystallises during which it can be deferred by investing in an EIS company.

Among the key points to consider are:

- The Earthworm EIS Fund is an unapproved fund so tax relief will only be available from the date of the underlying EIS investments. The risk for investors in an unapproved fund, such as Earthworm's, is that they cannot be sure how much tax relief will be available in a certain tax year, as it is driven by the investment rate of the provider, nor when they will become fully invested.
- Initial income tax relief is only available when the underlying EIS company investments are made by the discretionary fund manager and is not the date that funds are sent to the manager.

- CGT deferral is always driven by the date of the underlying EIS investments.
- Receipt of certificates allowing investors to claim tax relief can take a long time, sometimes in excess of 12 months. If the EIS Company is not yet trading as at the date of investment then it must start trading and only after four months of trading can it apply to HMRC for permission to issue EIS 3 certificates to investors. HMRC then need time to look into the claim and agree than the Company can issue certificates to investors.

Please note Tax Efficient Review does not give tax advice.

We asked Earthworm for their view on when investors can:

- Expect to be allotted shares in the underlying EIS company(ies)
- When are the underlying companies expected to start trading
- When are the underlying companies expected to deploy their funds (it is only at this point that investors have an investment with earning potential rather than just cash in the bank)

Their answers are:

1. *Allotments take place on a quarterly basis with the next allotment scheduled for December 2018 and March 2019. This should allow those investors seeking to carry back tax relief to the 2017/18 tax year the opportunity to do so.*
2. *We expect the underlying companies to have been trading for the minimum period of four months at the point of allotment.*
3. *Funds will be deployed immediately into projects which are construction ready .*

By way of track record:

- Earthworm's first single company EIS offer, Earthworm Ltd, which closed in December 2011, delivered EIS3 certificates to investors in March 2012 (representing a certification turnaround time of 3 months).
- Earthworm's second single company EIS offer, Earthworm Energy plc, which closed at the end of July 2014, delivered EIS3 certificates to investors in November 2014 (representing a certification turnaround time of 4 months).
- Past investments in the Earthworm EIS Fund ('Fund') have delivered EIS3 certificates efficiently and within 6 months of the allotment date except for one investment which took 10 months.

The intention of the Fund is to remain open at all times to potential investors.

Overview Earthworm intends to invest in a minimum of 3 qualifying investments at each quarterly allotment point. The aim is for each of the investee companies to be fully funded through equity and not use debt. Earthworm has shown that it has the ability to raise funds from investors having already raised £38m for this fund. RAM Capital Partners LLP are the promoters to the offer which should serve to increase the inflows into the fund.

So what might investors find that they are invested in? Earthworm tell us:

"Our deal pipeline is currently over £30m in size and it consists of waste and recycling businesses. We have invested in DMP and intend to invest up to £4m. We are currently evaluating a follow on investment of up to £5m in TW Composting, our open windrow composting business. Also Innovate Recycling (carpet recycling), Floreon (plastics), Ignian (black bag refuse), Aurelius (battery recycling).

We have invested in our first sustainable food development, Firglas, and are also evaluating Astwood Infrastructure, a vertical food production business.

We don't know yet exactly the breakdown of the portfolio for investors as it depends on when they send in their application, how much we raise and how much capacity is remaining in each of the investee companies as we move towards the end of the tax year."

Earthworm raised £17m in tax year 2017/18 and we are told that these funds were invested into the following companies:

Astwood Energy	£1.75m
Beechwood Recycling	£1.75m
Henley Biomass	£2.9m
TW Composting	£3.75m
Fens LSS	£0.972m
H20 Resources	£0.972m
Kingfisher Water Treatment	£4.9m

In addition, the IM gives two further possible investee companies:

- **Firglas** is developing a series of microalgae cultivation facilities to supply algae derived compounds to existing markets such as food supplements (nutraceuticals) and fish feed for aquaculture. The Company will construct state-of-the-art facilities at commercial scale, using proven cultivation and harvesting systems to achieve an attractive unit cost of production. Apart from aquaculture, Firglas will offer high-margin products such as spirulina and chlorella into the food supplements and nutraceuticals industry. The Firglas management team has considerable expertise, having been active in the sector for more than five years and built a pilot plant cultivating food-grade algae in the Netherlands which has been running for more than three years.
  Current Status: The company plans to build and fully commission its first facility in the Netherlands by January 2019. Full development of the Spanish plant should be completed in a matter of months, and management have set September 2019 as a target for full site operations in Spain.
- **DMP Metals Ltd**. DMP Metals Ltd. was established to focus on improving the quality of non-ferrous materials, particularly aluminium, currently generated in the waste sector by providing an advanced technical secondary process for the removal of contaminants. By increasing the quality of the material the aim is also to increase its market value as a recycled product. The recent changes in the Asian market have put much greater emphasis on the need for higher quality standards in all recovered materials seeking a home in the Tiger Economy and DMP seeks to meet that need. DMP is seeking funding to build its first site in a central location to establish an operational hub which creates high quality recycled metals. Once operational, DMP will steadily increase the tonnages coming to site and will also develop similar systems for processing other non-ferrous metals such as copper and brass. The business will then continue to grow by identifying further sites across the UK.
  Current Status: DMP is negotiating with a number of blue chip waste processing companies for the supply of material and is seeking to formalise those arrangements in the next few months. The management team has extensive experience in recovering high quality materials and one of the many strengths of the business is that all components of the process are proven and are used across a range of materials and sectors. A number of sites have already been identified and it is anticipated that the first site will be secured by the end of 2018.

