Important notice

This Memorandum constitutes a financial promotion pursuant to section 21 of FSMA and is issued by the Fund Manager, Encore Ventures LLP, which is authorised and regulated by the Financial Conduct Authority and whose registered offices are at 20 Garrick Street, London, WC2E 9BT.

This document is intended to be communicated only to:

- clients of FCA authorised firms that will provide advice on the suitability of this Fund;
- those requesting information on behalf of an FCA authorised firm, accountant or tax adviser, and who will only communicate this information to certified sophisticated, high net worth or restricted investors; or
- prospective investors who have already made a declaration to the Fund Manager that they meet the FCA’s definition of one of the following:
  - a certified high net worth investor;
  - a self-certified sophisticated investor;
  - a certified sophisticated investor;
  - a restricted investor.

If you do not fall into one of the above categories please do not act on the information in this document.

Draper Esprit

Other than ‘Draper Esprit EIS’, references to ‘Draper Esprit’ throughout this document are references to Draper Esprit Plc1 and the group of companies and partnerships in which it is a shareholder or member, and where the context requires, to the funds that they manage.

Purpose of Memorandum

This Memorandum is issued for the purpose of providing information to potential Investors about an investment in the alternative investment fund known as Draper Esprit EIS (the ‘Fund’). Defined terms used in this Memorandum and not listed in the glossary on page 29 are as defined in the Investment Management Agreement and shall have the same meaning in this Memorandum.

The Fund, which is not a separate legal entity, exists to facilitate investment in companies which qualify for EIS Relief. The Fund will be a Complying Fund and is not a collective investment scheme. It is an unauthorised alternative investment fund for the purposes of the AIFMD. The Fund Manager is a Small Authorised UK Alternative Investment Fund Manager for the purposes of the FCA Rules and the Fund shall be its client and not the Investor.

Unquoted securities may be subject to transfer restrictions and may be difficult to sell. It may be difficult to obtain information as to how much an Investment is worth or how risky it is at any given time. Investing in private companies may expose you to a significant risk of losing all the money invested. Before investing, you are strongly recommended to consult an authorised person specialising in advising on investments of the kind described in this Memorandum.

Investing in the Fund is speculative and involves a significant degree of risk. The attention of prospective Investors is specifically drawn to the contents of the section in this document entitled ‘Risk Factors’.

You should not invest in the Fund unless you have taken appropriate independent advice. The Fund Manager, its members and employees do not accept any liability for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any information or opinions contained herein or in any other communication in connection with an Investment in the Fund except where, and only to the extent that, such liability arises under FSMA, regulations made under FSMA or the FCA rules and may not be excluded.

Any application to invest in the Fund may only be made and will only be accepted subject to the terms and conditions of the Investment Management Agreement. Your rights in this respect are more fully set out in the Investment Management Agreement.

Contents of Memorandum

The Fund Manager has taken all reasonable care to ensure that the facts stated in this Memorandum are true and accurate in all material respects and that there are no other material facts whose omission would make any statement of fact or opinion in this Memorandum materially misleading. All statements of opinion or belief contained in this Memorandum, all views expressed and statements made regarding future events represent the Fund Manager’s own assessment and interpretation of information available to it as at the date of this Memorandum.

No representation is made or assurance given that such statement or view is correct or that the objectives of the Fund will be achieved. You, as a prospective Investor, must determine for yourself what reliance (if any) you should place on such statements, views or forecasts, and no responsibility is accepted by the Fund Manager in respect of any of such statements, views or forecasts.

Where information has been obtained from third party sources, the Fund Manager cannot accept responsibility for the completeness or accuracy of that information and potential Investors must form their own opinion as to the reliance they place on that information. You will need and be expected to make your own independent assessment of the Fund and to rely on your own judgement (or that of your independent financial adviser) in respect of any investment you may make in the Fund and the legal, regulatory, tax and investment consequences and risks of doing so.

Prospective investors having enquiries may direct such inquiries to: EIS@draperesprit.com

October 2020.

Draper Esprit EIS funds have been the highest rated EIS by Tax Efficient Review for the past 6 years running, with a latest rating of 89/100\(^2\)

MJ Hudson Allenbridge also awarded Draper Esprit EIS their highest score for an EIS fund (87/100)\(^3\)

---

\(^2\) Tax Efficient Review (subscription required): www.taxefficientreview.com

\(^3\) MJ Hudson Allenbridge (subscription required): www.mjhudson-allenbridge.com  Review issued April 2019. N.B. From 2020 reviews no longer have scores assigned.
What’s new?

2020 started with another successful exit, before coronavirus and lockdown began to dominate the agenda. Through this time our technology-based investment strategy and portfolio has proven resilient, and many companies have seen an acceleration from the macro environment factors favouring online retail, remote working and the shift to digital processes.

We have worked closely with our portfolio and continued to invest in new companies.

This Memorandum updates and replaces the prior version dated April 2019.

The approach of Draper Esprit EIS is unchanged. The Fund continues to follow a co-investment strategy with a focus that the majority (50%+) of invested capital is committed to larger investment rounds, providing growth capital to ‘scale up’ companies with the potential to reach $50m-$1Bn+ valuations at the point of realisation.

We believe that Draper Esprit EIS remains highly differentiated by the size of investment rounds that it participates in, the stage and scale of the companies it invests in, and the track record of Draper Esprit.

Since the prior Memorandum was issued there have been developments and highlights from the Fund and the Fund Manager’s prior EIS Funds:

- Exit of electric vehicle charging portfolio company Pod Point to EDF Energy (2.7x and 2.2x gross cash on cash returns for our two investments into separate funding rounds for the business).
- Continued progress for $1Bn+ ‘unicorn’ valuation semi-conductor company Graphcore,\(^4\) with its AI/ML focussed ‘IPU’ chips released into the market.
- Resilient portfolio and valuations for the EIS portfolio from 30th September 2019 to 31st March 2020 (in the Covid-19 period) with modest gains overall (with variances up and down across different funds and vintages).
- Continued highest EIS ranking for the Fund by the Tax Efficient Review (89/100),\(^5\) now for six years running, and also by M J Hudson Allenbridge (April 2019, 87/100).
- Online investor and adviser portfolio for valuations, EIS3 certificates, fund reports, etc.

And, new for this Memorandum:

- Online application form being launched.

---

\(^4\) www.ft.com/content/f991ee80-022c-11e9-99df-6183d3002e81
\(^5\) Tax Efficient Review (subscription required): www.taxefficientreview.com
Why Draper Esprit EIS is different

We added EIS to an established, successful investment strategy.
In turn, our EIS Investors increase the availability of capital for companies that drive innovation, employment and wealth creation.

Draper Esprit founded 2006
(MBO from Cazenove by ex-3i team)

• One of Europe’s leading venture capital firms
• Managing capital for professional institutional investors
• Track record over multiple funds

IPO
Draper Esprit Plc

2006
Draper Esprit was founded as a spin-out from Cazenove & Co. and built a track record as the manager of venture capital funds for professional institutional investors (e.g. pension funds, corporate investors, etc.). Its focus is on larger investment sizes and companies than traditional SEIS, EIS and VCT funds.
Draper Esprit Plc is now publicly listed following its initial public offering (IPO) in 2016.

2012
HM Treasury’s Budget in 2012 expanded the EIS scheme, enabling larger firms with up to 250 employees (rather than the previous limit of 50) to raise money under EIS.
Overnight, a large proportion of Draper Esprit’s established investment strategy and deal flow became EIS qualifying.
We launched the Draper Esprit EIS programme, adding EIS to the same, established investment strategy, with Encore Ventures LLP as the fund manager.

Today
Over £150m has been raised into Draper Esprit EIS and the Prior Draper Esprit EIS Funds.
Draper Esprit EIS operates with a co-investment approach, investing together with Draper Esprit Plc, Draper Esprit VCT and other funds and managers.
We invest risk equity in EIS qualifying companies with the objective to deliver capital gains. Our portfolio companies invest heavily in R&D and job creation. They have the potential to deliver returns to both investors and Her Majesty’s Treasury (HMT) that are, respectively, many times the cost of investors’ original investment and many times HMT’s original tax relief, in the ‘true spirit of EIS’.
Draper Esprit EIS embodies the message of Budget 2017 that EIS is intended to support innovation and growth.
Both Draper Esprit EIS and Draper Esprit Plc are directly meeting the need for ‘scale up’ funding that was identified by the Government’s Patient Capital Review.
The majority of investments by Draper Esprit EIS are expected to meet the Knowledge Intensive Company criteria.

6 Track record to 31 December 2015 is included in the Draper Esprit Plc IPO Admission Document:
9 https://www.gov.uk/guidance/use-the-enterprise-investment-scheme-eis-to-raise-money-for-research-development-or-innovation
Overview

Draper Esprit EIS’s objective is to deliver tax free capital growth from EIS investments

Draper Esprit EIS (the ‘Fund’) is operated as a discretionary managed portfolio service. It is managed by Encore Ventures LLP, a partnership that is authorised and regulated by the FCA, which is now 100% owned within the group structure of Draper Esprit Plc.10

Our secret?
A focus on larger, later stage investments in companies with significant growth momentum, based on expert insight that comes from 20 years’ experience.

Fund raising Close dates each year
The Fund will accept subscriptions every quarter on an ongoing basis with fund raising tranches that close on 5th January, 5th April, 5th July and 5th October.

