

# Tax Efficient Review

Issue No: 422  
Product: Draper Esprit VCT  
Tax Status: Venture Capital Trust  
Fund Group: Elderstreet Investments with Draper Esprit

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## VCT RISK WARNINGS

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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** Venture Capital Trusts

1. An investment in a VCT carries a higher risk than many other forms of investment.
2. A VCT's shares, although listed, are likely to be difficult to realise.
3. You should regard an investment in a VCT as a long term investment, particularly as regards a VCT's investment objectives and policy and the five year period for which shareholders must hold their ordinary shares to retain their initial income tax reliefs.
4. The investments made by VCTs will normally be in companies whose securities are not publicly traded or freely marketable and may therefore be difficult to realise and investments in such companies are substantially riskier than those in larger companies.
5. If a VCT loses its Inland Revenue approval tax reliefs previously obtained may be lost.
6. No investment can be made by the VCT in a company whose first commercial sale was more than 7 years prior to date of investment, except where previous State Aid Risk Finance was received by the company within 7 years (10 years for a 'knowledge intensive' company) or where a turnover test is satisfied; and
7. No funds received from an investment by the VCT into a company can be used to acquire another existing business or trade.

<b>Offer Name</b>	<b>Draper Esprit VCT PLC</b>
<b>Fund Manager</b>	<b>Elderstreet Investments (a wholly owned subsidiary of Draper Esprit plc) with Draper Esprit plc</b>
<b>VCT Type</b>	<b>Generalist VCT which co-invests into investments with Draper Esprit, a listed Venture Capital manager</b>
<b>Fund Size</b>	<b>Seeking £5m with £15m over-allotments Current AUM £55m</b>
<b>Initial Cost</b>	<b>3% (for advised applications)</b>
<b>Annual Cost</b>	<b>2%</b>
<b>Minimum Investment</b>	<b>£6,000 per offer</b>
<b>Promoter</b>	<b>RAM Capital</b>
<b>Registrars</b>	<b>Link Asset Services</b>
<b>Closing Dates</b>	<b>3 April 2021 for the 2020/21 tax year 31 July 2021 for the 2021/22 tax year or when fully subscribed</b>

**Table 1: Offer Pros & Cons**

<b>PROS</b>	<b>CONS</b>
<ul style="list-style-type: none"> <li>Investors can now access the Draper Esprit investments within the added diversification of a VCT rather than just as an EIS</li> </ul>	<ul style="list-style-type: none"> <li>Four legacy investments (35% by value of the portfolio) remain from the previous investment strategy and it's not clear how long it will take to sell-down these holdings</li> </ul>
<ul style="list-style-type: none"> <li>Relatively healthy levels of distributable reserves should help to fund dividends for the foreseeable future</li> </ul>	<ul style="list-style-type: none"> <li>Relatively high levels of cash within the VCT on which the full AMC is charged</li> </ul>
<ul style="list-style-type: none"> <li>Full takeover of this VCT by Draper Esprit in 2021 has been completed and it is now a fully fledged member of the Draper Esprit funds</li> </ul>	<ul style="list-style-type: none"> <li>The Draper Esprit deal has occurred late in the tax year. Which has delayed the launch of this offer and the integration work for the VCT team will be happening at a busy time of the year.</li> </ul>

<b>Table 2: Elderstreet Funds under Management</b>				
Data Source - Elderstreet Investments VCT as at 31 January 2021				
	Net assets	Elderstreet Annual Management Charge	Fund Status	Free Cash
	£m			Note 1
<b>VCT Funds</b>				
Draper Esprit VCT	£55.3	£1.1m	Evergreen	£12.8m
<b>NON VCT funds that can co-invest with VCTs</b>				
Encore EIS funds	£167.7	£2.2m	Evergreen	£14.0m
<b>TOTAL</b>	<b>£223m</b>	<b>£3.3m</b>		<b>£26.8m</b>
<b>Note 1: Adjusted to take into account investments signed and awaiting HMRC assurance and deals in legals</b>				

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**Key Information Document**

