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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 (or £10m for Knowledge Intensive Companies) 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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Scheme Type	Unapproved EIS Fund
Business	Investing in generalist technology-based growth EIS companies towards the larger end of the EIS spectrum
Size	£30m-£40m
Promoter	RAM Capital LLP
Fund Manager	Encore Ventures LLP
Minimum Subscription	£25,000
Minimum to proceed	None
Custodian	Mainspring Fund Services
Nominee	MNL Nominees (DraperEspritEIS) Limited
Closing date	Quarterly closes - 5th January, 5th April, 5th July, 5th October
Facilitation payment	The Manager will facilitate payment of adviser charges as agreed between investor and adviser

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

PROS	CONS
• A track record of successful exits from EIS companies within the predicted timescale	• Full deployment of investor capital can take up to 18 months
• Established venture capital manager with an extensive network and international reach	• The performance fee on successful exits is paid on a deal-by-deal basis rather than total return to investors, but there is a significant performance hurdle to be reached first
• Invests in some of the largest fund raising permissable within the EIS legislation and on the same terms as institutional investors	

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Key Information Document (KID):

Any investor looking to invest into an EIS must be furnished with a Key Information Document (KID). Tax Efficient Review reproduce the KID for each EIS at the end of their review. In the opinion of Tax Efficient Review, the use of KIDs when comparing EIS offers is not straightforward as EISs do not easily lend themselves to the prescriptive handling required by the Packed Retail and Insurance-based Investment Products (PRIIPs) Regulations.

Rule changes:

The Finance Act 2017-19 contained important changes to the EIS rules regarding the types of companies which would qualify for EIS relief. The Act introduced a principles-based test for assessing which companies would qualify for EIS/VCT tax relief. The effect of this test is that tax-motivated investments, where the tax relief provides most, or all, of the return for an investor, or if there is limited risk to the original investment, will no longer be eligible. The test does not affect independent, entrepreneurial companies seeking to expand.

Now that the new rules have had time to bed in, what this means for investors and their advisers is that significant risk has to be taken on when investing in EIS companies. Asset-based EIS companies, in which a company traded from a property

Table 2: Funds under management as at 06 April 2019 Source: Encore Ventures LLP

	Net assets £m	Annual Management fee	Still to be invested £m
EIS Funds			
EIS 1	4	£ nil (no fees after 4 years)	follow on only
EIS 2	5	£ nil (no fees after 4 years)	follow on only
EIS 3	5	£ nil (no fees after 4 years)	follow on only
EIS 4	7	£ nil (no fees after 4 years)	follow on only
EIS 5	11	£200,000	follow on only
EIS	84	£1,680,,000	Note 1
TOTAL EIS	**£115m**		
NON EIS funds than can co-invest with EIS Funds			
Draper Esprit PLC	Not disclosed	Not disclosed	Not disclosed

Note 1: Including 5th April 2019 fund raising close, rolling deployment schedule per quarter, with approx 2 deals current additional cash in hand.

and which provided a degree of downside mitigation, now longer qualify for EIS relief. Consequently, a number of EIS managers have had to significantly change their investment process over the past 2 years from asset backed investments to those focussed on growth companies.

Classification

Tax Efficient Review, in the light of the changes to the EIS rules, has had to amend how it segments the EIS market. In previous years, the market could be split between those EIS managers seeking growth, and the asset backed EIS managers seeking lower returns. This classification no longer applies due to the new EIS rules.

We currently classify EIS managers using the following three categories:
1. Established EIS managers with a track record in growth return EIS investments (e.g. Draper Esprit, MMC, Parkwalk)
2. Established EIS managers who have had to change their investment strategy to making growth return investments (e.g. Puma, Great Point Media)
3. Newer EIS managers who make growth return EIS investments, but are without a significant track record of exiting these investments

TER classify the Draper EIS offer as "EIS Growth fund from an established provider with track record".

Review Process

Tax Efficient Review has enhanced the contents of our EIS reviews to focus more on the areas of investment performance and underlying fees. To increase the comparison of performance, we now include a Table 4 which details and amalgamates how many investments the EIS manager has held across the following categorisations:

1. **Exited above cost** (EAC - creating a profit for investors)
2. **Exited below cost** (EBC – creating a loss for investors)
3. **Completely written-off** (CWO – resulting in no return for investors)
4. **Still Held** (SC)

We have also asked EIS managers being reviewed whether any performance fee has been earned on any of their EIS investments. This is typically 24% of the total return in excess of the full amount of an investor's original contribution into an EIS company, and is a key metric of successful exits and satisfied investors.

In the area of fees, we now include Appendices which look at the arguments for and against charging investors initial and annual fees upfront, as opposed to getting the underlying EIS companies to pay for them. We also look at the impact of fees on how much is invested and hence how much tax relief can be claimed, and a breakdown of fees and revenue streams for EIS managers and who pays them.

Structure

This offering is classified by the provider as a non-UCIS discretionary managed investment service. TER by reviewing the product does not validate, ratify, endorse or confirm its classification.