05 January 05 April 05 July 05 October

Capacity
The Fund is evergreen and accepts subscriptions throughout the year. Subscriptions have been running at a level of £30-40m per annum and the Fund Manager intends to maintain a broadly similar level of fund raising.

Key Information

- The Fund is a Growth EIS fund and will deploy its capital into multiple investments over a period of time, each with its own electronic EIS3 certificate.
- The target is to invest subscriptions within 12-18 months of each Close.
- Each subscription is intended to be invested in a portfolio of 8-12 EIS Qualifying Companies.
- It is intended that the Fund will co-invest alongside funds managed by Draper Esprit Plc, Draper Esprit VCT and with other funds and managers.
- Funds raised in each Close will be invested alongside those subscribed in prior Closes and in subsequent Closes.
- Electronic EIS3 certificates will be issued for each individual Investment, typically within around 8 weeks depending on the turnaround time of HMRC.
- Our target holding period is 3-5 years for each Investment. Exit timeframes are always expected to be a spread – in each portfolio investors should be prepared that the final assets are likely to be held longer than this.
- The exit route for successful Investments is most likely to be via trade sale (M&A) or an initial public offering (IPO) and sale of shares.
- Investors will receive distributions from the proceeds of successful realisations as they are made.

10 Draper Esprit Plc, www.draperesprit.com
# Co-Investment Approach and ‘Late Stage’ Focus

We believe Draper Esprit EIS’s investment focus is highly differentiated and directs EIS investment into the UK’s funding gap for ‘scale up’ companies that exists today.

The investment strategy of Draper Esprit EIS is to co-invest with Draper Esprit Plc, Draper Esprit VCT and with other funds and managers, in opportunities where private investors can benefit from the additional incentives of EIS Relief.

The co-investment approach enables Draper Esprit EIS to participate in larger, late stage growth investments of £5-20m+ into companies that are accelerating their business – the UK’s so-called ‘scale up’ firms.

This diagram is reprinted by kind permission of the Tax Efficient Review and shows, on the vertical scale, the relative size of investments made by different EIS managers and highlights the scale of Draper Esprit EIS’s larger, late stage, growth investments.

Our target is that 50% or more of Investments, by value, made by Draper Esprit EIS are in these late stage deals, with the balance in earlier stage opportunities.

A typical late stage company is expected to have:

- Revenues £2-20m+
- High growth rates of 30-100%+ per annum
- Proven technology and established customers
- Potential to be a leader in a large, most likely international, addressable market
- Strategic exit routes with potential $50m-$1Bn+ valuation
- Strong management team and operational metrics.

The outcome for successful investments is an ‘exit’ either via a trade sale (M&A) to a strategic acquirer, often a NASDAQ or NYSE-listed business, or an initial public offering (IPO) of the company as a standalone business.

**Note:** As the Fund Manager of Draper Esprit EIS we would map our own terminology of ‘Early’ and ‘Late’ stage deals to the TER ‘Early Stage High Growth and Development Capital’ category in both cases, although the our ‘Late’ stage growth deals would typically have a significantly higher level of revenue and growth momentum than ‘Early’ deals.

<table>
<thead>
<tr>
<th>Diagram 1: Investment strategies of main Growth EIS managers raising funds in 2020/21</th>
<th>Source: Fund Managers (% figures refer to funds invested in companies, not funds raised)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£10m</strong></td>
<td>Draper Esprit 95%</td>
</tr>
<tr>
<td></td>
<td>Parkwalk 2%</td>
</tr>
<tr>
<td></td>
<td>MMC 100%</td>
</tr>
<tr>
<td></td>
<td>Parkwalk 60%</td>
</tr>
<tr>
<td></td>
<td>Edition 100%</td>
</tr>
<tr>
<td></td>
<td>Deepbridge Technology 100%</td>
</tr>
<tr>
<td></td>
<td>Draper Esprit 80%</td>
</tr>
<tr>
<td></td>
<td>Guinness 100%</td>
</tr>
<tr>
<td><strong>£3m</strong></td>
<td>Parkwalk 50%</td>
</tr>
<tr>
<td></td>
<td>FMC 100%</td>
</tr>
<tr>
<td></td>
<td>Guinness 50%</td>
</tr>
<tr>
<td></td>
<td>Citiusca 100%</td>
</tr>
<tr>
<td></td>
<td>Citiusca 25%</td>
</tr>
<tr>
<td></td>
<td>Downing 10%</td>
</tr>
<tr>
<td></td>
<td>Citiusca 50%</td>
</tr>
<tr>
<td><strong>£2m</strong></td>
<td>Edition 50%</td>
</tr>
<tr>
<td></td>
<td>Draper Esprit 100%</td>
</tr>
<tr>
<td></td>
<td>Draper Esprit 50%</td>
</tr>
<tr>
<td></td>
<td>Downing 25%</td>
</tr>
<tr>
<td></td>
<td>Draper Esprit 25%</td>
</tr>
<tr>
<td><strong>£1m</strong></td>
<td>Seneca EIS 40%</td>
</tr>
<tr>
<td></td>
<td>Seneca Investors Partners 70%</td>
</tr>
<tr>
<td></td>
<td>Draper Esprit 30%</td>
</tr>
<tr>
<td></td>
<td>Edition 100%</td>
</tr>
<tr>
<td></td>
<td>Deepbridge Life Sciences 100%</td>
</tr>
<tr>
<td><strong>£0.5m</strong></td>
<td>Deepbridge Technology 100%</td>
</tr>
<tr>
<td></td>
<td>Parkwalk 15%</td>
</tr>
<tr>
<td></td>
<td>Seneca EIS 45%</td>
</tr>
<tr>
<td></td>
<td>Seneca Investors Partners 15%</td>
</tr>
<tr>
<td></td>
<td>Seneca Investors Partners 10%</td>
</tr>
<tr>
<td></td>
<td>Edition 10%</td>
</tr>
<tr>
<td></td>
<td>Seneca EIS 40%</td>
</tr>
<tr>
<td></td>
<td>Draper Esprit 25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Seed capital/ Early stage</th>
<th>Pre-Profit Late Stage High Growth and Development capital</th>
<th>Post-Profit Later Stage Development Capital Deals</th>
<th>Asset-backed opportunities</th>
<th>AIM stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>High risk with high potential for rapid growth and potential to build an investor base.</td>
<td>should have potential for rapid growth and should not be focused on immediate returns.</td>
<td>should have potential for rapid growth and should not be focused on immediate returns.</td>
<td>should have potential for rapid growth and should not be focused on immediate returns.</td>
<td>some stocks are dividend paying but the potential for volatility is limited.</td>
</tr>
</tbody>
</table>
Sector Focus & Investment Criteria

We seek scalable, high growth businesses with the potential to reach $50m-$1Bn+ IPO or M&A valuations

We have a broad sector approach, however we believe that most venture capital investment opportunities in Europe with the requisite characteristics for the Fund will fall into the following core sectors:

**Consumer Technology**
New consumer-facing products, innovative business models, and proven execution capabilities that bring exceptional growth opportunities.

**Enterprise Technology**
The software infrastructure, applications and services that make enterprises more productive, cost-effective and smoother to run.

**Hardware and Deep Tech**
Companies developing differentiated technologies that will underpin advances in computing, consumer electronics and other industries.

**Healthcare**
Companies leveraging digital and other technologies to create new products and services for the health and wellness markets.

---

Our goal is to seek out high growth companies that in our team’s assessment meet the following criteria:

- operate in new markets with the potential for strong cross-border or global expansion;
- have the potential to address large new markets or disrupt major existing ones;
- have competitive barriers to entry to encourage strong margins, and have capital efficient business models;
- have the potential to be global sector leaders;
- are run by impressive entrepreneurs who have the ability to build world-class management teams;
- are backed by strong syndicates of investors to reduce financing risk in future rounds;
- will be attractive candidates for acquisition by large corporations or public ownership by institutions by way of an IPO, with valuations ranging from $50m to over $1Bn,

and have the potential to generate returns that are multiples of the invested capital for investors.

---

The Fund intends to make investments as co-investments. All investments will follow the Fund Manager’s established assessment, due diligence and investment committee processes.
Team

The team is one of the most experienced in European venture capital

The Fund is managed by Encore Ventures LLP which is a subsidiary undertaking of Draper Esprit Plc.

Management Board of Encore Ventures LLP

Richard Marsh
Senior Partner, Draper Esprit

10+ years in venture capital; former entrepreneur
(founded Datanomic, sold to Oracle)

Sector focus:
Enterprise software, inc SaaS; Internet of Things

Boards:
Apperio, Bright Computing (NL), Green Park Content, SportPursuit

Stuart Chapman
Director, Draper Esprit Plc

20+ years in venture capital, including 3i (UK) and 3i (Silicon Valley)
Former: BVCA (British Venture Capital Association) board member

Sector focus:
Enterprise software, inc SaaS; FinTech

Boards:
Director: Realeyes, Resolver, Conversocial, Netronome, Crate
Observer: Graphcore, Metalysis, Displaydata

Ben Wilkinson
CFO, Draper Esprit Group

Experienced leader of public company finance teams
10+ years of experience leading public company finance teams
Prior to his five years with Draper Esprit Plc he also served for five years as CFO of AIM-listed President Energy PLC
The Draper Esprit Partnership team is made up of experienced investors – founders, CEOs, start-up advisers, private equity and investment bankers, and even a doctor, in their past lives. We aim to recruit the very best to work at Draper Esprit, and to us, the best come with years of knowledge and real-life experience. They know how to support start-ups because they have been through it themselves. They’re here to bring hands-on support and advice to every team we back, helping them to grow and scale.