In our view Earthworm has experience in In-vessel composting, open windrow composting, waste wood recycling and has more recently begun operating two waste water treatment plants. But not all these technologies might be receiving potential investment going forward.

Because of the importance we place on track record, we invited Ben Prior of Earthworm to comment on the new technologies involved and where they are currently installed and successfully operating in the UK. His reply was:

> *"We have broadened the remit of the fund for this year as a result of changes to the EIS rules which came into effect in March 2018. We no longer support companies whose aim is to build a single facility; rather we support businesses looking to build multiple sites which they can grow and develop. The upshot of this strategy has meant we are looking at helping*

businesses focussing on a wider range of waste feedstocks which still require all of the skills we have developed over the last 8 years. For example, a metals recycling business or carpet recycling business will still have the same day to day requirements as a composting firm be that through planning, construction, environmental permitting and/or day to day operations. While the feedstocks may have broadened, the skills we have developed over the last 8 years are still required regardless of the type of waste. The technologies involved on each waste site must be proven elsewhere in order for us to be able to support them. However these are real businesses in which we are investing and there is risk in them hence why we continue to be eligible for EIS status."

Earthworm background

Ben Prior is the founder of Earthworm and entered the arena of EIS in 2001 as a promoter of EIS and other tax-efficient vehicles. Ben was a co-founder of RAM Capital, the largest independent fundraiser of tax efficient products in the market. Earthworm has worked alongside Foresight Group for a period of 4 years from September 2010 to April 2014. More recently Earthworm became an appointed representative of Thompson Taraz and in August 2018 achieved full fund management status.

The typical deal size for each investment opportunity will be between £2m and £12m depending on the size of the project, although the largest investment to date was a £10.5m biomass Combined Heat & Power facility. This was not an EIS transaction as biomass is not a qualifying trade. Earthworm intends to deploy capital immediately into underlying investee companies which are already trading and expects to deliver EIS3 certificates to investors no more than ten months from the date of allotment.

Earthworm do not intend to use any third party debt once operational as it is intended that the equity raised in each EIS company will provide sufficient funding for each project. Earthworm does reserve the right to use third party debt only where necessary and commits in the IM that this cannot be more than 30% loan to value of the project.

Each investee company will be supported both by the management team and EW Cap as the fund manager. The management team who has conceived the idea will have an equity position on investment, the size of this depends on the nature of the business. Earthworm will not own equity but will be incentivised on a performance basis as mentioned below.

As examples, the percentage of the following companies not owned by the EIS investors are:

Company name	% not owned by EIS investors
TW Composting	0%
Henley Biomass	0%
Astwood Energy	0%
Fens LSS Ltd	0%
H20 Resources Ltd	0%
Kingfisher Water Treatment	0%
Beechwood Recycling Ltd	0%
DMP Metals Ltd	25%
Firglas Ltd	45%

Strategy

The Fund will focus on investing in qualifying companies which seek to build and operate recycling, sustainable food production and waste management facilities. Earthworm believe this to be an area which is undergoing and will continue to undergo unprecedented growth in the next 10 years. The UK has specific waste management targets laid down by Government and the EU that it must meet or it will face the threat of financial penalties.

The manager says:

"The UK's recycling rate is currently 45% and has been static for the last 7 years. 26m tonnes of our waste still goes to landfill every year. Out of that, over 7m tonnes is biodegradable organic waste, a resource which could easily be used elsewhere to reduce our requirement

on fertiliser for example. Landfill tax charges are currently at record highs, the tax alone is set at £88.95 per ton. Taxpayers are footing the bill for this waste disposal and increasingly it is felt that it is no longer acceptable that a first world nation like the UK should send its waste in the millions of tonnes abroad to places that simply can no longer handle it. The evidence is everywhere, from the cars we drive to the plastic we throw away which end up in oceans thousands of miles away.