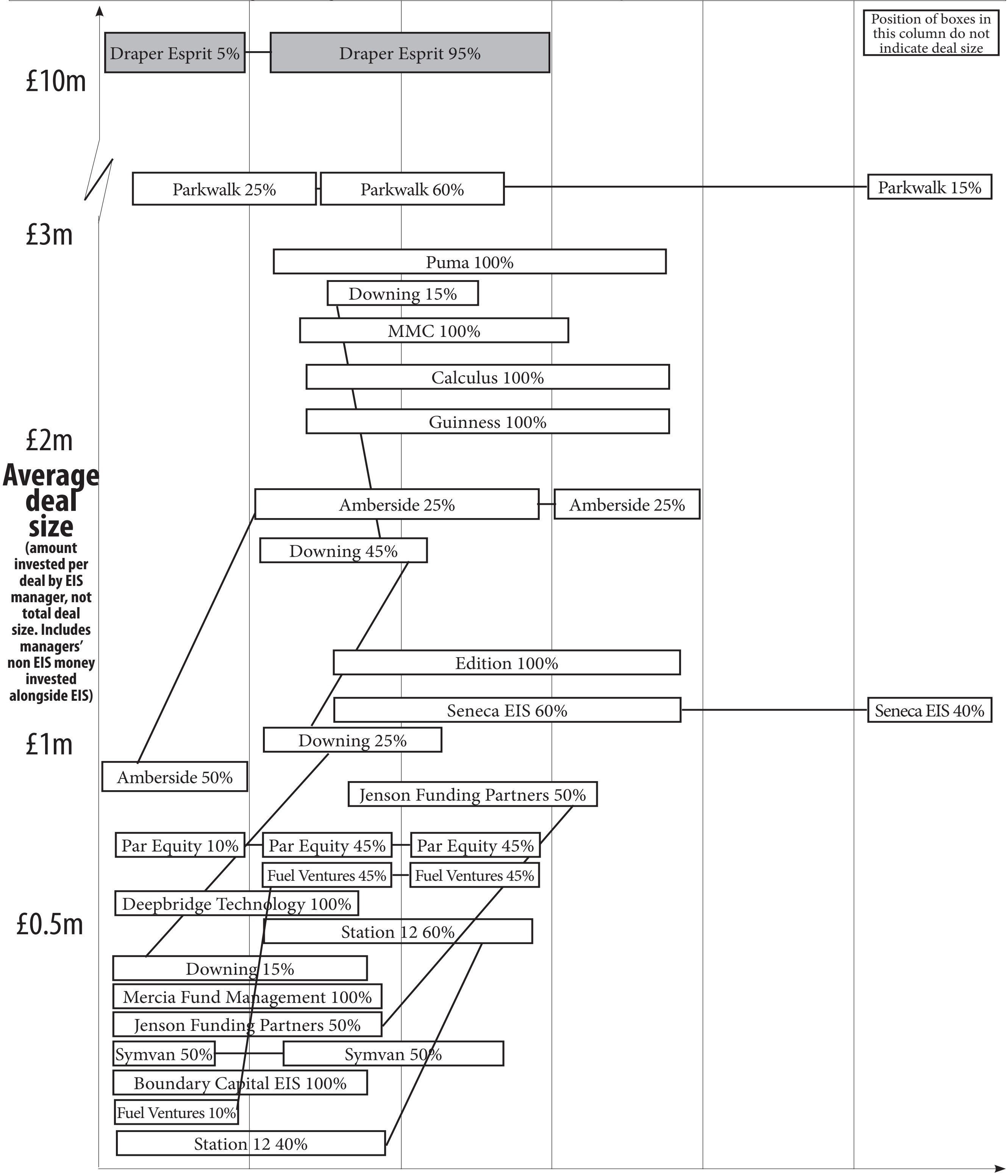
Companies that are hoping to attract subscriptions under the EIS can seek an assurance from HMRC, in advance of inviting applications for shares, to the effect that it is accepted that the conditions of the scheme will be satisfied. The response to a request for an assurance will take the form of a statement 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.

The Draper Esprit 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 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. Please note Tax Efficient Review does not give tax advice.

The Draper Esprit EIS programme has been managed from inception in 2012 by Encore Ventures LLP, which is independently regulated and authorised by FCA. Encore Ventures was a wholly owned subsidiary of Draper Esprit until 2015, and since then it is a partnership comprising 3 members - its two Managing Partners and Esprit Capital Partners LLP, a subsidiary undertaking of Draper Esprit PLC, as a corporate member.

Diagram 1: Investment strategies of main Growth EIS managers raising funds in 2019/20

Source: Fund Managers (% figures refer to funds invested in companies, not funds raised) 16/11/2019



Seed capital/ Early stage	Pre-Profit	Post-Profit	Later Stage Development Capital Deals	Asset backed opportunities	AIM stocks
	Early Stage High Growth and Development capital				
- high risk with hopefully high return - all equity investment - should have potential for rapid growth	- should have potential for rapid growth and exit within 3-5 years - usually no bank debt because of lack of assets for security and companies may not be able to support interest payments - focus on high growth market sectors in which company growth should be less dependent on the performance of the whole economy		- relatively low returns but should be lower risk - companies usually profitable - companies should be able to sustain loan interest payments - profitable companies seeking capital for expansion	- low return and should be low risk - should be able to support interest on debt	-some stocks are dividend paying - limited liquidity - potential volatility

Draper Esprit EIS Fund

Changes since last review

- There is now a Draper badged VCT raising funds which raises the question for investors interested in accessing Draper deal flow as to which structure to use - VCT or EIS. At present there are different businesses and personnel running the EIS and VCT funds.
  The VCT has entered into a co-investment agreement to share deal flow, management experience, and investment opportunities going forward with the EIS which means that VCT investors will going forward share in all Draper deal flow.
  EIS investors however will only invest in 8-12 qualifying companies and to emulate the VCT portfolio would have to invest each year to increase their spread of companies.
-
- This review is based upon the Information Memorandum for the Draper Esprit Fund dated April 2019, and a meeting with Richard Marsh and David Cummings, the Managing Partners of Encore Ventures. Since the previous Draper Esprit review, the team raised £45m in the 2018/19 tax year, as well as a further £14m as at the end of November 2019.
- The fund is essentially unchanged since then but there have been notable investment achievements, a new custodian and investor/adviser portal, and a new "90p in £1" fee model in response to market demand for this. Fund raising for the combined Draper Esprit EIS fund programme since launch in 2012 now exceeds £130m and has grown significantly in the past 3 years.
- Substantial proceeds have been distributed from two exits that had been announced as the prior report went to press, both of which were 10x returns for the Draper Esprit fund investors: software company Grapeshot was acquired by NASDAQ-listed Oracle; subscription-based pet food company Tails was aquire by Purina Petcare, a subsidiary of Nestlé SA.
- In December 2018, the manager's EIS portfolio company Graphcore, a semi-conductor business developing a new, ultra-fast processor architecture achieved $1bn+ 'unicorn' status through an investment round led by Microsoft that raised $200m for the company at a post-money valuation of $1.7bn.
- Operationally, Encore Ventures LLP, the fund manager has expanded its team, has completed a switch to a new custodian, and has launched a new investor/adviser portal that will provide online access to valuations, reports and EIS3 certificates.
- The manager has delivered a series of successful exits from its EIS investments that demonstrate the achievability of the fund's target holding period for each investment of 3-5 years. It is encouraging that cash proceeds are being returned to investors, at a substantial level, within the target timeframe. The manager stresses that not all holdings should be expected to exit in the 3-5 year target exit window, and some may run longer (and indeed could also exit earlier) but the exits to date are backing up that the timeframe can be achieved from the investments, even if not for every single case.