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

**Changes since last review**

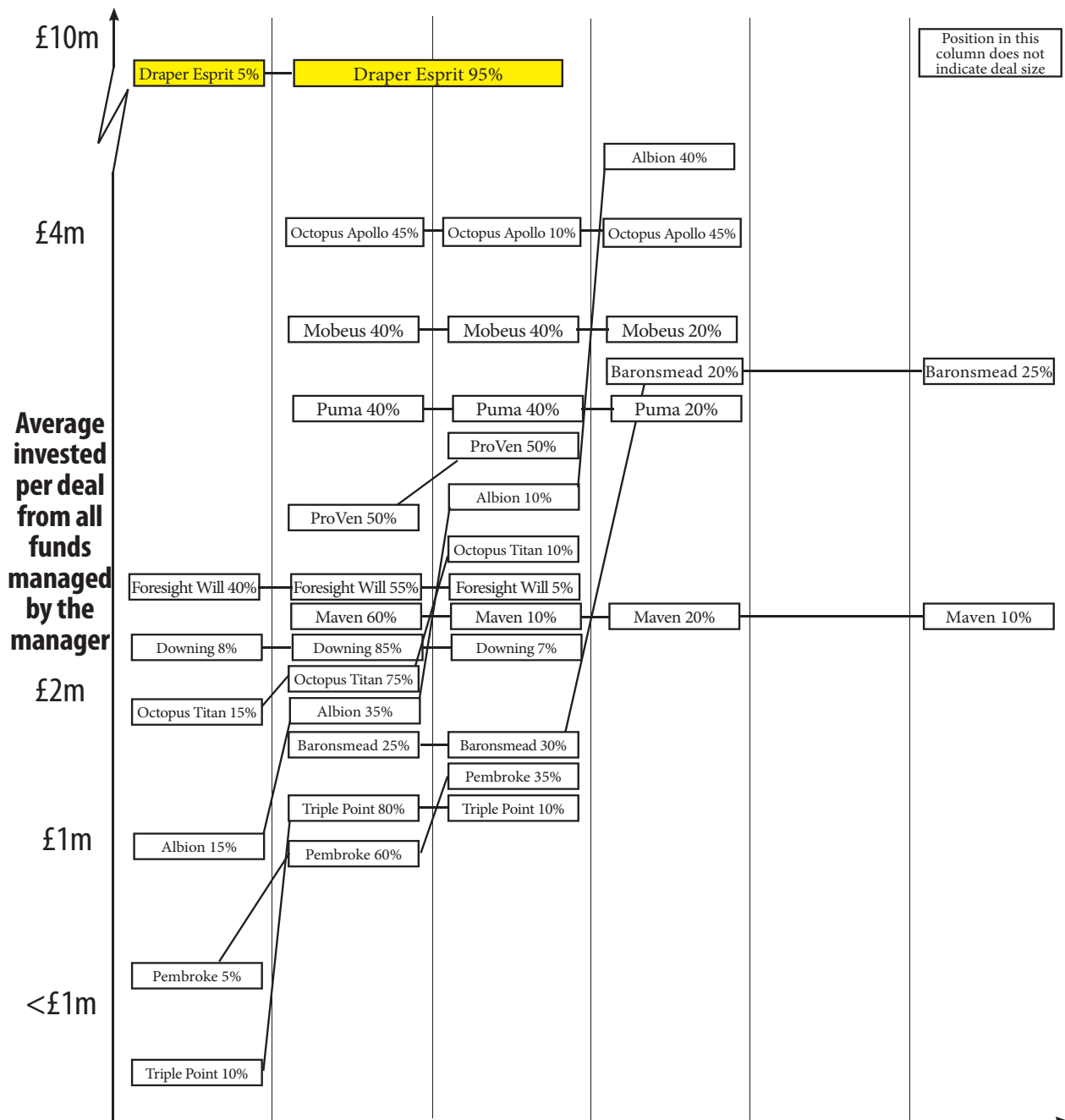
Since the last review of the Draper Esprit VCT (Jan 2019) the move to integrate the Elderstreet VCT team into the Draper Esprit team has evolved. The "legacy" investments within the portfolio from when it was a smaller, stand alone VCT trading under the Elderstreet name are now essentially only four companies, and all new investments since 2017 have been Draper Esprit sourced. Draper Esprit has now taken 100% ownership of the Manager. As part of that acquisition the Company has entered into a new Investment Management Agreement with the Manager which is subject to Shareholder Approval. The major changes include:

- A revised Performance Incentive Fee (see later)
- An extended management period from the current 12 months notice to a fixed 3 years plus 12 months notice,
- The ability for the Manager to make investments of £1m without Company Board approval

**TER classification**

The Draper Esprit VCT invests in unquoted investments predominantly in the technology sector, which are towards the larger end of the spectrum of VCT qualifying companies. TER classify the Draper Esprit VCT as a "Generalist VCT with track record".

**Diagram 1: Investment strategies of Growth VCT managers**  
 (% figures refer to manager expectations of VCT qualifying companies portfolio composition post investment of current fund raising)  
 Source: Fund Managers October 2020



Seed capital/ Early stage	Pre-Profit	Post-Profit	Larger Develop- ment Capital Deals	Asset backed opportunities	AIM stocks
	High Growth and Development capital				
<ul style="list-style-type: none"> <li>- high risk with hopefully high return</li> <li>- all equity investment</li> <li>- should have potential for rapid growth</li> </ul>	<ul style="list-style-type: none"> <li>- should have potential for rapid growth and exit within 3-5 years</li> <li>- some VCT loan interest may be deferred until exit</li> <li>- usually no bank debt because of lack of assets for security and companies may not be able to support interest payments</li> <li>- focus on high growth market sectors in which company growth should be less dependent on the performance of the whole economy</li> </ul>		<ul style="list-style-type: none"> <li>- relatively low returns but should be lower risk</li> <li>- companies usually profitable</li> <li>- companies should be able to sustain loan interest payments</li> <li>- profitable companies seeking capital for expansion</li> </ul>	<ul style="list-style-type: none"> <li>- low return and should be low risk</li> <li>- should be able to support interest on debt</li> </ul>	<ul style="list-style-type: none"> <li>- some stocks are dividend paying</li> <li>- limited liquidity</li> <li>- potential volatility</li> </ul>

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## The Offer

In November 2016 the Manager of the Elderstreet VCT, realising that small VCTs were becoming sub optimal in the market, sold an initial 30% stake to Draper Esprit plc with an option to acquire 100% in the future. At the same time a co-investment agreement was entered into to share deal flow, management experience, and investment opportunities going forward. Draper Esprit is a venture capital investor involved in the creation, funding and development of high-growth technology businesses with an emphasis on digital technologies in the UK, the Republic of Ireland and Europe. Draper Esprit floated on the AIM market in June 2016 and at the time of writing has a market capitalisation of over £1 billion.