Our mission is to empower Europe to invent the future. Success depends on genuine collaboration, so when we meet teams that share our way of thinking, we back them all the way. As a group, we’ve been doing this for over 20 years – experienced investors bringing global firepower and a long-term view. We believe in Europe’s potential to grow the companies that will shape the future. We’re here to help make that happen, by growing our community of extraordinary teams – a team of teams. And by reinventing European venture capital – long-sighted, flexible and global.

Our companies use new technology to create better ways of doing things. We’re constantly imagining better ways we can build up and support our portfolio companies and to do that we need to have a strong infrastructure. To strengthen that infrastructure, we’ve recently added a new partner to our investment team and internally promoted two members of the investment team, Nicola McClafferty and Vinoth Jayakumar, to join the partnership group. Draper Esprit recognises that the most important investment is in people and these appointments support the company’s continued leadership expansion and growth across Europe, while Nicola’s experience in Consumer Tech and Vinith’s deep knowledge of Fintech further deepen our sector focus. Our Partnership team works hard to make sure we find and offer the best opportunities to the founders of tomorrow as well as support the companies already in our portfolio. With the support of the operational ‘Platform’ team, they’re here to engage, support, and invest in the entrepreneurs of the future.

Simon Cook
Founding Partner
I focus on the team and the problem they are trying to solve. Ambition matters. The wildest, craziest, biggest ideas usually turn into the best companies, as our partner Tim Draper has shown us many times.

David Cummings
Venture Partner
Investment is the start of a long-term relationship, not a transaction. My entire business career has been about creating relationships, and trust. Be straightforward and honest, and good things happen.

Jonathan Silibia
Partner
I need to share your passion, not your sector. I’m thesis-driven, looking for entrepreneurs with a bold vision, ambition to challenge a market, and the potential to create big, sustainable businesses. That’s the beauty of our model: we can support you all the way, to create long-term category market leaders.

Will Turner
Senior Partner
I’m passionate about Growth and enabling the best entrepreneurs to scale their companies to become global winners.

Nicola McClafferty
Partner, Consumer
The rules are changing. From consumer behaviour to workforce expectations and the impact of automation on our lives, retail brands face a huge challenge, and an even bigger opportunity in the next decades.

Vinoth Jayakumar
Partner, Fintech
I’m excited for the future of finance. Insurance. Fintech. PropTech. Cybersecurity. I’m interested in it all – but especially in companies that see ways to challenge a whole stack of financial products and services, not just the easy pickings.

Vishal Gulati
Venture Partner, Digital Health
Training as a doctor was my comfort zone. I stepped out of it. Venture capital gives me a way to help people make real advances in healthtech – and support companies that will shape the future for us all. When I invest, I look for founders who are just as excited about their teams as they are about their idea.

Christoph Hornung
Investment Director, Deep Tech
The best entrepreneurs are persistent, analytical and great leaders. Having been a founder and start-up adviser myself, I lived through the highs and lows of our industry. Following a thesis-based investment approach and identifying teams with the right skill set are essential to create big success stories.
Example Portfolio Companies

These examples all come from our current EIS portfolios and are intended to give an illustration of the scale, growth rate, impact and ambition of the companies we back.

The common theme within our deals is that the companies can become highly valuable businesses, often the market leaders, in large and typically international markets.

In addition to investing capital, we work hands-on with the entrepreneurs and teams that we back. We take an active role in building the businesses and typically have board representation as directors or observers.

Warning: Past performance is not necessarily an indicator of future results. Your capital is at risk.

---

**Thought Machine**

Thought Machine is a software business that is developing internet-based, ‘cloud-native’ core banking system software. This is complex, large scale software. The company is working with a number of Tier 1 banks including Lloyds Banking Group, Standard Chartered and SEB amongst others.

Today, most banks still run on old IT systems, some dating back to the 1970s. Often there are multiple systems that are disjointed, so another layer of software or even sometimes manual input is needed to translate what’s happening in one place to another. In short, it’s slow, costly, and unreliable. Thought Machine’s VaultOS platform comes with a full range of retail banking products.

[thoughtmachine.net](http://thoughtmachine.net)

---

**Ravelin**

Ravelin is a cloud based, smart fraud detection and prevention platform that helps companies stop online payment fraud by examining customer behaviour data and spotting fraudsters while there is still time to block the transaction.

As more of commerce shifts to e-commerce, the value and volume of fraud increases significantly. Ravelin provides best-in-class software to detect and manage fraud in the payments process.

[ravelin.com](http://ravelin.com)

---

**Graphcore**

Graphcore is creating an entirely new type of silicon chip processor for artificial intelligence (AI), machine learning, and vision-based systems.

It is one of the ‘deep tech’ companies in our portfolio and has been cited as one of Europe’s hottest start-ups.

The CEO and CTO have world-class track records and were co-founders of Draper Esprit’s portfolio company Icera which was sold to NASDAQ-listed Nvidia for $367m.

Graphcore has raised over $500m of venture capital funding, including $50m from leading Silicon Valley investor Sequoia Capital who were the venture capital backer behind Google, Cisco, LinkedIn and Nvidia, amongst others. And in late 2018, Microsoft led a $200m investment that valued the company at $1.7Bn.

Draper Esprit EIS participated in an initial funding round which also included high profile US VCs and strategic industry investors including Samsung.

[graphcore.ai](http://graphcore.ai)
Endomag

Endomag is a healthcare company that has developed minimally-invasive surgical guidance technology that is applicable across much of surgical oncology. Its first use has been in the treatment of breast cancer and the technology has been used in more than 25,000 cases across 30 countries. Endomag won a Queen’s Award for Innovation in 2018. This is an investment where the commercial success of the business will go hand in hand with improving the treatment and outcomes for many patients and families.

Crowdcube

Crowdcube is the leading investment crowdfunding platform in a sector where the UK is a world leader. It enables individuals to invest in start-up, early stage and growth businesses through equity and debt investment options and has backed over 500 companies with over £300m of funding. Some of these have already gone on to secure exits via trade sales to the likes of Europcar and AB InBev. Draper Esprit EIS co-invested as part of a syndicate which included Balderton Capital, Numis Securities, and Draper Associates (US). Crowdcube announced in October 2020 that is it merging with Seedrs to combine their scale and market presence.

PushDoctor

PushDoctor is a telemedicine company which provides users with online, on-demand primary medical consultations. The company started in the direct to consumer market but through recent developments is now focussed on providing services for the NHS. Push Doctor has a developed a unique level of integration with NHS IT systems to facilitate a seamless service. Push Doctor offers GP surgeries the ability to see patients via a smartphone app. They have signed up 100s of surgeries and now have a list size of around four million patients. Push Doctor is the only provider of video consultations in the UK who has access to health records of all patients which can be seen by the doctor during a consultation. NHS has the stated goal to have at least 30 percent of primary care appointments by digital means in coming years.

SportPursuit

SportPursuit is a membership-based e-commerce business focussed on unbeatable deals on high quality products for sports enthusiasts. The company offers up to 70% discounts on leading sports and outdoor brands via emails which are sent out to its many millions of members. The company has grown consistently year-on-year and has annual revenues in excess of £40m.
Track Record – Exits

We are now seeing a flow of exits starting to come through from our EIS investments

The Fund Manager raised its first EIS fund following changes to the EIS scheme which were announced in 2012.

During 2016 and 2017 we started to see a flow of exits coming through from our first EIS investments, which is consistent with the target holding period of 3-5 years. Whilst some investments may take longer to realise, and we may also choose to hold ‘winners’ for longer where we believe that there is strong, continued value growth, we are pleased that our target holding period of 3-5 years is being achieved for a significant proportion of early investments.

Exit timeframes are always expected to be a spread – many will be in the target range, some have come sooner, and in each portfolio investors should be prepared that the final assets may well be held longer than this.

In addition to the cash exits listed here, the strongest performing investments with the highest current valuation multiples versus cost in our Prior EIS Funds are still held in shares. Our objective is to continue to build value in these holdings and to exit in due course.

We maintain close relationships with leading European and US investment banks and follow an in-house methodology to secure timely and profitable exits of our Investee Companies.

At the 31st March 2020 valuation and reporting point, Draper Esprit EIS and the Prior EIS Funds had made investments in 40 companies. Out of these 40 companies there had been 10 realisations as at that date, comprising seven that were profitable and three that were not.

Overview – Profitable vs Non-Profitable Investments (by Company)

Summary: 10 Company Exits – at 31st March 2020

<table>
<thead>
<tr>
<th>Company</th>
<th>Exit Date</th>
<th>Gross Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tails</td>
<td>April 2018</td>
<td>10x+</td>
</tr>
<tr>
<td>Grapeshot</td>
<td>April 2018</td>
<td>9-10x</td>
</tr>
</tbody>
</table>

Returns below are expressed as gross multiples versus investment cost (including, where relevant, escrow and expected earn out amounts), and are subject to a performance fee (described in the ‘Fees’ section) of 20% plus VAT of proceeds above a hurdle rate of return that has a maximum of 1.25x the investment cost.

Warning: Past performance is not necessarily an indicator of future results. Your capital is at risk.

---

### Tails

Tails was co-founded by serial entrepreneur Graham Bosher, who Draper Esprit had previously backed in LOVEFiLM (acquired by Amazon) and Graze (acquired by Unilever).