The Offer

The investment strategy for the fund is unchanged from both the previous TER review and the changes brought in by the Patient Capital Review. Draper Esprit focus on investments in larger, later stage investment rounds in syndicated deals that would otherwise generally beyond the reach of EIS. The fund intends to invest in 8-12 companies for each fund raising close within 12-18 months of each close.

The fund manager sees its EIS investment strategy as differentiated because it offers private investors participation in investments through the same processes, and meeting the criteria, for a large venture capital fund run by an established manager with a strong exit track record. These investments are typically larger, and into more developed companies with established revenues and growth momentum than the EIS market typically sees. This hopefully might provide quality deal flow, including later stage investments into growth rounds for companies which have substantial revenues and high growth rates.

The fund has a co-investment strategy to invest alongside other funds and managers, including a mutual deal sharing agreement with Draper Esprit PLC and the Draper Esprit VCT. Following its IPO in 2016, Draper Esprit Plc has held further successful capital raises and in addition has generated substantial proceeds from successful exits since IPO. The PLC investment rate has increased, alongside the increase in the EIS funds size. The Draper VCT has also seen increases in it's fund raising since the Elderstreet VCT and investment team were brought into the Draper stable in 2017.

This is now the third year of the evergreen Draper Esprit EIS fund. Fund raising has grown each year and has passed the milestone of £100m subscribed in total to this fund. Over the years we have seen very EIS product launches that are genuine departures from the range of products already available in the market. But this was one. It was the first time a major venture capital fund manager entered the EIS market and where retail EIS investors are offered the ability to invest into much larger fund raisings than the traditional Growth EIS offerings and alongside and on the same terms as institutional investors.

Draper Esprit entered the EIS market following changes in the 2012 Budget which expanded the number of employees an EIS qualifying company could have from 50 to 250. At a stroke, this enabled a lot of the companies that Draper Esprit were investing in to become EIS qualifying. Therefore, the investment strategy they have pursued since the launch of the first Draper Esprit EIS has really been unchanged since 2006.

By way of recent examples of larger and/or late stage deals which the Draper Esprit team have invested in:

- **Graphcore Ltd:** a new semi-conductor business, as part of an overall investment round of $30m from a syndicate which included leading UK and US venture capital funds, as well as Samsung and other strategic investors. Graphcore aims to deliver up to 100x faster speeds for artificial intelligence (AI) and machine learning (ML) processing. It has now raised over $300m in funding including a $50m investment from Silicon Valley-based Sequoia Capital, the venture capital backer of Google and a $200m funding round led by Microsoft.
- **PodPoint Ltd**: an existing portfolio company which is one of the UK's leading providers of electric vehicle ("EV") charging. Since its launch it has developed one of the UK's largest public networks, connecting EV drivers with hundreds of charging stations nationwide, in addition to installing its products at home for customers of major automotive brands, with direct commercial agreements in place with many of the car manufacturers. Pod Point has clocked up 150 million miles of charging (and counting) through its rapidly growing network.
- **PushDr Ltd:** an existing portfolio company, in which Draper Esprit has been an active Board director since the original investment, and has helped secure this new £20m investment round. The company provides online, on-demand GP consultations and in addition to its 'direct to consumer' offering it provides services on behalf of NHS. (www.pushdr.co.uk)
- **Ieso Digital Health Ltd**: which continues the 'digital health' theme, provides online cognitive behaviour therapy. This is an £18m investment round. Trials have shown that its innovative approach generates a greater number of successful outcomes, and at lower cost than traditional face to face sessions. The NHS is a leading customer. The manager comments that in order to meet the UK Government's new targets for the provision of mental health services which are currently massively underserved, new and scalable approaches such as Ieso's will be key. (www.iesohealth.com)
- **Verve** (formerly known as Streetteam): enables word-of-mouth recommendations to create a marketing and sales channel for online sales. The company has focussed to date on the live entertainments sector where it has established relationships with many of the largest ticketing companies. The business recently raised a further $40m growth investment round led by a new, incoming VC that is another of the leading European fund managers

The fund will typically focus it's investment strategy on the following sectors:

1. **Consumer Technology:** companies with exceptional growth opportunities in national or international markets that are underpinned by new consumer facing products, innovative business models and proven execution capabilities.
2. **Enterprise Technology:** companies developing the software infrastructure, applications and services that drive productivity improvements, convenience and cost reduction for enterprises.
3. **Hardware**: companies developing differentiated technologies that underpin advances in computing, consumer electronics and other industries.
4. **Healthcare:** companies leveraging digital and genomic technologies to create new products and services for the health and wellness markets.