This take-over by Draper Esprit, which completed in 2021, has transformed the relatively small Elderstreet VCT with mediocre long term performance (see Table 3) and an ageing set of legacy holdings (average age of unquoted holdings is over 14 years and for AIM holdings is 11 years) into a growth VCT focused on technology and knowledge intensive companies.

Investors in this Offer would be buying into a portfolio made up of 50% Draper Esprit technology investments (including investments completed after 30 September 2020), cash of 23% to be invested in further technology investments, and a legacy portfolio representing 27% of the total.

If this Offer is taken up in full, once invested, the Company will have over £75 million of net assets of which over £60 million will be allocated predominantly to technology investments. Of the "legacy" Elderstreet portfolio, four companies make up currently 94% in value, two of which are AIM-quoted and the other two are unquoted.

The now completed acquisition of Elderstreet Investments has, therefore, removed concerns that this was a "re-badged" Elderstreet VCT, given a home within the Draper Esprit stable, but continuing to trade as it has done historically. The VCT can, and has, participated in the available Draper Esprit EIS deals since integration in April 2016.

The co-investment right alongside the Draper Esprit plc institutional and EIS funds will be broadly based on the liquid funds available, the EIS/VCT qualifying status of each investment, the existing asset allocation within each pool of funds (i.e. conflict issues around investing in a potential competitor to an existing portfolio company), and for the VCT, the current percentage of VCT qualification in each of its pool of VCT funds. This co-investment right and allocation will be reviewed on a periodic basis and is expected to be increased if the fundraising target is achieved.

The VCT Board is independent of the Manager and Draper Esprit and while the Manager or Draper Esprit may recommend deals on the above basis the Board has the right to decline to invest. However, the revised IMA gives the Manager discretion on investment up to £1m unless there is a conflict between the Draper entities, or in a down round scenario.

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## **VCT Investment Strategy**

The focus of the VCT is to continue to invest predominantly in a diversified portfolio of companies, with a particular emphasis on smaller unquoted companies, through investments which will usually have the following characteristics:

- Companies which meet the VCT criteria with proven sales and the ability to grow, which are seeking growth capital
- A strong, balanced and well-motivated management team
- Investments where Draper Esprit plc and Elderstreet Investments Limited can typically act as lead investor and have an active involvement in the business through a board position

The Company currently has a general portfolio mix by sector and, whilst its average deal size measured by initial investment cost is approximately £0.8m, the Company is able to syndicate deals of up to £10 million with the Draper Esprit co-investment funds. Going forward, if the £20m is raised Elderstreet says that the average initial deal size is likely to rise to £1.4 million with a focus on the following technology sectors:

1. Consumer Technology – companies with exceptional growth opportunities in 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 and Deep Tech – companies developing different technologies that underpin advances in computing, consumer electronics and other industries.
4. Healthcare and Wellness – companies leveraging digital and other technologies to create new products and services for the health and wellness market.

The VCT is transitioning to a technology portfolio and the Managers believes the ability to join a funding syndicate of Draper Esprit funds will bring access to larger deals in companies that enjoy higher revenues and which operate in high growth sectors. These more developed companies can scale very quickly and have the potential to IPO, exit, or attract further funding rounds more quickly than lower revenue companies.

## **Dividend and Share Buy-Back Policy**

The board of the Draper Esprit VCT is targeting a return of 5% of NAV p.a in total dividends to shareholders. This is subject to liquidity and the availability of sufficient distributable profits, capital resources and VCT regulations.

Investors should note that in most instances the payment of a dividend will be a distribution of capital as it will not be funded from cash generated either by dividends received by the VCT or cash received from realisations. Instead the payment will be from distributable reserves created by cancelling the share premium account. Whilst legislative changes have meant that VCTs can no longer return capital to investors (e.g. by way of dividends paid from cancelled share premium account) within three years of the end of the accounting period in which the relevant shares were issued, this does not apply in this case as the cancelled share premium was not related to the Ordinary Shares issued pursuant to this Offer.



The prospectus covers this as follows "*Future dividends are expected to be funded primarily from the Company's distributable reserves, augmented by portfolio exits, rather than loan interest income.*"

Given that the VCT currently has over £20m in distributable reserves, this should be an achievable target for the coming years, ignoring any future profitable exits. All dividends are paid out, there is no reinvestment facility.