It was a subscription-based pet food business, providing owners with a regular supply of nutritional food, tailored to suit each pet, based on age, breed, etc.

**Investment:** December 2013  
**Exit:** April 2018  
**Gross Return:** 10x+

**Further Investment:** November 2015  
**Exit:** April 2018  
**Gross Return:** 5x

---

### Grapeshot

Grapeshot was a Cambridge-based software company. By analysing the text content of web pages as they load on-screen it adds enriched contextual information that is used by brand advertisers and advertising agencies to inform their placement of adverts.

**Investment:** December 2015  
**Exit:** April 2018  
**Gross Return:** 9-10x

**Further Investment:** April 2017  
**Exit:** April 2018  
**Gross Return:** 5x

*Subject to final FX
Datahug solves the problem of “Who knows whom?” and “How well do they know them?” for organisations. The software intelligently links and assesses the strength of many disparate individual relationships so that users can benefit from the combined reach of their colleagues’ contacts. Datahug was sold to NASDAQ-listed Calidus Cloud in November 2016.

**Investment:** April 2013  
**Exit:** November 2016  
**Gross Return:** 1.3x

---

**Horizon Discovery**

Horizon Discovery is a life sciences company based in Cambridge, UK. Its mission is to accelerate the discovery of targeted and personalised medicines. It completed an IPO in March 2016. We held our shares for the remainder of the 3 year EIS qualifying period and then sold them in the market.

**Investment:** May 2013  
**Exit:** January 2017  
**Gross Return:** 2.0x

**Further Investment:** March 2014  
**Exit:** July 2017  
**Gross Return:** 2.7x

---

**Pod Point**

Pod Point is the UK’s leading provider of electric vehicle (EV) charging points. This is a transformative market with rapid adoption and new supportive legislation. Pod Point installs home and workplace charging points for owners of electric vehicles and has agreements in place with many of the large automotive manufacturers to provide this service for their customers.

**Investment:** April 2017  
**Exit:** February 2020  
**Gross Return:** 2.7x

**Further Investment:** July 2018  
**Exit:** February 2020  
**Gross Return:** 2.2x

---

**Neul**

Neul was launched by the founders of Cambridge Silicon Radio (CSR), which completed an IPO on the London Stock Exchange and was later acquired by Qualcomm Inc for $2.6bn. Neul’s ‘Weightless’ wireless standard can deliver internet connectivity at lower cost than existing cellular networks for Internet of Things (IoT) applications. Neul was acquired by Huawei in 2014 in an M&A transaction.

**Investment:** September 2013  
**Exit:** September 2014  
**Gross Return:** 2.1x

---

**Unbound**

Unbound is a crowd-funding platform for authors to raise money from their fans to finance the cost of publishing their book. Unbound has a growing list of notable successes: a Sunday Times Book of the Year, a Mann Booker prize long-listed novel, and an award winning collection of stories that was funded in 72 hours and included J. K. Rowling as a backer. This exit was an optional sale of shares in the company’s last funding round.

**Investment:** February 2013  
**(Optional) Exit:** March 2017  
**Gross Return:** 2.5x

---

The following investments were realised at a loss:

**Achica**

Achica was an ecommerce business selling products in the home, garden and lifestyle categories. It was acquired in 2015 in an equity transaction which preserved value for the Funds’ holdings but was subsequently sold in a transaction which had a £nil outcome for equity holders.

**Aveillant**

Aveillant developed an innovative new type of radar, originally intended to mitigate interference problems for aviation radar. The company was sold to Thales in 2017 and the outcome for our Fund was a 0.2x return.

**Campanja**

Campanja developed software to optimise search engine marketing (SEM) campaigns for companies using internet advertising. The business experienced a number of challenges in scaling and the Board and investors elected to find a buyer to take on the product and team, and seek a recovery of value. The outcome for our Fund was a 0.4x return.
Track Record – Fund Valuations

Our prior EIS funds are showing valuation progression and a distribution of cash proceeds

The valuations for Draper Esprit EIS and the Prior Draper Esprit EIS Funds below include the valuation of shares held by the funds, cash balances held by the Custodian, the valuation of any deferred proceeds held in escrow and where relevant, cash proceeds that have been distributed to investors, in all cases as at 31st March 2020.

Valuations are produced in accordance with the International Private Equity and Venture Capital Valuation Guidelines (IPEV) that are endorsed by the British Venture Capital Association (BVCA).

Where a fund had more than one fund raising close, the data presented is for the first close, and data is presented in all cases for investors who have participated in the Follow-on Reserve in each fund.11

The impact of EIS Relief is calculated and is based on an assumption of a higher rate (45%) income tax payer.

Draper Esprit EIS funds - at 31 March 2020

Summary valuations per £1 Net Subscription (Net Subscription is the amount subscribed to the fund less any adviser fee, where relevant).

Important Note: Covid-19. The valuation date of 31st March 2020 was within days of the 23rd March 2020 low point in FTSE and NASDAQ indexes during the early stages of the coronavirus. Portfolio companies have experienced both negative and positive impacts of Covid-19.

Source: Encore Ventures LLP internal records; reports distributed to investors.

Disclosure of the impact of fees: The cash balances shown above are net of the initial and annual management fees (+VAT where applicable) which have been charged. The ‘Cash Distribution’ reflects actual proceeds paid out to investors. The cash balance at the Custodian includes cash awaiting deployment, amounts set aside for management fees and any amounts set aside for performance fees (+VAT) which have not yet been crystallised and paid.

Warning: Past performance is not necessarily an indicator of future results. Your capital is at risk.

11 Described in the later section ‘Dealing with Underperformance: Follow-on Reserve’
Dealing with Underperformance: Follow-on Reserve

By default we hold back a ~10% Follow-on Reserve – if you would rather not participate in this you need to let us know via the application form

Dealing with Underperformance

Despite the risk mitigations some Investee Companies will encounter problems, or require more funding to reach their milestones.

We have an active approach to managing underperformance which means that by default we hold back approximately 10% of each Investor’s Net Subscription as a Follow-on Reserve. We use this to fund and support these Investee Companies and to protect Investors’ holdings from excessive dilution or diminution of value.

The Follow-on Reserve is likely to be invested in later tax years and its possible it will not all be invested. In each case, the decision to use the Follow-on Reserve is evaluated on the risk/return merits of participating in the investment.

Whilst we believe that having this reserve can improve the outcome of underperforming investments and will enhance Investors’ returns overall, we are aware that some Investors and advisers may prefer to prioritise the timing of the initial EIS Relief above the overall investment returns and consider the protection of EIS Loss Relief adequate in the downside cases.

Investors may elect not to participate in the Follow-on Reserve, in which case their entire Net Subscription (excluding amounts reserved for fees) will be deployed during the initial 12-18 month period of deployment.

Investors may elect to accelerate the investment of their funds and choose not to participate in the follow-on reserve.

There is a checkbox to do this in the application form.

Loss Relief

Investors can claim Loss Relief against income tax or capital gains tax for any losses arising from EIS qualifying investments, subject to individual circumstances. Loss Relief is available on an investment by investment basis and can be claimed on an individual Investment that resulted in a loss, even if all other investments are profitable.

Risk Mitigation

Our risk mitigation includes portfolio diversification and our focus on late stage growth investments, which in relative terms are substantially more developed and de-risked compared with start-up, or seed investments. We also apply active management and from the outset of each Investment:

• we have board level representation as directors or observers in almost all cases;
• each company is tracked against key performance indicators (KPIs);
• we perform a full strategic review of every portfolio company twice per year;
• we are hands-on investors with strong exit experience and work hard to find outcomes that recover value from underperforming assets via M&A where possible.

12 Loss Relief is described further in the section ‘EIS Tax Reliefs – Summary’ and information from HMRC can be found at https://www.gov.uk/hmrc-internal-manuals/venture-capital-schemes-manual/vcm/70110
Fees

This Memorandum introduces a new fee structure.

For each £1 subscribed, approximately 90p will be invested (net of fees) and create 27p of potential Income Tax Relief

We are transparent in setting out our fees. We operate in an investment-led segment of the venture capital market where the Fund Manager’s fees are not paid via fees levied on Investee companies.

Deferral of Fees

- In order to maximise the amount invested into EIS Qualifying companies the Fund will settle a proportion of the management fees in the early years from cash and will accrue the balance of fees that will then be paid out of, and subject to the receipt of, exit proceeds.

- We intend to set aside 7.5% (plus applicable VAT) of each Investors Net Subscription to pay Fund Manager fees in the early years and the balance will be accrued.

- The goal is that a minimum of 90p out of each £1 of Net Subscription is invested in EIS Qualifying Companies for Net Subscriptions £50,000 and above.

Fee schedule (subject to VAT where applicable)

- Initial Fee
  2% of the Net Subscription

- Annual Management Fee (Years 1-5)
  2% p.a. of the Net Subscription

- Ongoing Management Fee (Year 6 onwards)
  From year 6 onwards, a reducing management fee is charged pro rata to the invested capital that is still under management.
  This fee is 2% p.a. of the cost price of investments, including any deferred proceeds, remaining in the Investors portfolio at the beginning of each annual period, subject to a minimum of 0.5% p.a. of the Investors Net Subscription to the Fund.

Fees from the Custodian that holds the cash and shares on behalf of investors are:

- Custodian Fee
  £80 per annum
  An amount of £480 will be set aside from the Net Subscription to cover the first 6 years, and subsequent annual fees will be payable out of exit proceeds.

