

Guinness Asset Management Limited

Fair Value Assessment for Guinness EIS

Product / Service Owner and Role Title	<i>Shane Gallwey, Head of Guinness Ventures</i>
SMF Responsible	<i>Edward Guinness (SMF1 and SMF3)</i>
Relevant Oversight Committee	<i>Product Governance Committee</i>

Assessment Date	19/04/2023
Assessment Frequency	<i>Annual</i>

	From	To
Period of Review	31 March 2022	31 March 2023
Date of next assessment	31 March 2024	

1. Service Description

Guinness EIS was launched in 2010 and is an Enterprise Investment Scheme ("EIS") whose purpose is to achieve capital growth over the medium term by investing in companies which qualify for Enterprise Investment Scheme tax reliefs.

Guinness EIS looks to invest in a portfolio of around ten carefully selected investments into growth companies across a range of sectors. It is an evergreen service with quarterly closes, and we target fully investing subscriptions in the tax year that the tranche closes. We identify investments that can deliver a multiple return to investors over the four to five year investment period. We expect a spread of outcomes from these investments, and have a target portfolio return of 2x before Performance Fees and EIS tax reliefs.

2. Customer Outcomes

Good Customer Outcomes we seek to achieve

We aim to achieve capital growth over the medium term by investing in companies which qualify for Enterprise Investment Scheme tax reliefs. We have a target portfolio return of 2x before Performance Fees and EIS tax reliefs.

EIS investments qualify for tax reliefs. The main tax benefits that may be claimed by investors in the Guinness EIS Service, depending on their individual circumstances are Income Tax Relief, Capital Gains Tax Deferral and Inheritance Tax Relief. Depending on how the investment performs, there may be other tax reliefs available, including Capital Gains Tax-Free on Disposal and Loss Relief.

We aim to offer a competitive product that is designed to meet customers' needs, that provides fair value and helps customers achieve their financial objectives.

Poor Customer Outcomes we seek to avoid

Poor Customer Outcomes we seek to avoid include customers not getting value for their money, i.e. the price the customer pays for the product is unreasonable compared to the overall benefits. We also consider other factors that may result in unfair or poor value, foreseeable harm or risks to retail customers, such as unsuitable features, poor communications and poor customer support.

3. Fair Value Assessment & Conclusion

The review undertaken entailed using some independent market commentators, including MICAP and Tax Efficient Review, to assess the costs in the market and

benchmark the costs of Guinness EIS against other products. We found that Guinness EIS compares favourably in the market, particularly in ensuring Performance Fees are charged on the excess portfolio return for investors, not investment by investment. We concluded that Guinness EIS offers fair value for customers.

Basic Product Information

Information	Description	Input
Investors size	Current No. of investors	4,535
AUM size	Current AUM	£244.6m (as of 30 April 2023)
Product type	<i>Equity, Fixed Income, Mixed, Alternatives, etc.</i>	Enterprise Investment Scheme
Investment objective		To achieve capital growth over the medium term by investing in companies which qualify for Enterprise Investment Scheme tax reliefs.
Share Class <i>If multiple share classes then comparison between each class should be conducted to ensure fair value.</i>		N/A
Minimum Investment Size		£20,000

Assessment Area: Costs to Customer (Financial)

Metric Description	Metric data
Charges	<p>Entry costs: 3% Direct investor fee 2.2% transaction fee</p> <p>Manager charges: 2% per annum + 0.2% per annum custodian costs</p> <p>Performance fee: 20% on excess returns</p> <p>Exit costs: 0.3% custodian transaction fee</p>
Charges relative to benchmark	<p>The March 2023 MICAP Review compared the initial and annual fees of Guinness EIS to the EIS offers currently open for investment and listed on the MICAP Fund Finder. Adding the initial charges of Guinness and the initial deal fee gives a combined initial charge of 2.2%, which is on the lower end for most EIS services with market average being at 4.4%. The annual management charge of the Fund is 2.0% per annum, which is above industry norm which averages to 1.8% for similar products in the market. Also adding to the AMC the annual admin charge will make it 2.2% per annum.</p> <p>The performance fee of 20% of profits is within the typical range of 20% to 30%, with an average of 21.1%. With the hurdle rate at 100%, investors will pay a performance fee on all profits and before the target return is met. Although this is not uncommon across the market, the average hurdle rate is 112.5% and it would be preferable for the hurdle to be aligned to the target level of return.</p> <p>Positively, the performance fee is applied on a portfolio basis rather than an individual investee company basis: where applied on an individual investee company basis, investors can pay a performance fee on an individual investee company despite making an overall loss on their portfolio.</p> <p>According to the May 2022 Tax Efficient Review, Guinness had one of the lowest fee charging structures in the EIS comparison table. Guinness has also made a point of charging its 2% initial fee and 2% annual management fee to investee companies. The benefit of this is that it allows investors to claim EIS income tax relief on up to 100% of their subscription net of adviser fees. These fees are charged to investee companies who can recover the VAT. Others in the EIS market are taking initial and annual fees upfront (which investors can't claim tax relief on) and then taking up to 18 months to fully deploy the monies.</p> <p>Guinness charge a performance fee, calculated as 24% (20%+VAT) of the portfolio profits received by Investors. This is therefore only incurred once the full amount of an investor's Subscription has been returned to them. Whilst this is in line with a number of EIS managers within their peer group, TER feel this is low for investors taking on the risk of these investments.</p>

	<p>Tax Efficient Review Fees rating for Guinness EIS: 8 out of 10</p>
<p>Gross Performance</p>	<p>The target return is £2 for every £1 invested, gross of all fees and costs, over an investment period of four to five years. Once you include 20% + VAT Performance Fee the target net return to investors is 1.75x</p> <p>According to the March 2023 MICAP Review, overall growth investment performance varies from 2.20x to 1.00x. The 1.00x return is from the most recent tax year. The most exit proceeds were achieved in 2017/18 tax year, with £11.3 million of growth investments realised. Encouragingly, the next best performing tax year (2.15x) is in 2018/19 and contains some realised returns over £6 million. The most recent tax year is unsurprisingly still held at cost, and overall, across the six tax years, the Fund is currently providing a total value to paid in return of 1.63x. Guinness expects future returns to near the 2x target as investments begin to mature and become realised.</p> <p>The target return of 2x is slightly below the market average of 2.9x.</p>
<p>Net Performance</p>	<p>See above. Once you include 20% + VAT Performance Fee the final target net return to investors is 1.75x.</p>