In the last three years £1.67 million of shares have been bought back by the VCT (£0.35 million in the last twelve months to September 2020). We are told that the Company intends to acquire its own Ordinary Shares in the market four times each year. The Company has entered into an agreement with a market maker to facilitate and manage the discount and buyback policy which is: "*The Company intends to continue to buy back its Ordinary Shares at a discount of approximately 5.0% to the last published NAV, subject to liquidity.*"

**Tax Efficient Review Strategy rating: 28 out of 30**

### **Track record**

Our approach to comparing track records between providers has changed from previous years. We now use 3,5 & 10 year measures of the annual increase in total return (calculated as closing net asset value less opening net asset value plus dividends paid during the period). This reflects the changes in strategy that VCTs have adopted which makes the old track record less relevant.

The results are in Table 3 above, but are not particularly relevant as they do not reflect the involvement of Draper Esprit over the timescales represented on the table. As can be seen in Table 7, there have been a number of realisations from the Elderstreet VCT, five realised at a profit and five at a loss.

With an unaudited Net Asset Value of 49.9p per Ordinary Share at 30 September 2020, the Company has produced a total return since launch (cumulative dividends paid up to 30 September 2020 plus NAV) of 154.9p per Ordinary Share. Whilst this may sound impressive, it must be said that Elderstreet VCT was one of the earliest VCTs to launch, back in 1998, so the returns are over a 20 years plus time horizon.

The legacy portfolio companies account for nearly 27% of the Company's NAV as at 30 September 2020. Four of these companies, two of which are on AIM, account for 94% of that Legacy Portfolio. The average holding period of the remaining two meaningful active unquoted portfolio is a very long seventeen years (Lyalvale Express and Fords Packaging where Michael Jackson, venture partner of the VCT manager Elderstreet, is a director) and for the AIM stocks it is an equally long eleven years. This could indicate that realising the current portfolio could prove a lengthy task although the Manager states this is a trade-off between maintaining HMRC qualifying while building the new Draper Esprit portfolio.

Given the relationship established with Draper Esprit in 2016, TER no longer consider the past track record of the Elderstreet house to be particularly relevant in assessing this VCT. There has been a significant change in the investment philosophy of this VCT, and from the deal flow originating from the Draper Esprit since April 2017, 21 new investments



Table 3: Generalist VCT provider 3,5 &amp; 10 year performance comparison

VCT manager (alphabetical order)	VCT name	Data as at	Annual return over last 3 years	Annual return over last 5 years	Annual return over last 10 years
Albion	Albion Development VCT	30/09/2020	8.8%	8.1%	6.5%
	Albion Enterprise VCT	30/09/2020	8.2%	8.0%	7.8%
	Albion Technology & General VCT	30/09/2020	7.7%	5.3%	3.5%
	Albion Venture Capital Trust	30/09/2020	4.7%	6.0%	4.8%
	Crown Place VCT	30/09/2020	8.0%	7.8%	6.1%
	Kings Arms Yard VCT	30/09/2020	3.8%	5.9%	8.5%
Beringea	Proven VCT	30/11/2020	4.7%	5.1%	5.0%
	Proven Growth & Income VCT	30/11/2020	0.8%	2.5%	5.2%
<b>Draper Esprit</b>	<b>Draper Esprit VCT</b>	<b>30/09/2020</b>	<b>-1.3%</b>	<b>-0.9%</b>	<b>4.9%</b>
Gresham House	Baronsmead Second VCT	31/12/2020	2.2%	3.8%	6.3%
	Baronsmead VCT	31/12/2020	1.8%	2.7%	6.7%
Maven	Maven Income & Growth VCT 5	31/08/2020	5.5%	5.0%	6.0%
	Maven Income & Growth VCT	31/08/2020	2.4%	3.8%	7.2%
	Maven Income & Growth VCT 3	31/08/2020	0.3%	2.6%	6.1%
	Maven Income & Growth VCT 4	30/09/2020	1.2%	2.3%	4.8%
Octopus	Octopus Titan VCT	15/12/2020	2.6%	3.0%	7.7%
Pembroke	Pembroke VCT B shares	31/12/2020	6.1%	6.0%	
YFM	British Smaller Cos VCT 2	31/12/2020	6.1%	4.5%	4.5%
	British Smaller Cos VCT	31/12/2020	6.9%	4.6%	7.3%

**Source: Tax Efficient Review calculation based on data from public accounts**  
**Calculation: (Closing period NAV less Opening period NAV plus dividends paid in the period) divided by number of years in the period**  
31/01/2021

have been made at a total cost of £21.1m, of which one investment has exited. Since the 30 September 2020 further commitments of £2.1m have been made to three new investments. A further four new deals with a value of £4.3m are in legal due diligence/term sheet state.

**Tax Efficient Review Track Record rating: 33 out of 40**

### Manager

The Draper Esprit team has a wealth of venture capital experience. The team has now operated for fifteen years and, prior to that, its members worked in leading firms within the venture capital industry. Since IPO in June 2016, Draper Esprit plc have deployed circa £450m+ capital into fast growing technology companies and have realised over £210m. In October 2020 Draper Esprit raised gross proceeds of circa £110m to capitalise on a European VC market which is expanding rapidly but is still less than one quarter of the combined size of the US and European market by value. Draper Esprit is actively involved with its investments, taking non-executive positions where appropriate, and has the ability and experience to add value to the investments.