Not only is the fund seeking to support companies increase the UK's recycling rates, it is also helping to support businesses aimed at making the UK more sustainable. Climate change and population growth is having an adverse impact on the world's ability to sustainably feed itself. Over the next 30 years, world agricultural production will need to increase by approximately 60% in order to meet the expected population increases. In the UK, the population is predicted to grow to more than 70 million by 2030. Simply put, we need more space to grow food. The fund is committed to investing in solutions, from sustainable vertical food production to hydroponics and other efficient farming techniques."

Investment areas

We asked Earthworm for brief descriptions of each of the main potential investment areas.

"We will be investing in a broader range of recycling and environmental assets to include for example projects seeking to tackle a specific waste problem. Up until now our focus has been on organic and water waste. Our fund intends to broaden these areas of investment and we are currently evaluating businesses aiming to recycle metals, plastics, carpets, tyres and other waste materials. These businesses intend to make their money in exactly the same way as our existing EIS portfolio in the form of gate fees i.e what each company will charge its customers to receive waste and thus avoid the very expensive route of landfill. We will of course be continuing to invest in projects seeking to process organic waste and water waste as we have previously done."

Table 2 shows the current status of each potential investee company as at July 2018.

Investment criteria

In past years, the Fund would only commit to deploy capital in an underlying company once the following parameters are met:

- The facility has a fully consented planning application
- The facility is at heads of terms on either a long-term lease or a purchase of the land.
- The facility has visibility on at least 50% of the waste material required to feed the site
- The facility has begun the process of obtaining an Environmental Permit to operate from the Environment Agency
- Where applicable, the facility has begun the process of obtaining an Animal Health License from DEFRA to receive food waste and other organic waste requiring a process of pasteurisation
- The facility has a scheduled and fully costed construction budget delivered by an independent quantity surveyor or construction company for the delivery of the whole of the facility
- A comprehensive insurance package is in place for the construction of the site

These no longer apply to funds raised by this offer.

Potential returns

The Fund will invest in companies with the following typical revenue drivers.

- Gate fees for the receipt of all feedstocks. These will ordinarily be signed under contract with a range of customers from local authorities to food producers to other commercial and industrial businesses.
- Revenues derived from the sale of products, for example PAS100 accredited compost, top soil or to other industries requiring recycled resources.

It is expected that returns for the underlying companies will be driven by a function of gate fees received versus the inherent processing cost of the waste material in question.

Earthworm tell us that revenues are stable and can easily be mapped from one year to the next.

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Table 2: Current position of potential investee companies Source Earthworm

	DMP Metals Ltd	TW Composting Ltd	Fens LSS Ltd
Technology used	A range of screeners, magnets and separators	None	Water evaporation from Draygon
Current funds invested (£M)	£2.3m	£5.3m	£0.9m
Price per share for new investors	£1	£1	£1
Details of lease of land involved with term, annual rent and break clauses	Freehold purchase	10 year extension under discussion	25 year lease, no breaks
Current construction status	Just invested	Operating	In construction from 2019
Outstanding charges (Amount, annual interest %, person entitled. brief description)	None	None	None
If operational, what % of rated throughput has been achieved in last six months	N/A	Fully contracted. Seeking new sites.	N/A
Has site received any fines or operating restrictions since being built	No	No	No
Type of feedstock required	Metals	Garden, wood	Water
What contracts are in place currently to provide feedstock (source, gate fee, term of contract)	None but discussions ongoing with Biffa and other waste operators	8,000 tpa with Daventry DC. 16,000 tpa with East Northants DC.	Contracts under discussion with a range of waste management companies

The seasonality has a small bearing on waste 'inflows' – for example, more green and garden waste is received in the growing season between March and September than in the winter months of November, December and January. Earthworm also tell us that the number of 'bad debts' is extremely low as, if customers' bills remain unpaid, then they are refused access to site until the outstanding liability is up to date. With no other outlet to take the waste other than landfill, Earthworm's experience is that customers pay in a timely fashion 30 days' after the date of the monthly invoice.

While the EIS funds will be deployed initially to construct each recycling facility, the construction will be outsourced to a third party and agreed under a fixed design and build contract where the construction company commits to deliver the project for a specific price and within a specific timescale.

Each recycling facility will also take out an insurance policy to cover the facility both from a health and safety and operational perspective but also to protect the company's anticipated income streams in the event of a forced shutdown of the site which is outside the management team's control. A forced shutdown might be in the form of a significant failure of the technology on site. Not only would the manufacturer or technology provider be obliged to fix the problem under warranty but also the anticipated revenues which might be lost as a result of the shutdown are covered under the facility's insurance policy.

Earthworm tell us that the typical processing cost of an organic waste recycling facility would be in the region of £10 per ton. The anticipated gate receipts for waste material received by each facility would range from £20 to £50 per ton depending on the size and type of the waste and depending also on the length of contract committed to by the customer. So the margin each recycling facility expects to make is a function of the combined gate fees received on the site less the cost of processing.