- Dealing Commission
  0.2% of transaction value, per purchase or sale transaction

Performance Fee

Subject to investors receiving back 100% or more of their Net Subscription to the Fund then the Fund Manager will be entitled to performance fees (described in Schedule 2, to the Investment Management Agreement). The performance fees are calculated for each successful Investment as 20% (plus VAT where applicable) of the amount above the ‘hurdle’ return, where the hurdle is a 6% per annum return with a maximum hurdle of 125% of the original Investment amount.

As described in Schedule 2 to the Investment Management Agreement, all reasonable endeavours will be used to ensure that Non-Recoverable Deal Costs, to be borne by the Fund and allocated pro rata amongst Investors, will not exceed 0.5% of an Investor’s Net Subscription. For clarity, no Non-recoverable Deal Costs have been charged to any of the Prior Draper Esprit EIS Funds or to Draper Esprit EIS at the date of issue of this Memorandum.

Minimum Investment

The minimum subscription to the Fund is £25,000.

A further subscription to the Fund that occurs in a different fund raising close will be treated as a separate account.

Worked examples

<table>
<thead>
<tr>
<th>Net Subscription</th>
<th>£25k</th>
<th>£50k</th>
<th>£100k</th>
<th>£250k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount set aside to partially pay Initial Fee and Annual Fees in the early years (7.5%) with the balance of fees being accrued</td>
<td>£1,875</td>
<td>£3,750</td>
<td>£7,500</td>
<td>£18,750</td>
</tr>
<tr>
<td>Amount set aside to pay Custodian Fee in the early years @ £80 p.a.</td>
<td>£480</td>
<td>£480</td>
<td>£480</td>
<td>£480</td>
</tr>
<tr>
<td>0.2% Dealing Fee (approx)</td>
<td>£45</td>
<td>£90</td>
<td>£180</td>
<td>£455</td>
</tr>
<tr>
<td>VAT (20%) up to</td>
<td>£375</td>
<td>£750</td>
<td>£1,500</td>
<td>£3,750</td>
</tr>
<tr>
<td>Amount to be invested</td>
<td>£22,225</td>
<td>£44,930</td>
<td>£90,339</td>
<td>£226,565</td>
</tr>
<tr>
<td>As a percentage of Net Subscription</td>
<td>89%</td>
<td>90%</td>
<td>90%</td>
<td>91%</td>
</tr>
<tr>
<td>Initial investment within 12-18 months. (Shown with/without Follow-on Reserve)</td>
<td>79% (or 89%)</td>
<td>80% (or 90%)</td>
<td>80% (or 90%)</td>
<td>81% (or 91%)</td>
</tr>
<tr>
<td>Optional: Follow-on Reserve, which may be invested in later tax years</td>
<td>10% (or 0%)</td>
<td>10% (or 0%)</td>
<td>10% (or 0%)</td>
<td>10% (or 0%)</td>
</tr>
</tbody>
</table>
EIS Tax Reliefs – Summary

Draper Esprit EIS has an investment-led strategy, with EIS Relief providing additional incentives that enhance the underlying returns and offer downside protection

The Enterprise Investment Scheme (EIS) is actively promoted by Government. It applies to companies with up to 499 employees if they meet the criteria of a ‘knowledge intensive’ company, or 249 otherwise. Draper Esprit EIS is aligned to Government EIS policy objectives by investing equity into high potential companies which invest heavily in R&D and job creation and require capital to scale up and develop their businesses.

### Income Tax Relief (30%)
Individuals may claim income tax relief at a rate of 30% on up to £1m subscribed for shares in any tax year in EIS Qualifying Companies, or up to £2m, provided that any excess over £1m is investment in what HMRC term ‘knowledge intensive’ companies.
Income tax relief is set off against an individual’s income tax liability for the year in which the shares are issued, or using ‘carry back’ the preceding tax year. This may not be the same as the year you subscribe to the fund.

### Capital Gains Tax Free (0%)
Our successful Investments have the potential to return the original Investment several times over. If income tax relief has been claimed and the shares held for 3 years or more then the proceeds are exempt from Capital Gains Tax.

### Deferral of existing CGT
Capital Gains Tax arising from a capital gain can be deferred by making an EIS Investment. The shares in the EIS Qualifying Investment(s) being used to defer the gain must be issued in the period that begins twelve months before, and ends three years after, the disposal giving rise to the capital gain.
The tax liability on the gain is deferred until the shares in the EIS Qualifying Company are disposed of (or the earlier withdrawal of EIS Relief on those shares).
There are no limits to the amount of CGT that may be deferred in this way and there is no minimum period for which the shares must be held to qualify for this relief.

### Loss Relief (up to 45%)
Any capital loss arising on the disposal of shares in EIS Qualifying Companies can be offset against income in the year in which the disposal occurs or the previous tax year, or used to offset a capital gain incurred in the year of the loss. Any unrelieved loss can be carried forward to be offset against capital gains in subsequent tax years.
The loss that may be claimed for will be net of any income tax relief that has been claimed on the Investment that generated the loss. EIS Loss Relief is uncapped.

### Inheritance Tax Relief (up to 100%)
Although it is not an EIS Relief, an Investment in shares in an EIS Qualifying Company may qualify for up to 100% relief against Inheritance Tax provided the Investment has been held for at least two years and is still held at the time of the Investor’s death. There is no upper limit on the amount of relief that may be claimed in this way.

**Important Notice:** This summary is based on current law and HMRC practice (both of which may change). Any particular tax treatment will depend upon the individual circumstances of the Investor. The tax reliefs will only be relevant to Investors who pay UK income tax and/or wish to defer a liability to UK capital gains tax. This summary does not set out all the rules that must be met by EIS Qualifying Companies and/or an Investor, and are intended only as a general guide. This summary should not be construed as constituting advice, which Investors should obtain from their own professional advisers before investing in the Fund. The Fund Manager does not provide tax advice and recommends you consult with a professional adviser if you are unsure of any aspects of tax treatment of your Investment in the Fund.
Fund Operation and Timing

Applications and Fund Closes
The Fund was launched in October 2016 and operates with quarterly fund raising Closes:
- 5th January
- 5th April
- 5th July
- 5th October
or as otherwise notified by the Fund Manager, or if those dates do not fall on a Business Day, then on the Business Day immediately following.

Applications accepted after the October 5th Close but on or prior to the January 5th Close shall be attributed to the January 5th Close. And the same principle shall apply for all Closes thereafter.

Application Process
Investors should complete and sign the Application Form in the Application Pack and send it to the Fund Custodian.
A cheque may be sent with the Application Form or funds can be transferred electronically once an account has been opened by the Fund Custodian.

By signing the Application Form, Investors are confirming that they will have a direct contractual relationship with Mainspring Nominees Limited (if the application is accepted) for the purposes of providing custody and nominee services, including the administration of Subscriptions in accordance with the Custodian Agreement as described more fully in Schedule 3 of the Investment Management Agreement.

Once the Application has been reviewed and accepted by the Fund Manager, the Custodian will set up an account, notify the Investor of the same, and will either cash the cheque sent with the Application Form or provide instructions for the transfer of funds. Following the transfer of funds, Investors’ Subscriptions will be held in a bank account by the Custodian, pending investment, with each Investor’s Subscription clearly identified.

Any fee which the Fund Manager is requested to pay to an Investor’s financial adviser in relation to advice which such Investor has received regarding an investment in the Fund will be set aside for this purpose from the Subscription received from that Investor, leaving a Net Subscription amount to be invested in the Fund. Investors will not obtain EIS Relief in respect of any such amounts set aside. The Application Form provides further information on Financial Adviser’s Facilitation Fees.

There is a 14 day cancellation period as described in the Application Pack.

Investor Portal
Our primary method of reporting to investors and their advisers will be through a secure, online investor portal. Documents will be uploaded to the portal and investors and any of their nominated contacts will receive an email notification when a new document is added.

Instructions on how to set up access to the portal will be provided following receipt of your Application to invest in the Fund.

Fees
A portion of each subscription will be set aside to meet fees as set out in the ‘Fees’ section of this document. This amount will not be eligible for EIS Relief.

Commencement of Investments
The Fund is already operational and is making investments on an ongoing basis.

Investors will not participate in Investments that have already taken place before the date of the Close that they participate in, or, where at the date of their Close, the allocations have already been made for an Investment which is in process.

The funds subscribed in each Close may be invested alongside funds subscribed in earlier and later Closes.

The allocation of Investments amongst Investors will be made according to the Fund Manager’s Allocation Policy (a copy of which is available on request).

In accordance with the Fund Manager’s Allocation Policy, an Investment may be allocated to Investors in certain Fund Closes and not others (generally prioritising earlier Fund Closes over newer ones) in order to avoid Investors ending up with small percentage allocations of their Net Subscription to an Investee Company.

All Investors in the same fund raising Close will invest in the same portfolio of Investee Companies in the same proportions (with minor variations to allow for the issue of whole shares), save as applicable in relation to the Follow-on Reserve.

Deployment of capital and Follow-on Reserve contingency
The deployment target is to invest in a portfolio of 8-12 companies over a period of 12-18 months commencing from each Close. It is possible that in certain circumstances the portfolio size and range of investment dates could vary from these numbers, which are targets not guarantees.
The initial deployment of funds will exclude amounts set aside for Fees, and where relevant the amount set aside for the Follow-on Reserve.