The Company now invests in unquoted investments in the technology sector. The Company has particular expertise in growing businesses through a 'hands-on' investment style and, in aggregate with the Draper Esprit funds, prefers to be part of a syndicate which holds a significant stake and a board position in its portfolio companies.

This agreement has benefited the Company and new subscriptions increased by a further £41m since 2016. Additionally at the time of writing since raising the new funds the Company has committed to invest in twenty four new investments totalling £24.9m of which twenty two have now completed, and two are subject to receiving HMRC advanced Assurance. At 30 September 2020 this portfolio was showing an 11.4% increase on cost.

Key Draper Esprit team members, who form also the Management Board of Encore Ventures LLP, include:

- Richard Marsh (Senior Partner Draper Esprit PLC) 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 (Venture 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 (Co-founder, 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 (Director, 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).

Tables 8 & 9 show the time allocated to each task by team members.

We asked for a list for the investments made by Draper Esprit in the years 2016 to 2020 and who was the lead investment partner (note: not all are VCT investments):

- 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), Crowdcube (Jonathan Sibilis), Hadean (David Cummings), United Authors Publishing t/a Unbound (David Cummings), Sweepr Technologies (Nicola Maclafferty)
- 2020 -- Real Eyes (Stuart Chapman), Freetrade (Simon Cook, Vinoth Jayakumar), ThoughtMachine (Vinoth Jayakumar), Ravelin (Vinoth Jayakumar)
- 2021 – Primary Bid (Vinoth Jayakumar)

The Board of Draper Esprit VCT comprises David Brock as Chairman (formerly a main board member of MFI Furniture Group plc), Nicholas Lewis (founder of Downing LLP), Hugh Aldous (ex-partner of Grant Thornton UK LLP), and Michael Jackson the original founder of Elderstreet and now a Draper venture partner. The majority of this Board have been in place since inception and given the renewed focus on growth and technology it might be sensible to replace some members with entrepreneurs with more appropriate sector skillsets.

### **Deal flow**

Draper Esprit VCT has signed a co-investment alongside the Draper Esprit institutional and EIS funds. This will be broadly based on the liquid funds available, the EIS/VCT qualifying status of each investment, the existing asset allocation within each pool of funds (i.e. conflict issues around investing in a potential competitor to an existing portfolio company), and for the VCT, the current percentage of VCT qualification in each of its pool of VCT funds. This co-investment right and allocation will be reviewed on a periodic basis and the VCT Directors believe that this co-investment arrangement will provide Shareholders with a number of advantages, particularly in relation to deal flow and the opportunity for the Company to participate in larger deals, and, therefore, later stage companies.

In the event of a conflict of interest between the funds (which includes where an investment is proposed in a company in which another fund already has an interest), or where co-investments are proposed to be made other than on the above basis, such an investment by the VCT will require the approval of those members of the VCT's board who are independent of the Manager. The Board is independent of the Manager and Draper Esprit and while the Manager or Draper Esprit may recommend investments on the above basis the Board has the right to decline to invest in any such investment opportunity.

All three potential investors (the VCT, the EIS manager and the Draper Esprit institutional manager) have independent investment committees who will sign off an investment for their pool of funds. So it is possible that not all funds will participate in all deals but if a deal is VCT & EIS qualifying then the principle is that both would participate. If not, for example certain (but not all) non-UK deals, or secondaries, then VCT & EIS would not participate.

To understand how this three way co-investment works in practice, we asked Draper Esprit for details on the asset allocation for the investments made by the VCT in 2020.

The results were:

Investee company	VCT Share class Note 1	Draper Esprit VCT investment	Draper Esprit EIS investment	Draper Esprit PLC investment
<b>Real Eyes</b>	A2 Pref	£429,995	£2,500,000	£2,500,000
<b>Freetrade</b>	A Pref	£600,000	£2,400,000	£1,999,999
<b>Thought Machine</b>	B1 Pref	£2,399,996	£9,499,990	£7,431,509
<b>Ravelin Technology</b>	C1 Pref	£1,133,329	£6,087,073	£1,133,329
<b>StreetTeam Software</b>	B1 pref	£316,318	£730,724	£1,310,872
<b>TOTAL</b>		£4,879,638	£21,217,787	£14,375,709

Note 1: Due to restrictions in the EIS legislation, the EIS cannot always invest in the same share class as the VCT

A summary of the main attractions for VCT & EIS investors are:

- For EIS
  - Investors will participate in 8-12 deals from their investment onwards
  - They will buy-in at cost and should therefore capture the full uplift in those investments
  - They will have deal by deal loss relief individually on any non-profitable components of their investment
  
- For VCT
  - Investors will buy into a pool of the existing holdings (effectively in this offer at NAV rather than cost – and ride the remaining uplift, with losses netting off gains, but aren't exposed to the historic uplift/downs)
  - A portion of their investment will participate in Draper Esprit deals going forward
  - VCTs can distribute dividends tax-free

In our view the extra diversification offered by the VCT makes it a very interesting alternative for EIS investors who are not investing for Business Relief or Capital Gains Tax reasons.