Target returns

Illustrative target returns are a minimum of £1.20 over a 6 year period (this return does not include the 30p initial income tax relief). (Returns are set out for illustrative purposes only and are not a reliable indicator of future performance. No warranty as to future outcome is implied or should be inferred. Actual results will be different).

Key drivers in this potential return scenario are:

- Initial costs and fees are 3% for Advised Retail Clients.
- Earthworm charges an annual management fee of 2% + VAT. Earthworm charges no deal fees and no monitoring fees. The 2% fee covers all administration fees and all running costs associated with managing the fund including legal, tax, accounting and investor relations.

- VAT is added to the annual management fee of 2% per annum. However, the EIS companies are all VAT registered, and as such any VAT added will be reclaimable by the companies in full.
- Earthworm expects that each investee company will take up to a year to complete construction and commence operations. Revenues will begin to be generated from year 2 onwards. A key driver is the ability to begin generating revenues as soon as construction and commissioning has been completed.

The possible reasons why investors might receive a negative return (i.e receive back less than the 100p invested) include (the list is not intended to be exhaustive):

- The operating costs of the facility are significantly higher than anticipated
- The facility is unable to process the expected tonnages
- The facility experiences ongoing and prolonged mechanical failure leading to extended downtime
- A trade buyer cannot be found at the expected EBITDA multiple anticipated by Earthworm

Management Team The Earthworm Management Team is listed in Appendix A.

Track record The limited track record is based on the two exits to date covered above.

Exits Earthworm intends to deliver an exit for shareholders around six years (previous Earthworm offers targeted between years 4 and 5) from the date of investment. In order to meet the targeted investment return of in excess of £1.20, a trade sale of the underlying businesses would be required.

Earthworm tell us that they anticipate the underlying businesses being attractive to one of the large waste management and logistics companies in the UK. They maintain that a portfolio of recycling facilities in specific locations across the UK will be attractive to the larger waste management players seeking to drive down their own costs of waste disposal and transport costs.

In simple terms, successful waste management sites are those with plentiful access to waste local to where the waste arises. Not only does this discourage others from attempting to compete in the area as the waste contracts in the area are effectively 'tied up' but it also provides the relevant local authority with the most cost effective solution for its waste disposal problems as a result of the low number of miles the waste has to travel in order to be disposed of.

Earthworm tell us that their exit multiple expectations are a 5x EBITDA multiple on year 3 numbers which they believe to be a conservative estimation for a market where a multiple of 8 to 10x would be achievable. Each facility and their return expectations will of course be slightly different depending on the size and scale of each project. Earthworm is seeking to invest in a 'cluster' of facilities focussed on specific areas in England. The first cluster is in Warwickshire and the West Midlands, the second is in the East Midlands and the third is in South Yorkshire. The 'cluster' approach is designed to deliver a series of assets to a potential buyer who can then leverage these sites to provide a whole logistical solution to a specific region, county or local authority. Earthworm believe that this will be a more attractive asset which one of the large UK waste management company's will buy at a premium. Large waste management companies tend not to commit to buying single sites but prefer acquiring a portfolio of assets and, as a result, a far greater processing capacity.

Fees All costs incurred in relation to the Offer will be paid by the companies out of the proceeds of the Offer.

- The upfront fees are 3% of funds raised for Advised Retail Clients (6% for Professional Clients including intermediaries' commission of up to 3.0%).
- In regard to the management fee, Earthworm has committed to reducing its annual management fee from 2% per annum to 0.5% per annum after 7 years. This is an increase from last year's fund and is, according to the management, as a result of the change in focus

of the fund from a project specific fund to a fund which is supporting businesses seeking to deliver multiple projects. In another change not favourable to investors, the targeted exit for the fund that was previously 4-5 years is now quoted as 6 years (no prediction is made or implied and the holding period could be much longer).

- A performance fee is payable once the Fund has returned to investors aggregate distributions in excess of £1.20 per £1.00. Earthworm will be entitled to a performance fee of 30% of any return in excess of £1.20.

Conclusion A fund raising from Earthworm Capital, currently the only environmental EIS manager, seeking to raise an unlimited amount to invest in a number of EIS qualifying companies.

As with most EIS offers, potential investment areas are wide and varied. In summary we are told , *"investors will participate in the construction and ownership of recycling, waste and renewable energy assets"*.

Examination of the investee companies mentioned to us by the Fund Manager shows that the areas covered include:

- In-vessel composting (Beechwood Recycling Limited)
- Open windrow composting and waste wood recycling (TW Composting Ltd, Henley Biomass Ltd)
- Waste water treatment (Astwood Energy Limited, Kingfisher Water Limited) using an evaporation process from the USA but not yet installed in Europe
- Sustainable food production

In our view Earthworm have only limited experience so far in In-vessel composting, open windrow and wood waste processing and some of the potential investment areas involve new and untested technologies such as microalgae cultivation facilities which is described as "state-of-the-art" and only involves a pilot plant cultivating food-grade algae in the Netherlands.