By default, the Fund Manager has a policy to reserve approximately 10% of each Investor’s Net Subscription in a Follow-on Reserve as a contingency for further financing requirements of Investee Companies. Investors may opt out of the Follow-on Reserve in which case the entirety of their Net Subscription excluding the amount set aside for fees will be deployed within the 12-18 month initial deployment and they will not participate in any investment made using the Follow-on Reserve (see page 17 for further details).

**Investment Decisions**

The Investment Committee will be responsible for making investment decisions for the Fund. Its decisions are final. The Investment Committee is appointed by the Fund Manager. The Fund Manager will select Investee Companies on the basis of the Investment Objectives and Investment Restrictions.

Appropriate exits will be sought for each Investment and may include: an initial public offering; a sale to third parties or a trade sale; a buy-out by management, other shareholders or by the company itself; and a sale to another investment fund.

The Fund Manager is aware that new shares in EIS Qualifying Companies should be held for a minimum of three years to obtain all the benefits of EIS Relief. However, the Fund Manager may exit an Investment prior to the expiry of this three year qualifying period (an ‘Early Exit’) if the Fund Manager reasonably believes that to do so will be in the interests of the Investors. The Fund Manager may similarly participate in Follow-on Reserve Investments where an Investee Company has ceased to be an EIS Qualifying Company but the Fund Manager considers that to do so will be in the interests of Investors. In both situations the Fund Manager will automatically increase the Performance Fee hurdle to its maximum amount for such Investment and in so doing will reduce the Exit Performance Fee (see Schedule 2 to the Investment Management Agreement).

**Reporting & Basis of Valuation**

Each investor (and their adviser and any other nominated contact if applicable) will receive thorough the investor portal:

- a summary and a share purchase confirmation note for each Investment when it is made;
- Electronic EIS3 certificates, to follow, for each Investment;
- half-yearly reports, valuations and cash statements based on 5th April and 5th October holdings.

All Investments will be valued according to best practice as set out under the International Private Equity and Venture Capital Valuation Guidelines.

The overriding principle of these valuation guidelines is to show a fair valuation of the investment to the Investors, based on what would be a fair transaction between informed parties at arm’s length. Prudence is a central concept of the valuation guidelines.

**EIS3 Forms**

The Fund will hold its shares via one or more nominees. However, each Investor will be the beneficial owner of their own shares in each Investment.

Each Investment is treated separately by HMRC and there will be a separate electronic EIS3 form for each one.

EIS3 forms will be uploaded to the portal as soon as practicable following each Investment. We are dependent on the turnaround time of HMRC in doing this and our current experience is that it takes around 8 weeks to receive the EIS3s.

**Exits**

The Fund Manager will notify you in due course as each investment in your portfolio is realised and will arrange for the distribution of proceeds to be made as soon as practicable in each case.

Proceeds will be paid out to Investors subject to payment of any outstanding or accrued fees.

In order to receive proceeds each Investor will in due course need to provide fund transfer instructions and verification information to the Custodian in a form that satisfies anti-money laundering requirements. Investors may need to re-authenticate these details from time to time.

**Legal Form**

The Fund is not a collective investment scheme for the purposes of FSMA.

The Fund is not a separate legal entity. Instead, the Fund comprises a discretionary portfolio investment management service operated by the Fund Manager, which Investors will enter into on the basis of the Investment Management Agreement. The Fund is an Alternative Investment Fund (AIF) for the purposes of the AIFMD.

The Fund Manager does not hold Investors’ cash or shares. The Custodian, which is FCA authorised and is covered by the Financial Services Compensation Scheme (FSCS) holds cash on behalf of Investors and holds shares on behalf of Investors in the name of its Nominee.
All Investments made on behalf of Investors will be held on behalf of each Investor (but subject to instructions from the Fund Manager under the Investment Management Agreement) by the Custodian’s Nominee under arrangements that enable each Investor’s entitlements to be separately identified.

Investors at all times remain the beneficial owners of their proportion of the shares held by the Nominee in each portfolio company.

Investors will have the option to withdraw monies at any time that have not been applied in making Investments, or which have not been earmarked for paying fees in accordance with the terms of the Investment Management Agreement.

The Fund Manager shall be entitled to enter into different terms and arrangements, including different custodian and nominee arrangements, with different types of investor, or other fund managers or intermediaries which may or may not invest in parallel to the Fund.

**Investment Term /Life of the Fund**

Whilst it is the Fund Manager’s intention to secure an orderly disposal of Investments within a three to five year period from investment into the relevant Investee Company, some Investments may take longer to realise and you should only invest if you are able to leave your Investment intact for 5 years or more from the Close that your Application is attributed to.

The Fund will continue from year to year at the option of the Fund Manager although the arrangements with Investors for each Close will continue for seven years from the date of the Close, subject to the Fund Managers discretion to extend the life of such arrangements in accordance with the terms of the IMA and subject always to the right of each Investor to terminate their arrangements earlier.

On termination of your arrangements, you can decide whether you wish the Fund Manager:

- to direct the Custodian to transfer your portion of any remaining Investments into your name, and pay any cash held in your Portfolio to you; or
- to seek to sell your portion of any remaining Investments and pay the proceeds of sale to you, together with any cash held in your Portfolio.

However, please note that it is unlikely that the Fund Manager will be able to sell portions of the remaining Investments, as there is likely to be no market for such shares (in the absence of a sale of a controlling interest).

**Conflicts policy**

The Fund Manager, in accordance with FCA rules, operates its business in such a way as to minimise the occurrence of conflicts of interest and to enable it to resolve such conflicts in a fair manner if they arise.

The Fund Manager maintains a written conflicts policy, a copy of which is available on request.

**Complaints**

Should an Investor have a complaint about any aspect of our service they should contact the Fund Manager (see contact details on the back cover of this Memorandum). We will investigate your complaint and provide you with a written response. If you are unhappy with the outcome of our investigation you may be eligible to refer the matter to the Financial Ombudsman Service (contact: complaint.info@financial-ombudsman.org.uk).

**Custodian and Nominee**

This section broadly summarises the role of the Custodian. Investors should refer to the Custodian Agreement which is available from:

https://systems.mainspringfs.com/documents/draperespritis/custody-agreement/c83

or on request from the Fund Manager, for a more detailed explanation of the Custodian’s role, obligations and powers. Where there is any inconsistency between the Fund Documents and the Custodian Agreement, the Custodian Agreement will prevail.

Please note that at the date of issue of this Memorandum the Custodian is Mainspring Nominees Limited but the Fund Manager reserves the right to appoint an alternative or additional custodian (subject to providing details of such appointment to affected Investors (including the new terms of custody) should this circumstance arise).
**Custodian**

The Custodian will act (either in its own name or the name of its ‘pooled’ nominee company) as the Investor’s Nominee and the Investor will at all times remain the beneficial owner of cash and investments held by such Nominee for such Investor on the terms of the Custodian Agreement.

Investor subscriptions will be held by the Custodian in one or more customer trust accounts with an authorised banking institution. The Custodian will create internal individual accounts for each Investor on their system and will be responsible for the administration of each Investor’s account on an ongoing basis.

As part of its duties, the Custodian will perform the requisite money-laundering checks on each Investor and credit the Investor’s account with the initial subscription.

The Custodian will hold the Investor’s cash and securities and provide six-monthly account valuations. Cash and securities will be held by and registered in the name of the Custodian acting as nominee, but the beneficial ownership shall, at all times, be with the Investor.

The Custodian will have the right to deduct any stamp duty or other taxes and charges (including fees and expenses payable under the Investment Management Agreement) payable upon the transfer of Investments from the Investors’ accounts.

By completing the Application Form contained in the Application Pack, prospective Investors will, among other things, be deemed to have irrevocably agreed to the Custodian being appointed on the terms of the Custodian Agreement.

**Custodian’s specific obligations and powers**

i) All securities will be registered in the name of the Nominee and will be physically delivered by the Fund Manager or its agent to the Custodian.

ii) The Custodian will hold the securities for safe keeping in its safe, or may at its discretion place them in the vault of an FCA authorised UK bank, held to the order of the Nominee.

iii) The Custodian will be authorised, on the instruction of the Fund Manager, to exercise pre-emption or similar rights in relation to the shares in accordance with the Articles of Association of the Investee Company or any agreement entered into in connection with the subscription for the shares, and to deal with any rights relating to any share issue made or proposed by an Investee Company.

iv) The Custodian will be authorised, on the instruction of the Fund Manager or Investor as the case may be, to exercise voting rights in relation to the shares held on behalf of that Investor in accordance with the Articles of Association of the Investee Companies or any agreement entered into in connection with the subscription for the shares.
Investment Objectives and Investment Restrictions

Investment Objectives
The Fund Manager’s aim is to manage the funds subscribed by Investors to produce capital gains whilst managing risk.

The Fund will invest in a portfolio of companies with a target that each investment can be realised within 3-5 years, although some investments may take longer to realise.

Investments will be focussed on sectors that enable rapid, scalable growth and support defensible competitive advantage.

Companies in which the Fund invests may be loss making or profitable, are likely to be unlisted (although this will not constitute a restriction to Investment), and are not generally expected to pay dividends.

Investment Restrictions
In carrying out its duties under the Investment Management Agreement in respect of the Fund, regard shall be had, and all reasonable steps shall be taken, to comply with such policies or restrictions as are required in order to attract the EIS Relief as may be prescribed by HMRC from time to time.