Draper Esprit receives circa 2,500 business plans per annum, meet about 1,000 companies, and make approximately 20 new investments a year. At September 2020, the Draper Esprit VCT held £17.6m in cash, representing 32% of NAV. On an adjusted basis for new deals committed and completed and dividends paid since September 2020 the Manager informs us that adjusted cash is £12.8m- 23% of NAV. If this VCT is successful in raising the £20m target for this launch, it will have approximately £32m in cash, representing 44% of the overall portfolio (£75m).

The numbers above are based on the Company receiving an average of just over 10% of the aggregated Draper Esprit new deal allotment with the VCT investing an average £800k per deal. Should the £20m be raised this percentage of each new deal should rise.

TER are satisfied the deal flow originating from the Draper Esprit Ventures team, and given that the VCT Manager is now owned 100% by Draper Esprit. Deployment of this cash should not be an issue.

**Tax Efficient Review Team/Deal Flow rating: 18 out of 20**

**Costs**

• **Initial fees**

Initial costs are capped at 5.5% (variable 3%-5.5%) including commission of 2.5%. For advised sales the effective cost is 3.0% (assuming the IFA waives 2.5% commission)

• **Annual fees**

2% of net assets per annum.

The administration fee charged by Downing Management Services Limited is £65,000 plus vat per annum. Elderstreet inform us that for the year ended 31 March 2020 the Total Expenses Ratio (TER) was 2.87%; 31 March 2019 TER was 2.84%; for the fifteen month period ending March 2018 the TER was 3.4%, equivalent to 2.73% on a weighted 12-month basis. In 2016 the TER was 3.3%, in 3.2% in 2015, and 3.3% in 2014. The Company will pay an annual trail fee to the Promoter (Elderstreet Investments Limited, a subsidiary of Elderstreet Holdings Limited) who will be responsible for paying trail commission covering execution-only (non advised) investors. Regretfully this fee is paid by the VCT and not out of any fee received by the promoter/manager. Thus it falls on all the VCT shareholders and not just the execution-only investors. TER disapprove of this.

• **Performance Fees**

The existing Performance Incentive Fee is to change subject to Shareholder Approval as follows:

No performance fee is payable unless a realised gain is made on the disposal of an investment. Where a realised gain is made, a performance fee equal to 20% (20% and Draper Esprit tell us that there is no VAT) of the realised gain is payable to the Manager provided two hurdles are met:

1. an IRR hurdle requiring the achievement of at least 7% IRR annually in respect of investments made within a five-year pool, the first such period starting on 1 April 2021.
2. a NAV per share hurdle requiring the NAV per share at the end of the year in which the gain is made to be higher than the NAV per share at the commencement of the five year pool period in which the investment was made.

To the extent a performance fee is not paid due to failure to meet either hurdle, it may be paid at a later date if the hurdles are then achieved.

• **Arrangement and Monitoring Fees**

The Manager may charge an arrangement fee to each portfolio company in which the Company invests. This fee is restricted to 3% of the gross amount invested by the

Company. No arrangement fees have been charged by the Manager for any of the Draper Esprit deals completed to date.

The Manager may also charge portfolio companies for its monitoring services and non-executive director fees but has not done so in recent years.

**Tax Efficient Review Cost rating: 8 out of 10**

### **Conclusion**

The relationship between the Elderstreet VCT team of Michael Jackson and William Horlick began with Draper Esprit at the end of 2016. The full formalisation of the relationship between Elderstreet and Draper Esprit was completed in February 2021 with the acquisition of the Manager. William Horlick remains with the Manager and Michael Jackson has become a Draper venture partner and remains on the Company board.

TER have been a supporter of Draper Esprit within EIS for many years and so we welcomed their move into the VCT market with the acquisition of the Elderstreet VCT. This must have also been welcome news for the existing shareholders in the Elderstreet VCT, as there is now a robust level of fund raising each year and new life have been brought into this VCT.

The initial concerns about this relationship (whether this was simply a re-badged VCT trading under a different name but continuing the same investment strategy) have been assuaged. One look down the list of investments currently in this VCT will show many familiar names from the Draper Esprit EIS portfolio, such as Crowdcube, Endomagnetics and IESO Digital Health.

The existing levels of cash within the VCT, as an overall percentage of AUM, are on the high side, but there is healthy dealflow from the Draper Esprit team and it should also help to part fund dividends whilst awaiting exits from investee companies.

In our view, for VCT investors who seek to invest within Draper Esprit, but wish to gain the additional levels of diversification and an income yielding investment this is a very interesting proposition. With this VCT now firmly within the Draper stable of funds, they join Downing, Mercia/Northern and Octopus as managers which offer both VCT and EIS to investors.