Earthworm has successfully achieved two exits from its first EIS companies at a price of £1.15 and £1.30 respectively.

Tax Efficient Review Total rating: 85 out of 100 (for EIS Growth fund, established provider, Specialist, recycling/environmental focus, with track record)

Risk Factors reproduced from the Information Memorandum

The Manager has taken all reasonable care to ensure that this Information Memorandum is fair, clear and not misleading, but the statements of opinion or belief contained in this document regarding future events constitute their own assessment and interpretation of information available to them at the date of issue of this document and no representation is made that such statements are correct or that the objectives of the Fund will be achieved. Additionally, some information contained in this document has been obtained from published sources prepared by other parties and no responsibility is assumed for the accuracy or completeness of such information. Accordingly, each prospective Investor must determine for himself/herself what reliance (if any) he/she should place on such statements and information and no responsibility is accepted by the Manager in respect thereof.

The information and illustrations in this document are stated as at 01/08/2018. The information contained in this Information Memorandum makes reference to the current laws of England and Wales concerning EIS Relief and associated tax benefits as at the date of the Information Memorandum with some references to proposed new rules intended to apply from Royal Assent to the Finance Bill 2017- 18. The levels and bases of relief may be subject to change. The Tax Reliefs referred to herein are those currently available and are of summary nature only. The application and value of such Tax Reliefs depends upon individual circumstances of each Investor. Accordingly the Tax Reliefs may or may not apply to any specific individual depending on their circumstances, and may change or be withdrawn by the government or the taxation authorities. If you are in any doubt as to your position, you are strongly advised to consult your professional adviser before making an investment.

An investment in the Fund is a high risk investment and any capital invested may be entirely lost. Prospective Investors should consider carefully whether an investment in the Fund is suitable for them in the light of the information in this document and the financial resources available to them. Additional risks and uncertainties relating to the Investee Companies that are not currently known to the Manager, or that the Manager currently deems immaterial, may also have an adverse effect on the Investee Companies' businesses, financial condition, operating results or share price. The value of the investments made by the Fund could be substantially reduced as a result of any of these risks and Investors may lose all or part of their investment in the Investee Companies. Past performance is not necessarily a guide to the future. The following lists of potential risks are not intended to be comprehensive.

Investors may not receive back the full amount that they have invested. The value of each investment made by the Fund may fall and may even lose all of its value. The rates of tax, tax benefits and allowances described in this Information Memorandum are based on current legislation and HMRC practice and are summaries only. Stated rates may change from time to time and are not guaranteed.

General Risks

In common with other enterprises across the UK, companies in the environmental, waste management and recycling sectors have the normal commercial risks, bad debts, bad marketplace etc as other trading companies. There are also several technical risks associated with the industry, such as securing planning permission and keeping the equipment operating efficiently. Environmental, waste management and recycling companies own machinery which can break down, causing delays, and sometimes suppliers fail to deliver on time, which in turn affects the output of the facilities for which the Investee Companies may suffer reduced revenues or performance penalties. The Manager will endeavour to ensure that the Investee Companies in which the Fund invests have robust procedures in place to deal with technical and mechanical issues, but there will always be a residual risk of equipment breakdown or other business interruption. Investment in smaller, unquoted companies, by its nature, involves a high degree of risk and this is even more so the case with EIS companies which must meet a "risk to capital" test requiring that there be a significant risk that capital will be lost. Proper information for determining such companies' value or the risks to which they are exposed may also not be available. Investment in such companies can offer good investment returns but the market for unquoted shares is often illiquid and uncertain by its nature. Consequently, such investment involves a higher degree of risk than a portfolio of quoted shares. In view of the nature of the proposed trading activities of the Investee Companies, an investment in the Fund should not be regarded as a short-term investment and interests in the Companies will not be readily realisable. In addition, the EIS rules require minimum holding periods or the EIS Reliefs may be withdrawn. It is therefore very unlikely that any exit will occur during the statutory three-year minimum holding period of an investment. The Fund may not be able to arrange liquidity in the underlying investments. There can be no guarantee that any appreciation in the value of any of the Investee Companies will occur or that the commercial objectives of the Investee Companies will be achieved.

Earthworm EIS Fund

Investments in small companies are acknowledged widely to be high-risk investments. Such companies fail for many reasons and such failure often leads to a total loss of the investment monies. EIS investments are to an extent protected against such risks because of the Tax Reliefs attached to such investments.