Table 3: Analysis of Draper Esprit EIS movement in unquoted holdings valuations as at 31/03/2019 Source Encore Ventures

Year	Gross Multiple of investments purchased in the year		
	as at 31/03/19	as at 30/09/17	as at 30/06/16
2013	2.47x ↑	2.12x ↑	1,67x →
2014	2.01x ↑	1.45x ↑	1.37x ↓
2015	2.70x ↓	2.77x ↑	1.20x ↓
2016	4.19x ↑	1.72x –	-
2017	1.84x ↑	1.33x –	-
2018	1.40x –	-	-

Draper Esprit EIS Fund

Table 4 (1 of 2): Summary of EIS Performance by Year - Gross multiple of investments purchased in the year

Source: Return calculations from providers, analysis by Tax Efficient Review 27/11/2019

	Boundary Capital as at 31/08/2019	Calculus as at 30/06/2019	Deepbridge as at 20/11/2019	Downing as at 30/06/2019	Draper Esprit as at 30/04/2019
2013		0.70x ↓ 12 (01 EAC, 3 EBC, 6 SH, 2 PART)	2.56x – 3 (1 SH, 1 EAC, 1 PART)		2.47x ↑ 10 (4 EAC, 2 CWO, 3 SH, 1 PART)
2014	2.41x ↓ 4 (1 EAC, 1 CWO, 2 SH)	1.60x ↑ 16 (05 EBC, 10 SH, 1 PART)	2.13x – 4 (2 SH, 1 EAC, 1 PART)	1.93x ↑ 7 (1 CWO, 6 SH)	2.01x ↑ 10 (1 EAC, 2 EBC, 1 CWO, 6 SH)
2015	1.15x → 4 (1 CWO, 3 SH)	1.38x ↑ 13 (1 EAC, 3 EBC, 8 SH, 1 PART)	2.37x – 6 (4 SH, 1 EAC, 1 PART)	1.26x ↑ 20 (1 EAC, 4 CWO, 15 SH)	2.70x ↓ 13 (3 EAC, 1 EBC, 1 CWO, 8 SH)
2016	0.96x ↓ 4 (4 SH)	0.62x ↓ 12 (1 EBC, 10 SH, 1 PART)	2.34x – 7 (5 SH, 1 EAC, 1 PART)	1.20x → 21 (1 EBC, 1 CWO, 19 SH)	4.19x ↑ 6 (6 SH)
2017	0.97x → 4 (01 CWO, 3 SH)	1.30x → 14 (1 EAC, 2 EBC, 11 SH)	1.25x – 11 (10 SH, 1 PART)	1.21x → 29 (29 SH)	1.84x ↑ 8 (1 EAC, 7 SH)
2018	1.00x – 2 (2 SH)	0.97x – 14 (1 EBC, 13 SH)	1.23x – 13 (13 SH)	1.05x – 23 (23 SH)	1.40x – 14 (14 SH)

Table 4 (2 of 2): Summary of EIS Performance by Year - Gross multiple of investments purchased in the year

Source: Return calculations from providers, analysis by Tax Efficient Review 27/10/2019

	Jenson as at 30/09/2019	Mercia as at 30/09/2019	MMC as at 23/07/2019	Parkwalk as at 22/11/2019	Par as at 01/10/2019
2013		1.74x ↑ 6 (1 CWO, 1 EBC, 2 PART, 4 SH)	1.44x ↓ 10 (3 EAC, 5 CWO, 2 SH)	2.11x → 19 (4 EAC, 1 CWO, 2 PART, 12 SH)	
2014		2.26x ↑ 10 (2 CWO, 2 PART, 9 SH)	1.45x ↓ 9 (2 EAC, 2 CWO, 5 SH)	1.77x ↓ 24 (2 EAC, 1 EBC, 3 CWO, 1 PART, 17 SH)	2.29x ↑ 4 (4 SH)
2015	1.90X – 5 (4 SH, 1 CWO)	0.88x ↓ 17 (5 CWO, 12 SH)	1.54x ↑ 12 (1 EAC, 3 CWO, 8 SH)	2.17x ↑ 35 (4 EAC, 2 EBC, 1 PART, 2 CWO, 26 SH)	1.43x → 4 (1 CW, 3 SH)
2016	1.56x – 6 (1 CWO, 5 SH)	1.21x ↑ 27 (4 CWO, 23 SH)	1.77x ↑ 10 (2 EAC, 2 CWO, 6 SH)	1.70x ↑ 37 (1 EAC, 1 PART, 1 CWO, 34 SH)	1.11x ↓ 4 (1 EBC, 3 SH)
2017	0.81x – 6 (1 CWO, 5 SH)	0.88x ↓ 13 (1 CWO, 12 SH)	1.12x → 12 (1 EAC, 3 CWO, 8 SH)	1.15x ↑ 34 (34 SH)	0.96x → 7 (7 SH)
2018	1.38x – 6 (6 SH)	1.15x – 21 (21 SH)	1.03x – 15 (2 CWO, 13 SH)	1.13x – 58 (1CWO, 57SH)	0.80x – 7 (7 SH)

SH Still held **CWO** Complete Write-off **EAC** Exit Above Cost **EBC** Exit Below Cost **PART** Partial Exit

Direction of travel from gross multiple calculated a year ago

↓= Down indicates valuations have declined at least 5% over last year ↑= Up indicates valuations have improved at least 5% over last year

→= Less than 5% change from last year –= No previous data

IMPORTANT NOTE: The main constituent in the valuation is the manager's view of their investments (as there are few exits) - where an investee company is still held then the manager has provided the valuation. As a result of this element of discretion, valuations can vary materially, so a detailed analysis of the manager's valuation methodology is recommended in order to make meaningful comparisons.

HOW TO READ THIS TABLE: This table seeks to provide some performance data related to unquoted investments made by the EIS managers in each calendar year. It does not imply that all investors investing in the calendar year received holdings in each investee company so it will not reflect individual portfolio performance.

Provider fees have not been accounted for nor have any EIS tax breaks such as up-front tax relief or Loss Relief.

For each calendar year in column 1, the numbers in columns for each provider show the current value of all the investments made by the provider in that year followed by the number of holdings. So for example, a figure of 1.4x means that the value of the investments made that year are now valued by the manager at 1.4 times cost. A figure below 1 means the current value has declined below cost. As this is not the first year we are producing the table, the arrows indicate the direction of travel of the valuations either up, down or no change.