**Tax Efficient Review rating: 87 out of 100 (for a Generalist VCT with track record)**

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**Table 4: Draper Esprit VCT unquoted holdings as at 30 September 2020ize**  
Source Elderstreet Investments

Investee Company name	Cost of Investment at 30 Sep 2020 £m	Current Carrying Value at 30 Sep 2020 £m	Initial % of equity held	% after loan conversions	Date of first investment	Syndicated	Lead investor	Structure of investment	Industry sector	Financing stage	Valuation Method See Note 1
<b>Fords Packaging</b>	2.43	5.63	49%	49%	Dec-13	N	Y	Equity & Loan	Engineering	Early Stage	Method A
<b>Endomagnetics</b>	0.91	2.86	<5%	<5%	Jul-18	Y	Y	Equity	Technology	Early Stage	Method B
<b>Back Office Technology</b>	1.42	2.41	<5%	<5%	Feb-19	Y	Y	Equity	Technology	Early Stage	Method B
<b>Thought Machine</b>	2.40	2.40	<5%	<5%	May-20	Y	Y	Equity	Technology	Early Stage	Cost
<b>IESO Digital Health</b>	1.90	2.06	<5%	<5%	Nov-17	Y	Y	Equity	Technology	Early Stage	Method C
<b>StreetTeam Software</b>	2.50	1.92	<5%	<5%	Dec-17	Y	Y	Equity	Technology	Early Stage	Third party Round
<b>Evonetix</b>	1.48	1.88	<5%	<5%	Jun-18	Y	Y	Equity	Technology	Early Stage	Method B
<b>Freetrade</b>	0.60	1.50	<5%	<5%	Mar-20	Y	Y	Equity	Technology	Early Stage	Method B
<b>Lyalvale Express</b>	1.06	1.43	44%	44%	May-98	Y	Y	Equity & Loan	Engineering	Development	Method A
<b>Roomex</b>	1.08	1.17	<5%	<5%	Oct-18	Y	Y	Equity	Technology	Early Stage	Method C
<b>Resolving</b>	0.80	1.16	<5%	<5%		Y	Y	Equity	Technology	Early Stage	Method C
<b>Ravelin Technology</b>	1.13	1.13	<5%	<5%	Jun-20	Y	Y	Equity	Technology	Early Stage	Cost
<b>United Authors Publishing</b>	0.44	0.77	<5%	<5%	Apr-19	Y	Y	Equity	Technology	Early Stage	Method C
<b>Crowdcube</b>	0.40	0.75	<5%	<5%	Jan-19	Y	Y	Equity	Technology	Early Stage	Method C
<b>Sweep Technology</b>	0.51	0.53	<5%	<5%	Dec-19	Y	Y	Equity	Technology	Early Stage	Cost
<b>Cashfac</b>	0.26	0.53	2%	2%	Jul-99	Y	Y	Equity	Software	Early Stage	Third party share sales
<b>Apperio</b>	0.50	0.50	<5%	<5%	Nov-18	Y	Y	Equity	Technology	Early Stage	Cost
<b>Real Eyes</b>	0.43	0.43	<5%	<5%	Jan-20	Y	Y	Equity	Technology	Early Stage	Cost
<b>Hadean</b>	0.40	0.40	<5%	<5%	Apr-19	Y	Y	Equity	Technology	Early Stage	Cost
<b>IXL PremFina</b>	0.76	0.38	<5%	<5%	Jul-18	Y	Y	Equity	Technology	Early Stage	Cost
<b>Macranet (Sentiment)</b>	1.04	0.26	18%	18%	Jan-14	Y	Y	Equity	Software	Early Stage	75% provision
<b>Push Dr</b>	1.76	0.25	<5%	<5%	Mar-18	Y	Y	Equity	Technology	Early Stage	Cost
<b>Servoca</b>	0.33	0.12	1%	1%	Jun-07	Y	N	Equity	Services	Early Stage	50% Price at AIM delisting
<b>Lifesize Inc</b>	0.48	0.04	<5%	<5%	Mar-18	Y	Y	Equity	Technology	Early Stage	Cost
<b>Sift Ltd</b>	0.13	0.00	< 2%	< 2%	Oct-00	N	Y	Equity	Digital Media	Early Stage	3rd party valuation
<b>Appux</b>	0.33	0.00	5-10%	5-10%	Mar-18	Y	Y	Equity	Technology	Early Stage	Cost
<b>Kellan Group plc</b>	0.66	0.00	<1%	<1%	Dec-04	Y	Y	Equity	Services	Early Stage	100 % Provision
<b>Baldwin &amp; Francis</b>	1.53	0.00	49%	49%	Nov-04	N	Y	Equity & Loan	Engineering	Early Stage	100 % Provision
<b>Edo Consulting</b>	0.13	0.00	< 2%	< 2%	Oct-00	N	Y	Equity	Digital Media	Early Stage	100 % Provision