Changes in economic conditions including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends, tax laws and other factors can substantially and adversely affect equity investments in general and the Investee Companies' prospects in particular.

The shares of the Investee Companies will not be publicly traded and there will not be any other liquid market. As such, an investment by the Fund will not be readily realisable. The investments' value will, therefore, be very difficult to determine. Additionally, an investment in the Investee Companies will be inherently more risky than an investment in a publicly traded company and will be highly illiquid such that Investors may be unable to realise their Investment or may only be able to do so at a significant loss. Prospective Investors should also be aware that the reporting and disclosure requirements that apply to publicly traded companies will not apply to private companies and accordingly, shareholders may receive less detailed information about the financial and commercial progress of the Investee Companies in which the Fund invests.

Risks relating to the Performance of the Manager

The performance of the Fund is dependent on the ability of the Manager to source and complete suitable environmental, waste management and recycling investments using the skills and experience of the Manager and the relationships it has forged with prospective customers and suppliers. As such, were a key partner, consultant or employee of the Manager to leave, this might reduce the pipeline of possible investee companies in which the Fund can invest and also the smooth-running of the businesses in which the Fund has already invested.

Risks relating to Conflicts of Interest

Conflicts of self-interest may arise between the Manager and Investee Companies if the Manager, or an Associate, contracts with an Investee Company. If the Manager or an Associate has or may have any material interest in relation to an Investee Company that conflicts with the interests of the Investors in that Investee Company then, as soon as practicable after that material interest is foreseen or has arisen, the Manager shall disclose this to the independent chairman of the Investee Company and, in addition, the Manager will also abide by the Conflicts of Interest Policy.

Risks relating to the EIS

There are several circumstances in which an Investor could cease to qualify for any of the Tax Reliefs. As a result, any tax which would have been payable to HMRC, but for the Investor obtaining the relevant Tax Reliefs, could become payable. These circumstances may relate to an Investee Company ceasing to be an EIS Qualifying Company or the Investor himself/herself failing or ceasing to qualify for EIS Relief. For example, an Investor could cease to qualify for full EIS Relief if he or she receives value from one of the Investee Companies during the period beginning one year before the shares in the Investee Companies are issued and ending on the conclusion of the three-year holding period. If an Investee Company ceases to carry on business of the type prescribed for EIS Qualifying Companies during the three-year holding period, this could prejudice its qualifying status under the EIS. The situation will be closely monitored with a view to preserving the Investee Company's qualifying status, but this cannot be guaranteed. A failure to meet the qualifying requirements for the EIS could result in:

- Investors being required to repay the 30% income tax relief received on subscription for the shares in the Investee Companies; and
- a liability to tax on capital gains on disposal of the Investee Companies' shares.

Although provisional approval will normally be sought from HMRC that the Investee Companies and their activities should qualify under the EIS, there is no guarantee that the formal EIS clearance will be granted or that such clearance will not be subsequently withdrawn. In those circumstances, Subscription Monies will not be returned to Investors. If an Investee Company fails to obtain EIS Qualifying Company status or if such status were to be withdrawn, EIS Relief would not be available to Investors or could be withdrawn. The rates of tax, tax benefits and allowances described in this Information Memorandum are based on current legislation and HMRC practice and may change from time to time and are not guaranteed.

Risks on Returns

The value of the Fund investments depends on the performance of the Investee Companies and other market factors outside the Manager's control. There can be no assurance that the Fund or the Investee Companies will meet their objectives or that suitable investment opportunities will be identified by the Manager.

Fund Issues

The Manager reserves the right to cease to manage the Fund in certain circumstances set out in the Investor's Agreement, in which event it will try to transfer their mandate to act as Investors' investment manager to another fund manager authorised by the FCA or to terminate the Fund in an expeditious way. In such circumstances, the Manager will seek to realise investments in an orderly fashion over a period of three to five years from the date of investment but it cannot be guaranteed that the investments made can easily be realised within this period and, even where they can be realised, that this can be done on an advantageous basis. Generally, the Manager reserves the right to return a small surplus of cash if it concludes that it cannot be properly invested. There can be no guarantee that market conditions will be propitious in respect of the sale of any shares at the time the Fund has targeted such a sale. This may significantly delay the targeted exit. It may be difficult to predict when an exit may take place and there can be no guarantee that an exit will ever take place. Accordingly, Investors may potentially lose the total amount of their Subscription.

It may be difficult and time-consuming for an Investor to terminate his/her Investor's Agreement or dispose of his/ her Investments made by the Fund due to the illiquid nature of the Investments. The Fund may not be able to realise such Investments quickly, at a reasonable price or, in some circumstances, at any price.

Although the Fund will aim to invest all Investors' funds in a target of three Investee Companies, special circumstances may apply to certain Investors which may mean that they hold investments in fewer Investee Companies than this. Such Investors will not benefit from the same diversification, and consequently, their investment in the Fund will carry a higher risk.