Past performance is no guide to future performance

Historically, the Draper Esprit EIS funds have held back a portion of the fund (10%) as a reserve to provide follow-on funding to companies to protect investors from future dilution. This follow-on funding is expected to be EIS Qualifying but may occur in later years. Now, however, this follow-on reserve has been made an option and investors may choose to opt-out and accelerate the deployment of their capital.
Tax Efficient Review Strategy rating: 29 out of 30

Track Record/Performance
As the earlier Draper Esprit EIS funds are maturing and generating their own track record, they have generated 9 exits to date, of which 6 were profitable outcomes from 1.3x up to 10x, and 3 which returned less than their investment cost. Within the investments that did not return their investment cost, two were partial recoveries of capital and one was a nil outcome for investors. The investments are, and remain, risk equity, but this ratio of successes is demonstrating a different return profile when compared with earlier stage and seed investment strategies that have been more common with EIS. The 2018 Grapeshot exit has shown that Draper Esprit's late stage investment strategy does not restrict the upside from these investments (c.10x was achieved in this exit).

It is encouraging to see a flow of exits coming through from the manager's EIS funds. The exit track record of Draper Esprit as a group has been consistently strong over the years, albeit a substantial portion of this exit track record was historically for investments that pre-dated the EIS programme. There is now evidence coming through that the manager's EIS investments are also leading to successful and timely exits. The manager's first EIS fund was invested during 2013. In total, the EIS funds have invested in 33 companies as at 5th April 2019, of which 9 have been realised.

The ratio of profitable exits vs non-profitable is 2:1, and there have been partial cost recovery from the non-profitable outcomes. This is consistent with the long run track record of the investment strategy that is also followed by Draper Esprit Plc and was set out in its IPO admission document.

Successful exits (1.3x to 10x gross investments return vs cost, including escrow / earnout, prior to performance fee):
- Neul (2.0x gross return) via an M&A exit to Chinese telecoms giant Huawei
- Datahug (1.3x gross return) via an M&A exit to NASDAQ-listed Callidus Cloud
- Horizon Discovery (two separate exits for two separate original investments, a 2.0x gross return, and a 2.7x gross return) via a sale of shares following IPO and the expiry of the EIS 3 year holding periods
- Unbound (2.5x gross return) via an optional exit for investors who had the opportunity to sell their shares to Draper Esprit Plc during a 2017 financing round
- Tails (10x gross return, and 5x gross return for a later investment round), via an M&A exit to Purina Petcare, a subsidiary of Nestlé
- Grapeshot (~10x gross return, and ~5x gross return for a later investment round, subject to USD FX rate for the final escrow payment) via an M&A exit to NASDAQ-listed Oracle.

The high multiple exits from Grapeshot and Tails show that the investment strategy, and the firm's portfolio and exit management, can deliver high return multiples as well as numbers of exits. The Draper Esprit investment team and style is described as experienced, hands-on investors that will act early and work hard to find successful outcomes via M&A for investments that have not performed to plan. The partial cost recoveries from Aveillant and Campanja come from pro-active portfolio management to secure modest M&A transactions and exits rather than allowing the companies to fail. This is also demonstrated in the exit of Datahug which is described as "securing a profitable exit from an underperforming investment".

Non-profitable / partial recovery investment outcomes (0x-0.4x):
- Achica (initially sold to Worldstores in a stock transaction, equivalent to ~0.45x of investment cost, excluding EIS reliefs). Ultimately Worldstores was acquired by Dunelm Group Plc in a low value transaction that yielded a 0x outcome for the EIS investment through this second transaction.
- Campanja (0.4x gross return) via an M&A exit to a private company.
- Aveillent (0.2x gross return) via an M&A exit to Thales.

We asked the manager to provide data on exits which have already been achieved to date from EIS investments. This is shown in Table 6.

When considering exit data it is important to remember that the format of EIS fund raising is that EIS investors in different vintages do not all share the exposure to investments that have already been made, they are only invested in

the next 8-12 companies following the date of sending funds to Draper.
Similarly, however, whilst VCT investors may have exposure to a larger number of companies they will not benefit from any exits or valuation uplift prior to their subscription because that will have already been factored into the NAV at the time they invest.
As a result the number of investors benefitting from high multiple exits can be quite small. Draper gave us details of the number of investors in the following exits:

Exit	Number of EIS investors benefitting
Neul (2.0x gross return)	100% of investors in EIS II (52)
Datahug (1.3x gross return)	100% of investors in EIS 1 (55)
Horizon Discovery (two separate exits for two separate original investments, a 2.0x gross return, and a 2.7x gross return)	100% of investors in EIS 1 (55)
Unbound (2.5x gross return)	This was an optional exit via a secondary share sale that was offered to 100% of EIS 1 investors and 25 elected to sell
Tails (10x gross return, and 5x gross return for a later investment round)	Tails (10x gross return, and 5x gross return for a later investment round) - 10x, 100% of investors in EIS II; 5x, 100% of investors in EIS IV. 140 in total.
Grapeshot (~10x gross return, and ~5x gross return for a later investment round)	Grapeshot (~10x gross return, and ~5x gross return for a later investment round) - 10x, 100% of investors in EIS III and EIS IV (); 5x, 100% of investors in EIS 5 and Draper Esprit EIS Jan17 close. 275 in total.
Source - Encore Ventures	

The EIS funds have already demonstrated an ability to achieve liquidity for investors and the 2018 exits alone from Grapeshot and Tails.com have generated over £12,000,000 of gross proceeds. Based on the valuations immediately preceding the publication of this review (reporting on 31st March 2019 holdings), investors in the manager's first fund have received 47p of cash proceeds for each £1 invested (with their tax reliefs being in addition to this) if they elected to sell their shares in the optional exit. Additionally, they have a further 143p (excluding tax reliefs) of share value and cash. The manager's next 5 funds have also distributed cash proceeds, of up to 59p for each £1 invested back to investors from one or more exits (in addition to tax reliefs).