**Table 4: Draper Esprit VCT unquoted holdings as at 30 September 2020**  
Source Elderstreet Investments

Investee Company name	Cost of Investment at 30 Sep 2020 £m	Current Carrying Value at 30 Sep 2020 £m	Initial % of equity held	% after loan conversions	Date of first investment	Syndicated	Lead investor	Structure of investment	Industry sector	Financing stage	Valuation Method See Note 1
QSS Group	0.27	0.00	44%	44%	Nov-01	N	Y	Equity	Services	Dev Cap	100 % Provision
Infoserve	0.13	0.00	< 0.5%	< 0.5%	Jun-07	Y	N	Equity	Digital Media	Early Stage	100 % Provision
RB Sport & Leisure	0.19	0.00	< 0.5%	< 0.5%	Aug-02	Y	N	Equity	Leisure	Dev Cap	100 % Provision
TNSN	0.50	0.00	< 0.1%	< 0.1%	Nov-99	N	Y	Equity	Digital Media	Early Stage	100 % Provision
<b>Total</b>	<b>£28.89m</b>	<b>£30.51m</b>									

Note 1: Valuation methodologies

Method A: Uplift in value, manager valuation based on discounted cash flows or earnings of underlying business

Method B: Uplift in value, manager valuation based on price of recent funding round which included new external investor(s)

Method C: Uplift in value, manager valuation based on price of recent investment with no new external investor

**Table 5: AIM Holdings 30 September 2020**  
Source: Elderstreet Investments

AIM	Cost	Valuation 30/09/20	Year of Investment
	£	£	
Access Intelligence plc	£2,586,379	£5,980,025	29-Oct-08
Fulcrum Utilities Ltd	£385,948	£1,189,902	12-Jul-10
<b>TOTAL</b>	<b>£2,972,327</b>	<b>£7,169,927</b>	

**Table 6: Draper Esprit VCT Committed Investments completed/committed post 30 September 2020** Source Elderstreet Investments

Investee Company name	Cost of Investment at 30 Sep 2020 £	Sector	Investment date
StreetTeam Software	316,318	Technology	Oct-20
Primary Bid	949,980		Jan-21
Guybrush Limited (Agora)	269,524		pending HMRC
River Lane Research	900,896		pending HMRC
<b>Total</b>	<b>£2,436,717</b>		

**Table 7: Realisations in last six years** Source Elderstreet Investments

Name	Exit Date	Structure	Industry Sector	Stage of Investment	Board Seat	Cost	Profit / (Loss)	Annual Internal Rate of Return	Length of investment
Podpoint Ltd	Feb-20	Equity	Technology	Early Stage growth	Y	£860,000	£1,004,992	63%	1.8 years
Fulcrum Utilities Ltd	Jul-18	Equity	Gas Utilities	AIM	N	£114,126	£518,698	24%	8.0 years
Sparesfinder Ltd	Aug-18	Equity & Debt	Software	Early Stage growth	N	£103,535	£-42,707	LOSS	19.0 years
AngloInfo Ltd	Aug-18	Equity & Debt	Digital	Early Stage growth	Y	£3,527,255	£-3,527,255	LOSS	11.9 years
Lyalvale Property Ltd	May-18	Equity & Debt	Property	n/a	Y	£300,194	£-300,194	LOSS	4.5 years
Ridee Ltd	Nov-17	Equity	Digital	Early Stage growth	N	£489,960	£-489,860	LOSS	1.5 years
Interquest plc	Aug-17	Equity	Recruitment	AIM	N	£225,200	£-53,300	LOSS	11.3 years
Concord Technology Solutions	Apr-17	Equity & Debt	Software	Early Stage growth	Y	£1,649,944	£261,000	6%	5 years
SMART Education	Dec-15	Equity & Debt	Recruitment	Early Stage growth	Y	£1,805,820	£3,652,643	20%	10.2 years
Wessex Advanced Switching	Apr-14	Equity & Debt	Aerospace Engineering	Mature stage, MBO	Y	£484,174	£9,747,312	34%	15 years

**Table 8: Matrix of individual responsibilities**  
Data Source Elderstreet Investments February 2021

NAMES	William Horlick	Michael Jackson Venture Partner
<b>VCT RELATED WORK</b>		
Deal origination %	10%	10%
General enquiries %	5%	0%
New deal doing %	10%	0%
VCT Investee Board/Observer seats	1	4
Sitting on Boards/Monitoring %	5%	40%
Fund raising %	30%	0%
Internal issues %	30%	0%
Exits %	See Boards	See Boards
<b>NON VCT WORK</b>		
Non-VCT Work %	10%	50%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Years in venture capital	22	22
Years with VCTs	22	22
Years with current team	22	22

**Table 9: Matrix of individual responsibilities – Draper Esprit LLP**

Data Source: Encore Ventures LLP February 2021

	<b>Simon Cook</b>	<b>Stuart Chapman</b>	<b>David Cummings</b>	<b>Richard Marsh</b>	<b>9x Draper Esprit further management team (via co-investment agreement)</b>
<b>VCT/EIS RELATED WORK</b>					
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					
<b>NON VCT/EIS WORK</b>					
Non-VCT/EIS work	84%	65%	18%	24%	50%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
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

IS THIS TABLE TAKEN FROM OLD EIS REVIEW STILL CORRECT. TER HAVE CHANGED "EIS" to "VCT/EIS"