The timing of any realisation cannot be predicted and proper information for calculating the current value of the Fund's investments or the degree of risk posed may not be available. There is no mechanism to remove or change the Manager of the Fund other than by way of termination of the Investor's Agreement. The Fund should therefore be considered a captive investment and an Investor should assume that any investment in the Fund will be managed by the Manager until realised. Investee Companies may fail, as may the assets they own or operate, and investments in Investee Companies may be realised for substantially less than the acquisition cost or may be impossible to realise at all.

Custody Risk

Your cash and assets deposited with, and held by, the Custodian in respect of invested funds pending investment, and the Manager (to the extent it or an Associate provides Nominee services to Investors) shall be held at Investors' risk and neither the Manager nor the Custodian (including their respective directors, shareholders, partners, officers, employees, agents or advisers), will be liable to any Investor in the event of insolvency of the bank in which your cash and assets are held, nor in the event of any restriction on the Manager's ability to withdraw funds from such bank for reasons beyond their reasonable control.

Forward-looking Statements

Investors should not place reliance on forward-looking statements. This Information Memorandum includes statements that are (or may be deemed to be) "forward looking statements", which can be identified by the use of forward-looking terminology including the terms "believes", "continues", "expects", "seeks", "intends", "may", "will", "would", "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements contained in this Information Memorandum, based on past trends or activities, should not be taken as a representation that such trends or activities will continue in the future.

Appendix A: Management team Source Earthworm November 2018

- Ben Prior – Co-Founder & Managing Partner – Following many years in tax– efficient corporate development, Ben Prior co– founded RAM Capital in 2007. Three years later, he left RAM Capital to set up Earthworm. The Daventry IVC composting facility was installed shortly afterwards and Earthworm has grown as a business with over £50m under management as at July 2017.
- Mike Capewell – Director of Operations – After many years as a consultant to Deloittes, during which time he worked with many leading organisations, Mike founded his own specialist financial modelling consultancy; to date, he has undertaken due diligence on over 20 renewable energy projects.
- Tony Wehby – Project Development and Construction – has some 25 years of construction industry experience, much of which was involved in working on complex projects. Significantly, he has been heavily involved in the Midlands and he has considerable experience in local planning issues.
- Neil Drake – Project Development – In recent years, Neil Drake has held various senior positions at EdF Energy, part of the French- owned EdF Group. He had a major role within the company to commercialise nuclear power sales via the successful launch of Blue which supplies B2B customers and some residential households.
- Charlie Morgan – Project Development – career has been primarily in the financial debt markets, where he worked for some 25 years. In 2009, he became a founding partner of Parkwalk which is now a well-respected name in EIS financing; it specialises in developing and commercialising early-stage technology.
- Stephen Wilson – Project Management and Delivery' – has over 30 year's experience in the construction industry managing the delivery of large infrastructure and process projects Internationally for many Plc's. Stephen has been a Director of a waste management and logistic company and has a proven track record of delivering projects on time and to budget

Reproduction of Key Information Document for Earthworm EIS Fund

Key Information Document

Purpose

This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

You are about to purchase a product that is not simple and may be difficult to understand

Product

The Earthworm EIS Fund managed by EW Cap Limited (www.ewcap.co). EW Cap Limited is authorised and regulated by the Financial Conduct Authority. This document has been produced on 10 August 2018.

What is this product?

Type

An Alternative Investment Fund consisting of a number of investment management agreements between investors and EW Cap Limited, managed in parallel.

Objectives

The Earthworm EIS Fund identifies and invests in companies focused on the environmental sector. Monies raised will be deployed into investee companies seeking growth which provide employment and assist in the UK reaching its recycling target of 50% by 2020 and help the UK lower its dependence on food imports and become self-sustaining.

By investing in the Fund, UK taxpayers may be able to benefit from the reliefs provided by the Enterprise Investment Scheme (EIS), and loss relief should they realise a loss on any of the Investments (net of income tax relief received). Should an Investor die, provided he/she has held his/her Investments for two years at the time of death, his/her Investments should be free from inheritance tax though this tax relief may be scaled back if, at the date of death, the Investee Companies hold capital in excess of needs.

Intended retail investor

The Earthworm EIS Fund is limited to retail investors who have been advised by an authorised financial advisor or who are certified High Net Worth or self-certified Sophisticated Investors and who have successfully completed the application process in full.

What are the risks and what could I get in return?

Risk Indicator

1 2 3 4 5 **6** 7

Lower risk — Higher risk

The risk indicator assumes you keep the investment for at least 5 years. You may not be able to sell the investment early or you may have to sell at a price that significantly impacts how much you get back.