It has been the Achilles heel of EIS funds that they take too long to return cash to investors, so we are pleased to see cash returns being generated here for investors and within the 3-5 holding period set out in the fund documentation. The focus on later stage, growth investments was intended to create a different EIS strategy, one that shortened the average time to exit and sped up the flow of proceeds to investors.
Tax Efficient Review Track Record rating: 36 out of 40

The Manager

According to the Admission Document for Draper Esprit's IPO, throughout their careers the Draper Esprit investment team members have collectively invested over US$ 1 billion into more than 200 companies and have been involved in creating businesses with a total aggregate value of over US$ 8 billion, with exited value at over US$ 6 billion. Since then, the EIS investment in Graphcore alone has added a further $1bn+ to the combined value created (but not yet exited).

Draper Esprit has strong US links and is a member of the Draper Venture Network which is a collective of independent funds that operate across 30 cities on 4 continents, and cooperates on investment diligence, market intelligence, corporate relationships, co-investments and supporting portfolio companies' international expansion. The Draper Venture Network has offices in Silicon Valley and a team of business development executives available to assist any network portfolio company. An annual CEO conference is held with attendance by 100s of CEO's and business development executives of important technology companies.

The team is one of the most experienced in European venture capital with a mix of experience and skill sets. Key team members, who form also the Management Board of Encore Ventures LLP, include:

- **Richard Marsh (Managing Partner)** has over 10 years of experience in venture capital and investing through the EIS scheme. He is a successful entrepreneur and was Founder of software company Datanomic that was sold to Oracle. He holds an MBA from IMD, Switzerland.
- **David Cummings (Managing Partner**) has been an active angel investor since 2001, was Managing Director of Lazard's TMT group in London, and a Director of KPMG. He is an LP in several VC funds, an active angel investor, and a

member of Cambridge Angels. David holds an MBA from London Business School.

- **Simon Cook (CIO, Draper Esprit PLC)** has 20+ years of experience in venture capital, originally with 3i where he was a Director in the Cambridge office. Simon was previously a council member of the European Venture Capital Association (EVCA).
- **Stuart Chapman (COO, Draper Esprit PLC)** has 20+ years of experience in venture capital in UK and US (Silicon Valley) and also started his VC career at 3i. Stuart was a previously a Board member of the British Venture Capital Association (BVCA).

Table 7 shows the time allocated to each task by team members.

We asked for a list for the investments made in 2016, 2017 and 2018 and who was the lead investment partner :

- **2016** – PushDr (Vishal Gulati), Fluidic Analytics (Vishal Gulati, Richard Marsh), Graphcore (Alan Duncan), Perkbox (Simon Cook)
- **2017** – Resolver (Stuart Chapman), Real Eyes (Stuart Chapman), Pod Point (Simon Cook), Grapeshot (Stuart Chapman), Ieso Digital Health (Vishal Gulati), Streetteam (Simon Cook)
- **2018** – PushDr (Vishal Gulati), Evonetix (Vishal Gulati), Kaptivo (Stuart Chapman/Jonathan Sibilia), Pod Point (Simon Cook), AppUX (Simon Cook/Philip O'Reilly), Endomagnetics (David Cummings/ Vishal Gulati), Real Eyes (Stuart Chapman), IXL Premfina (Simon Cook/Vinoth Jayakumar), Resolving (Stuart Chapman), Roomex (Nicola McClafferty), Apperio (Richard Marsh/Philip O'Reilly)
- **2019** – Fluidic Analytics (Vishal Gulati/Richard Marsh), Form3 (Vinoth Jayakumar)

With the international reach of the group, and its market position, we do not expect deal flow to be an issue for the manager.

Tax Efficient Review Management Team/Deal Flow/Exit rating: 17 out of 20

Fees and Costs

Draper Esprit EIS fees are paid by investors and the fund does not make any charges to portfolio companies. Whilst this reduces the amount of an investor's subscription on which EIS relief is obtained, Draper Esprit say it is an essential factor to maintain the quality of investments.

They say it is not market practice for mainstream venture capital funds to charge their portfolio companies and so if they were to do so, they would not be competitive. The manager points out that charging deal fees to portfolio companies are not attractive to entrepreneurs for this reason, and will also need to invest more money in order to cover the outflow of these fees, and at a higher valuation for an equivalent equity ownership in the company– which is ultimately detrimental to investors' cash and returns.

Due to this policy, Draper Esprit has always charged it's fees to investors, however, this reduces the amount of tax relief an investor can claim. In 2019, Draper Esprit evolved their charging structure, so for each £1 subscribed into the fund (after any adviser fees, if relevant) 90p is invested and to achieve this a portion of the fees are deferred. The 4 year fee cap has been removed, but the management fee reduces down pro rata as holdings are sold and are no longer under management.

The initial fee is 2% (+VAT) and the annual fee is 2% (+VAT) for Years 1-5 and then reduces to 2% (+VAT) of the cost of remaining holdings in later years subject to a minimum threshold of 0.5% (+VAT) of the original subscription amount. However the combined amount payable from initial subscriptions will not exceed of 7.5% (+VAT) plus £480 custodian fees and purchase dealing costs held back, so that a ~90p in each £1 subscribed can be invested. The balance of the managers' fees is deferred, and subject to, realisations of the investments.

The manager's primary incentive is a performance fee ("carry") which pays 20%+VAT of proceeds above a hurdle rate of return for each investment. The performance fee is payable on a deal by deal basis but investors must be in profit on their overall subscription to the fund at the end of the fund life for the manager to retain the performance fees. For each investment the hurdle rate is the part of an Investor's Subscription that is committed to that particular investment plus 6% per annum (compounded) until it reaches 1.25x of the amount invested, after which it shall not increase further.

A performance fee based on successful investment realisations rather than being paid on the total return to the investor is not in the best interests of investors. However, our disappointment in this area is counterbalanced by the incorporation of a hurdle before the fee is paid. To judge how well Encore perform, one of the measures of satisfied investors is the performance fee earned by Encore. Encore tell us that they have earned a performance fee of "undisclosed, seven figures" which is accrued but not paid and subject to fund level return hurdles being met where relevant.