In particular, but without prejudice to the generality of the above statements, the criteria for the Fund are as follows:

a) it shall be a Complying Fund;
b) so far as practicable, each Investment shall be in shares of an EIS Qualifying Company. Where relevant, Advance Assurance will be obtained in respect of each Investment, however in exceptional cases the Fund Manager may invest without obtaining advance assurance if it has obtained appropriate professional advice that confirms that the Investment should qualify for EIS Relief;
c) generally, the Fund Manager reserves the right to return any surplus of cash if it concludes that it cannot be properly invested or considers it to be in the interests of the Investor, and at its discretion, any returns on Investments which have been realised may be returned;
d) the Fund Manager shall not invest in excess of 20% of an Investor’s Net Subscription in any one round of funding in any one Investee Company;
e) the Fund intends to co-invest alongside the Venture Funds however this shall not be a restriction on the Fund and it may invest otherwise and without this co-investment; and
f) the Fund Manager may, with the approval of Investors having together made at least 75% of the Net Subscriptions to the Fund, make an investment outside these criteria, save that it may not derogate from the criteria at paragraphs (a) and (b) above.

The Fund Manager expects that the majority of the Fund’s Investee Companies will meet the criteria which define a Knowledge Intensive Company, however this will not be a restriction on the Fund and it may invest where the criteria are not met, and also in circumstances where HMRC have not provided confirmation during Advance Assurance whether the criteria are met or not.

Investors should be aware that the Fund Portfolio will include Non-Readily Realisable Securities. There is a restricted market for such Investments and it may therefore be difficult to deal in the Investments or to obtain reliable information about their value.

The intention of the Fund Manager is to divest Investments related to each Close prior to the applicable Long Stop Date, subject to appropriate opportunities to do so. The Fund Manager may extend the fund life beyond the Long Stop date if it considers it to be in the best interests of investors, specifically if there are investments that take longer to realise than the target holding period. In the event of a gradual realisation of Investments prior to such date, the cash proceeds of realised Investments may be placed on deposit, or used to pay fees properly accruing to the Investor, or otherwise be returned to Investors.
Tax Matters –
EIS Technical Information

EIS3 Certificates
The Fund Manager will, following each investment in shares made through the Fund in EIS Qualifying Companies, apply on each Investor’s behalf to HMRC for an EIS 3 certificate. A copy of this certificate or details from it will need to be submitted to HMRC in order to claim the income tax relief and/or capital gains tax deferral.

The entitlement to EIS Relief is referable to the date of the investment in shares of each company, rather than when the application to subscribe to the Fund is made.

The issue of EIS3 certificates is an administrative matter and may take several weeks and does not impact the date of investment in shares of the company. For example, an investment where the shares are issued on 3rd April 2021 is applicable to the 2020/21 UK tax year, notwithstanding the fact that corresponding EIS3 certificates are likely to be issued in the next tax year.

Date for claiming 30% income tax relief
The time limit for claiming EIS income tax relief runs from the date of each investment in shares in EIS Qualifying Companies made through the Fund. For each investment in shares made on your behalf through the Fund, the latest date on which you can file a claim for EIS income tax relief is five years after 31st January following the end of the tax year in which the shares were issued (or four years after 31st January following the end of the tax year in which the shares were issued if you are using ‘carry back’ to the prior tax year).

Dates relating to capital gains tax deferral
Capital gains tax deferral relief is available to Investors where shares in an EIS Qualifying Company are issued to the Investor in the period that begins twelve months before, and ends three years after, the disposal giving rise to the capital gain.

Knowledge Intensive Company
Knowledge intensive company expanded limits and requirements:
The government introduced the knowledge intensive company criteria in order to encourage investment in R&D focused businesses, and to give additional support where older businesses might have struggled to meet the EIS criteria in the past. For companies that meet the conditions, the total EIS and VCT lifetime investment limit along with other risk finance State aid investment, increases to £20 million.

The 3 year holding period
Income tax relief and tax free capital gains are linked to a minimum three year period of ownership.

For income tax relief the qualifying criteria must be met for the three year period starting on the date of the investment in shares in an EIS Qualifying Company.

Thereafter there are no on-going EIS qualifying criteria and income tax relief cannot be withdrawn by reference to events occurring after the expiry of this three year period.

For tax free capital gains the relief is only available if the shares in an EIS Qualifying Company are disposed of at least three years after the investment through which they were issued, and income tax relief has been claimed and not withdrawn on those shares.

Unapproved EIS fund status
The Fund is not classified by HMRC under section 251 of the Taxes Act as what is termed as an Approved Fund. This means that entitlements to any of the tax reliefs is referable to the date each investment is made through the Fund in shares in EIS Qualifying Companies, and not the date on which the Investor puts his money into the Fund.

Withdrawal of EIS Relief
Investors should be aware that there are circumstances in which the EIS Relief on an investment in shares in EIS Qualifying Companies made thorough the Fund may be withdrawn. The rules in this area are complex, and Investors must seek their own personal tax advice from an appropriately qualified professional adviser. However in broad terms the current rules provide that EIS Relief may be withdrawn in the following circumstances:

• The company that issued the shares to the Investor ceases to be an EIS Qualifying Company within the three year period following the date the shares were issued; or

• The shares issued to the Investor cease to be ‘eligible shares’ within the three year period following the date the shares were issued; or

• The shares are disposed of within the three year period following the date the shares were issued; or

• The Investor ceases to be eligible to claim relief in respect of that investment.
Risk Factors

An investment in the Fund entails a significant degree of risk and, therefore, should be undertaken only by Investors capable of evaluating the risks of the Fund and bearing the risks it represents. Prospective Investors in the Fund should carefully consider the following factors in connection with an investment in the Fund.

The following list is not a complete list of all risks involved in connection with an investment in the Fund.

General Risk Factors

1) Capital at Risk

There can be no assurance that the Fund’s Investment Objectives will be achieved or that there will be any return of capital. Therefore, an Investor should only invest in the Fund if the Investor can withstand a total loss of their Subscription.

2) Past Performance

There can be no assurance that Investments by the Fund will perform as well as any previous investments made by the Fund Manager and/or Draper Esprit.

3) Dependence on Key Personnel

The success of the Fund will be highly dependent on the expertise and performance of certain key personnel. There can be no assurance that these persons will continue to be associated with the Draper Esprit throughout the life of the Fund. The loss of the services of one or more of these individuals could have a material adverse effect on the performance of the Fund.

Whilst such key persons will devote adequate time to the management of the Fund, they are under no specific obligations to devote a particular portion of their time.

4) Illiquidity of Investments

An investment in the Fund is an investment in Non-Readily Realisable Securities and requires a long-term commitment with no certainty of return. Many of the Fund’s Investments may be illiquid, and there can be no assurance that the Fund will be able to realise such Investments at attractive prices or otherwise be able to effect a successful realisation or exit strategy.

5) Nature of the Fund’s Investments

A substantial portion of the Fund’s investments will be in equity or equity-related Investments that, by their nature, involve business, financial, market and legal risks. While such Investments offer the opportunity for significant capital gains, they also involve a high degree of risk that may result in substantial losses.

The value of Investments may be affected by events that are inherently difficult to predict, such as domestic or international economic and political developments and additional uncertainties caused by the current Covid-19 pandemic.
6) **Unlisted Companies**

While Investments in these companies may present greater opportunities for growth, such Investments may also entail larger risks than are customarily associated with investments in large companies and, in particular, a lack of liquidity in their securities. Commensurate with the nature of venture capital investing it should be expected that some companies, and the Investments in those companies, may fail.

Start-up and growth stage companies will be dependent on the skills of a small group of key executives, the loss of which may be particularly detrimental to those companies. Products and technologies developed by Investee Companies may prove not to be commercially or technically successful.

7) **Difficulty of Locating Suitable Investments**

There can be no assurance that there will be a sufficient number of suitable Investment opportunities to enable the Fund to invest all Net Subscriptions in opportunities that satisfy the Fund’s Investment Objectives and Investment Restrictions, or that such investment opportunities will lead to completed Investments by the Fund, or that the target proportion of ‘late stage’ Investments will be met.

Whilst the Fund intends to co-invest with the Venture Funds, the Venture Funds may be unsuccessful in identifying a pipeline of suitable Investments, or investments which qualify for EIS Relief (given that the Venture Funds are not EIS funds and are not therefore obliged under their constitution to invest only in transactions that qualify for EIS Relief).

There can be no assurance that the Venture Funds will have capital available to invest.

8) **Valuations**

Valuations will be provided to Investors in accordance with the valuation principles set out in this Memorandum. However, Investments in start-up and growth stage companies are inherently difficult to value and valuations may not be achieved when the Fund sells its Investments. No warranty is given that any such valuation is capable of being attained on a disposal, flotation or other realisation.

9) **Foreign Investments**

The Fund may from time to time invest in non-UK headquartered companies, or UK headquartered companies with operations or subsidiaries elsewhere. Investing outside the UK may involve greater risks than in the UK.

In particular, the value of the Fund’s Investments in foreign securities may be significantly affected by changes in currency exchange rates, which may be volatile.

Additional risks include:
- risks of economic dislocations in the host country;
- less publicly available information;
- less well developed regulatory institutions; and
- greater difficulty of enforcing legal rights in a foreign jurisdiction.

Moreover, non-UK companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to UK companies.

10) **Portfolio Concentration**

The Fund’s portfolio of Investee Companies may include a small number of large positions. If the Fund investments are concentrated in a few companies or industries, any adverse change in one or more of such companies or industries could have a material adverse effect on the Fund’s Investments.