This investment offers no capital protection against market risk and therefore you can lose all the capital you invest (but you do not bear the risk of incurring additional financial obligations or commitments).

Performance Scenarios (excluding tax reliefs)	1 Year*	3 Years*	5 Years (minimum recommended hold period)
Unfavourable scenario			
What you might get back after costs	94%*	79%*	64%
Average return each year	-6.0%	-6.9%	-7.1%
Moderate scenario			
What you might get back after costs	94%*	89%*	102%
Average return each year	-6.0%	-3.6%	0.5%
Favourable scenario			
What you might get back after costs	94%*	89%*	120%
Average return each year	-6.0%	-3.6%	4.1%

* This product cannot be easily realised. This means it is difficult to estimate how much you would get back if you attempt to realise your investment early. You will either be unable to realise your investment early or you will have to pay high costs or make a large loss if you do so.

The scenarios shown illustrate how your investment could perform. You can compare them with the scenarios of other products. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and are not an exact indicator. What you get will vary depending on how the market performs and how long you keep the investment/product. The figures shown include all the costs of the product itself, but may not include all the costs that you pay to your advisor. The figures do not take into account your personal tax situation, which may also affect how much you get back. Your maximum loss would be that you will lose all your investment.

What happens if EW Cap Limited is unable to pay?

As a shareholder in the underlying companies the Fund invests in you would not be able to make a claim to the Financial Services Compensation Scheme ("FSCS"). If you had a claim against EW Cap Limited which it was unable to pay, you may be entitled to compensation from the FSCS. Please note, the scheme does not cover a failure of the Earthworm EIS Fund. For more information see www.fscs.org.uk.

What are the costs?

The Reduction in Yield (RIY) shows what impact the total costs you pay will have on the investment return you might get. The total costs take into account one-off, ongoing and incidental costs. The amounts shown here are the cumulative costs of the product itself, for three different holding periods. They include potential early exit penalties. The figures assume you invest £10,000. The figures are estimates and may change in the future.

Costs over time Moderate scenario (£10,000)	If you exit your investment after 1 Year*	If you exit your investment after 3 Years*	If you sell your investment after 5 Years
Total Costs	**£600**	**£1,080**	**£1,560**
Impact on return (RIY) per year	-6.0%	-3.6%	-3.1%

* This product cannot be easily realised. This means it is difficult to estimate how much you would get back if you attempt to realise your investment early. You will either be unable to realise your investment early or you will have to pay high costs or make a large loss if you do so.

All costs above are paid by Investee Companies which should not therefore reduce the tax relief available to Investors. These costs will, however, reduce the value of Investors' holdings as the Investee Companies will be required to pay out these amounts at the point of investment. The returns shown in the Performance Scenarios above are after costs but exclude the effect of tax reliefs.

Composition of costs

The table below shows:

- the impact each year of the different types of costs on the investment return you might get at the end of the recommended holding period; and
- the meaning of the different cost categories.

This table shows the impact on return per year (Moderate Scenario)			
One-off costs	Entry costs	-0.7%	The impact of the costs you pay when entering your investment.
Ongoing costs	Other ongoing costs	-2.4%	The impact of the costs that we take each year for managing your investments.
Incidental costs	Performance fees	0.0%	The impact of the performance fee. We take these from your investment if the product outperforms its target return (shown here as the Favourable Performance Scenario). The performance fee is 36% (including VAT) of the return over the target return of 20%.

How long should I hold it and can I take money out early?

Required minimum holding period: 3 Years

The required minimum holding period is 3 years although the recommended minimum hold period is 5 years and this product cannot be easily realised. This means it is difficult to estimate how much you would get back if you attempt to realise your investment early. You will either be unable to realise your investment early or you will have to pay high costs or make a large loss if you do so.

How can I complain?

You can complain initially to EW Cap Limited by contacting the Compliance Officer using the details listed on the FCA register or our website. If you remain dissatisfied with our service and you are an eligible complainant, you may ask the Financial Ombudsman Service to consider your complaint. For more information see www.financial-ombudsman.org.uk.

Other relevant information

Please read the Information Memorandum for the fund carefully, specifically the Risk Factors set out on pages 27-29 , before making your investment decision and confirm with your independent financial adviser that you have the expertise, experience and knowledge to properly understand the risks of participating in the Fund.

Prospective Investors should note that the value of an investment can fall as well as rise and investors may not get back the amount originally invested. Therefore, you should only make investments in the fund that you can afford to lose without having any significant impact on your overall financial position or commitments.

Taxation levels, bases and reliefs may change if the law changes and the tax benefits of products will vary according to your personal circumstances; independent advice should therefore be sought. Please note it cannot be guaranteed that companies invested in by the fund will achieve or retain EIS qualifying status or that Investors will qualify for the tax reliefs available under these schemes.