Draper Esprit EIS Fund

Tax Efficient Review Fees rating: 7 out of 10

Conclusion

The Draper team, now well established within the retail EIS market, have displayed a genuine differentiation of investment strategy within the EIS peer group. The team invest in some of the largest companies permissable within the EIS rules and, invariably, but not always, at a later stage of development than many other EIS fund managers. This doesn't mean that the risk of investing in these companies is fully mitigated, but it does mean that the Draper Esprit investee companies have survived some of the hurdles that other EIS companies are yet to face.

They have achieved a number of significant exits on investee companies within their EIS portfolio, and had a number of investee companies experience uplifts in their value. It can be difficult for investors to put much store by uplifts in the valuation of EIS companies, as these can be somewhat ethereal in nature, until such time that an actual sale/exit is agreed. However, with the size of some of the companies within the Draper Esprit EIS portfolio, and that the uplifts in valuation are from a subsequent round of investment from a significant third party, such as a $50m investment from Sequoia Capital into Graphcore, then these uplifts in value have more credence.

Potential investors in the Draper Esprit EIS can expect a relatively compact number of investments and full deployment can take up to 18 months, because the investment diversification (8 -12 companies) is at the higher end for EIS funds. There is also follow-on facility incorporated into their EIS (which investors can opt out of if speedier deployment is required). But the quality of deal flow, their reputation within the market and their track record to date mean this should be a consideration for many investors seeking a growth EIS.

Tax Efficient Review Total rating: 89 out of 100 (for EIS Growth fund, established provider with track record)

Table 5: Analysis of Draper Esprit EIS unquoted holdings as at 31/03/2019 (updated with April 2018 exit valuations for Grapeshot and Tails) Source: Encore Ventures LLP

Year	Company	Fund	Status	Cost	Total Value (Realised & Unrealised)	Multiple of value over cost
2013	Achica	EIS 1	Exited	£655,115	£-	
2013	Unbound	EIS 1	Partially Exited	£52,420	£129,740	
2013	Lyst	EIS 1	Currently held	£214,738	£2,995,595	
2013	Datahug	EIS 1	Exited	£371,576	£440,444	
2013	Aveillant	EIS 1	Exited	£174,761	£-	
2013	Conversocial	EIS 1	Currently held	£174,747	£274,353	
2013	Horizon	EIS 1	Exited	£235,900	£468,743	
2013	SportPursuit	EIS 1	Currently held	£349,471	£814,267	
2013	Neul	EIS 2	Exited	£367,636	£756,015	
2013	SportPursuit	EIS 2	Currently held	£644,343	£1,501,319	
2013	Tails	EIS 2	Exited	£81,859	£839,054	
TOTAL				**£3,322,566**	**£8,219,530**	**2.47x**
2014	Lyst (follow on)	EIS 1	Currently held	£99,362	£419,308	
2014	Conversocial (follow on)	EIS 1	Currently held	£52,422	£82,827	
2014	Horizon Tranche 2	EIS 1	Exited	£235,900	£638,439	
2014	Aveillant (follow on)	EIS 1	Exited	£52,428	£9,827	
2014	Achica (follow on)	EIS 1	Exited	£150,103	£-	
2014	SportPursuit	EIS 1	Currently held	£1	£349,605	
2014	Lyst	EIS 2	Currently held	£495,851	£2,092,493	
2014	Campanja	EIS 2	Exited	£307,478	£119,531	

Table 5: Analysis of Draper Esprit EIS unquoted holdings as at 31/03/2019 (updated with April 2018 exit valuations for Grapeshot and Tails) Source: Encore Ventures LLP

Year	Company	Fund	Status	Cost	Total Value (Realised & Unrealised)	Multiple of value over cost
2014	Aveillant Tr1	EIS 2	Exited	£73,399	£13,758	
2014	Achica	EIS 2	Exited	£854,842	£-	
2014	Doutissima	EIS 2	Currently held	£76,440	£100,136	
2014	Unbound	EIS 2	Currently held	£299,998	£539,996	
2014	SportPursuit	EIS 2	Currently held	£1	£644,591	
2014	Fluidic Analytics	EIS 3	Currently held	£250,000	£922,500	
TOTAL				**£2,948,225**	**£5,933,009**	**2.01x**
2015	Datahug (follow on)	EIS 1	Exited	£93,821	£167,605	
2015	Aveillant Tr2 (follow on)	EIS 1	Exited	£34,952	£6,551	
2015	Sport Pursuit C	EIS 2	Currently held	£275,002	£522,504	
2015	Aveillant Tr2 (follow on)	EIS 2	Exited	£48,933	£9,172	
2015	SportPursuit	EIS 3	Currently held	£749,999	£1,424,999	
2015	Miura	EIS 3	Currently held	£1,010,914	£1,273,751	
2015	Lyst	EIS 3,4	Currently held	£894,075	£1,341,113	
2015	Achica	EIS 1,2	Exited	£267,205	£-	
2015	CurrencyFair	EIS 3	Currently held	£357,142	£264,285	
2015	Bright Computing	EIS 3	Currently held	£392,850	£762,128	
2015	Crowdcube	EIS 3,4	Currently held	£680,000	£714,000	
2015	Tails	EIS 4	Exited	£184,413	£896,809	
2015	Grapeshot	EIS 3,4	Exited	£999,999	£9,783,106	
2015	Conversocial	EIS 4	Currently held	£328,307	£689,444	
2015	PushDr	EIS 4	Currently held	£750,033	£1,192,552	
TOTAL				**£7,067,643**	**£19,048,018**	**2.70x**
2016	PushDr	EIS 4	Currently held	£250,011	£397,517	
2016	PushDr	EIS 5	Currently held	£499,828	£704,757	
2016	Fluidic Analytics	EIS 4	Currently held	£749,989	£1,244,892	
2016	Bright Computing	EIS 3,4	Currently held	£278,835	£393,1557	
2016	Graphcore	EIS 5	Currently held	£750,525	£13,066,647	
2016	Green Park Content	EIS 4	Currently held	£959,923	£835,133	
2016	Perkbox	EIS 5	Currently held	£849,955	£1,555,418	
TOTAL				**£4,339,066**	**£18,197,610**	**4.19x**
2017	Miura (follow on)	EIS III	Currently held	£86,573	£259,719	
2017	Pod Point	EIS 4, EIS 5, EIS	Currently held	£1,650,000	£4,471,501	
2017	Real Eyes	EIS 5, EIS	Currently held	£554,650	£532,464	
2017	Resolver	EIS 5, EIS	Currently held	£400,000	£908,000	
2017	Unbound	EIS 5, EIS	Currently held	£1,096,673	£1,096,673	
2017	Grapeshot	EIS 5, EIS	Exited	£391,971	£1,883,230	
2017	IESO	EIS 5, EIS	Currently held	£2,249,988	£2,249,988	
2017	Streeteam	EIS 5, EIS	Currently held	£1,714,287	£3,600,004	
TOTAL				**£8,144,142**	**£15,001,579**	**1.84x**
2018	Bright Computing	EIS 3, EIS 4	Currently held	£150,507	£829,295	
2018	Bright Computing	EIS 5	Currently held	£739,263	£4,095,517	
2018	Push DR (follow on)	EIS 5, EIS	Currently held	£2,000,004	£2,280,005	
2018	Evonetix	EIS	Currently held	£1,033,748	£1,033,748	
2018	Light Blue Optics Ltd	EIS	Currently held	£453,635	£680,452	
2018	Podpoint	EIS	Currently held	£1,140,000	£2,508,000	
2018	Appux	EIS	Currently held	£424,500	£424,496	
2018	Endomagnetics	EIS 5, EIS	Currently held	£4,087,854	£4,087,854	
2018	Real Eyes	EIS	Currently held	£445,589	£628,281	
2018	Premfina	EIS	Currently held	£1,001,984	£1,624,394	
2018	Perkbox	EIS	Currently held	£3,740,000	£3,740,000	
2018	Resolver	EIS	Currently held	£1,998,722	£3,677,648	
2018	Roomex	EIS	Currently held	£2,413,649	£2,413,649	
2018	Apperio	EIS	Currently held	£3,000,000	£3,000,000	
2018	Crowdcube	EIS	Currently held	£1,600,000	£2,992,000	
TOTAL				**£24,229,455**	**£34,015,339**	**1.40x**
2019	Fluidic Analytics	EIS	Currently held	£3,999,994	£3,999,994	
2019	Form 3	EIS	Currently held	£2,799,991	£2,799,991	
TOTAL				**£6,799,985**	**£6,799,985**	**1.00x**
	GRAND TOTAL			**£50,051,097**	**£107,215,071**	