**Tax Risk Factors**

11) **General Tax Considerations**

An investment in the Fund may involve complex tax considerations that will differ for each Investor depending on individual circumstances and may be subject to change in the future. In addition, the availability of tax reliefs in respect of an Investment in an Investee Company will depend on that company maintaining its status as an EIS Qualifying Company.

In addition, the Fund may invest in securities of corporations and other entities organized outside the United Kingdom. Income from such Investments included in an Investor’s distributive share of the income derived from the Fund related to such Investments may be subject to non-UK withholding taxes, which may or may not be reduced or eliminated by an income tax treaty.
12) Reliefs under EIS

Prospective Investors who wish to receive the benefit of any of the EIS Relief should understand and accept each of the following:

- Representations in this document with respect to EIS Relief relate to the generic position of a UK-resident individual tax payer and do not amount to tax advice to any person.
- Tax legislation and HMRC practice are subject to change at any time and the EIS Relief may be amended or withdrawn. The levels and bases of reliefs from taxation may change in the future or such reliefs may be withdrawn. The EIS Reliefs referred to in this document are those currently available in accordance with current legislation and practice and their value depends on the individual circumstances of Investors.
- Investors must follow certain simple steps to receive the EIS Relief. It is possible for Investors to lose their entitlement to EIS Relief by not taking these steps.
- Whilst it is the intention of the Fund Manager to invest in companies which are EIS Qualifying Companies, the Fund Manager cannot guarantee that all Investments will qualify for EIS Relief. Equally, following an Investment in an EIS Qualifying Company, the Fund Manager cannot guarantee the continued availability of EIS Relief relating to that Investment because this depends on the continuing compliance with the requirements of EIS by the Investee Company.
- Advance assurance will be sought from HMRC or advisers that each Investee Company is an EIS Qualifying Company, and that the EIS Relief will be available in respect of that Investment. However, there is no guarantee that the claims for EIS relief will be agreed or that such agreement may not be subsequently withdrawn. In those circumstances subscription monies will not be returned to Investors and they will remain invested in the Investee Company.
- Following the admission of an Investee Company to the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc’s market for listed securities (but not a quotation on the Alternative Investment Market operated by London Stock Exchange plc), Business Property Relief for Inheritance Tax purposes will cease.
- If an Investee Company ceases to be an EIS Qualifying Company or there is a change in the Investor’s personal circumstances, it may lead to the loss of the Investor’s EIS Relief (in relation to a specific portfolio Investment or generally)
- The tax year for which an EIS Relief is available may be later than originally envisaged if the timing of Investments is delayed.
- Neither the Fund nor the Fund Manager shall be liable for any loss incurred by an Investor in relation to value received (as defined in s226(1) Income Tax Act 2007) by any person from any Investee Company or as a result of a change in circumstances of an Investee Company at any time.
- The Fund Manager retains complete discretion to realise an Investment at any time (including within the three year period from the date of the acquisition of the Investment) that it considers appropriate. In such case, some or all of the EIS Relief relating to that particular Investment will be lost. In making such a disposal, the Fund Manager is not obliged to take into account the tax position of Investors (individually or generally).
- Any change of governmental, economic, fiscal, monetary or political policy could materially affect, directly or indirectly, the operation of the Fund and/or its ability to achieve or maintain Investments which qualify for EIS Relief.
Glossary of Terms

Advance Assurance
The non-statutory confirmation issued by HMRC in advance of a share issue that a company raising funds meets the EIS requirements in Part 5 ITA 2007, and that the shares to be issued are eligible shares.

AIFMD

Application
An application by an Investor pursuant to a duly signed and executed Application Form.

Application Pack and Application Form
The application pack relating to the Fund containing the Investment Management Agreement and the Application Form which together with this Memorandum comprises the Fund Documents.

Business Day
A day (other than a Saturday, Sunday or a public holiday in England) on which clearing banks in the City of London are open for the transaction of normal sterling banking business.

Close
The date of the relevant closing of a quarterly fund raise of the Fund which shall fall on the 5th January, 5th April, 5th July and 5th October in each year (or such other date as the Fund Manager determines). If any such date shall fall on a non-Business Day then the relevant Close shall be the next Business Day.

Complying Fund
Arrangements complying with the conditions of Paragraph 2 (2) (b) of the Schedule of FSMA (Collective Investment Schemes) Order 2001.

Custodian or Nominee
Mainspring Nominees Limited as custodian or its nominee (or such other or additional custodian and nominee as appointed by the Fund Manager from time to time).

Custodian Agreement
The custodian’s agreement (as amended from time to time) which is available from https://systems.mainsprings.com/documents/draperespriteis/custody-agreement/c83 or on request from the Fund Manager.

EIS
The Enterprise Investment Scheme.

EIS Relief
Relief from taxation under EIS.

EIS Qualifying Company
A company which qualifies for the purposes of the Enterprise Investment Scheme, as set out in Part 5 of the Taxes Act.

FCA
The Financial Conduct Authority.

FCA Rules
The rules contained in the FCA’s Handbook of Rules and Guidance.

Financial Adviser’s Facilitation Fees
The amount deducted from an Investor’s Subscription (if any) and paid at the request of the Investor to a financial adviser, as defined in Application Form, Section 1, ‘Financial Adviser’s Facilitation Fees’.

Follow-on Reserve
In respect of those Investors that choose to participate in the Follow-on Reserve an amount equal to approximately 10% of such Investor’s Net Subscription to be retained in an Investors’ Cash Account (established by the Custodian in accordance with the Custodian Agreement) following the initial investment period and applied at the discretion of the Fund Manager for the purpose of investing in existing Investee Companies requiring further funding.

FSMA

Fund
The Draper Esprit EIS Fund.

Fund Documents
This Memorandum and the Application Pack, containing the Investment Management Agreement and the Application Form.

Fund Manager
Encore Ventures LLP.

Government
Her Majesty’s government, the central government of the United Kingdom.

HMRC
Her Majesty’s Revenue and Customs.

Investee Company
A company or companies in whose securities the Fund has made an Investment.

Investment
An investment acquired by the Fund Manager on behalf of Investors through the Fund.
Investment Management Agreement
The investment management agreement set out in the Application Pack (as amended from time to time).

Investment Objectives
The investment objectives set out in Schedule 1 of the Investment Management Agreement, and summarised in this Memorandum.

Investment Restrictions
The investment restrictions set out in Schedule 1 of the Investment Management Agreement, and summarised in this Memorandum.

Investor
An actual or potential investor in the Fund, as the context requires.

Knowledge Intensive Company
A company that meets the criteria set out in s.252A of the Taxes Act.

Long Stop Date
In respect of each Close, the date falling on the seventh anniversary of that Close, subject to extension at the discretion of the Fund Manager. The Fund Manager may extend the fund life beyond the Long Stop date if it considers it to be in the best interests of investors, specifically if there are investments that take longer to realise than the target holding period.

Management Fee
The management fee payable to the Fund Manager in accordance with paragraph 2 of Schedule 2 of the Investment Management Agreement.

Memorandum
This investment memorandum for the Fund.

Net Subscriptions
In respect of each Investor the aggregate amount paid by such Investor to the Custodian pursuant to the Subscription indicated in Section 1.3 of the Application Form.

Taxes Act

Venture Funds
Draper Esprit Plc (a public limited company registered in England and Wales under number 09799594); Esprit Capital III, L.P. (a limited partnership registered in England and Wales with number LP013330), Esprit Investments (1) LP (a limited partnership registered in England and Wales with number LP017130, Esprit Investments (1) (B) LP (a limited partnership registered in England and Wales with number LP018644), Esprit Investments (2) LP (a limited partnership registered in England and Wales with number LP019384), Esprit Investments (2) (B) LP (a limited partnership registered in England and Wales with number LP019383) or (i) any similar venture capital fund managed by Draper Esprit Plc or an associated entity (which until mid-2105 was known as DFJ Esprit LLP); or (ii) any similar venture capital fund established by Draper Esprit Plc or Encore Ventures LLP in the future, or (iii) any such other fund approved by Encore Ventures LLP.

Non-Recoverable Deal Costs
Costs, evidenced by a properly issued invoice, which are (i) incurred in the preparation and execution of an Investment and that are not reimbursed by the Investee Company as transaction expenses, or (ii) costs incurred in respect of any Investment that does not conclude or in relation to any professional advice obtained on behalf of the Investors (including without limitation to enforce the Investors rights in an Investment).

Prior Draper Esprit EIS Funds
The earlier EIS funds established by the Fund Manager being DFJ Esprit Angels’ EIS Co-Investment Fund, DFJ Esprit Angels’ EIS Co-Investment II, DFJ Esprit EIS III, DFJ Esprit EIS IV and Draper Esprit EIS 5.

Subscription
In respect of each Investor the aggregate amount paid by such Investor to the Custodian pursuant to the Subscription indicated in Section 1.3 of the Application Form.

Non-Readily Realisable Securities
An Investment which does not consist of a packaged product; a non-mainstream pooled investment; a share in a mutual society; government or public securities denominated in the currency of the country of its issuer; or any other securities which are:

a) admitted to official listing on an exchange in an EEA State;
b) regularly traded on or under the rules of such an exchange; or
c) regularly traded on or under the rules of a recognised investment exchange or (except in relation to unsolicited real time financial promotions) designated investment exchange, or a newly issued security which can reasonably be expected to fall within the above categories when it begins to be traded.