Draper Esprit EIS Fund

Table 6: Exit analysis from Encore Ventures LLP EIS funds at 30-Sep-17 (updated with April 2018 exit valuations for Grapeshot and Tails)
Source: Encore Ventures LLP and acquirer stock exchange filings

Investee Company name	Neul	Horizon Discovery	Horizon Discovery	Datahug	Unbound	Grapeshot	Tails
Exit	$m not disclosed M&A (acquirer: Huawei	IPO & subsequent sale of shares	IPO & subsequent sale of shares	$m not disclosed M&A (acquirer: Callidus Cloud, NASDAQ: CALD)	(Optional) Secondary Share sale	£m not disclosed M&A (acquirer: Oracle, NASDAQ:ORCL	£m not disclosed M&A (acquirer: Purina)
Structure of investment	Prefs	Prefs	Pref	Prefs	Ords	Prefs	Ords, Prefs
Industry sector	Technology Hardware & Equipment	Healthcare	Healthcare	Software & Computer Services	eCommerce / Publishing	Software & Computer Services	General Retaillers
Financing stage when first invested	Later Stage, Pre-profit expansion	Later Stage, Pre-profit expansion	Later Stage, Pre-profit expansion	Later Stage, Pre-profit expansion	Later Stage, Pre-profit expansion	Later Stage, Pre-profit expansion	Early Stage
Board Seat	Y	Y	Y	Y	Y	Observer	N
Amount originally invested /Date(s)	£367,636 03-Sep-13	£235,900 30-May-13	£235,900 10-Mar-14	£371,575 02-Apr-13	£24,400 11-Feb-13	£999,999 18-Dec-15	£81,858 31-Dec-13
Further investment amounts (if any)				£93,820 02-Apr-15		£391,970 26-Apr-17	£184,412 25-Nov-15
Realisations/Dividends (£)	£483,072 18-Sep-14 £267,201 18-Sep-15	£468,743 13-Jan-17	£638,439 19-Jul-17	£515,516 10-Nov-16 £92,857 10-Nov-17	£60,390 31-Mar-17	Subject to USD FX on funds flow £9-10m	£1,710,000
Gross Multiple	2.0	2.0	2.7	1.3	2.5	9-10x on intial 4-5-5x on second investment	10.9x on initial 5x on second investment
Profit/(Loss) (£)	£483,072	£232,843	£402,539	£142,978	£35,990	c.£8m	£1,433,000
Annual Internal Rate of Return	70%	21%	35%	11%	25%	100%+	70%+
Length of investment	1 year	3.6 years	3.3 years	3.6 years	4.1 years	2.4 years	4.3 years

Table 7: Matrix of individual responsibilities – Draper Esprit LLP Data Source: Encore Ventures LLP

	Simon Cook	Stuart Chapman	David Cummings	Richard Marsh	9x Draper Esprit further management team (via co-investment agreement)
EIS RELATED WORK					
Deal origination	6%	6%	30%	5%	30-45%
General enquiries					
New deal doing	4%	4%	5%	10%	4%
Investee board seats No.	1	5	3	4	0-4
Sitting on Boards/Monitoring	4%	20%	12%	16%	0-16%
Fund raising			20%	25%	
Internal Fund Management	2%	5%	15%	20%	
Exits					
NON EIS WORK					
Non-EIS work	84%	65%	18%	24%	50%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**
Years in venture capital	20+	20+	10+	10+	2-10+
Years involved with EISs	5+	5+	15+	15+	2-4
Years with current team	13	13	6	9	2-4