Vala EIS Portfolio

Tax-Advantaged Investments

EIS Review

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Contents

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Overview

Vala Capital Limited (“Vala” or “the Adviser”) is looking to raise up to £10 million for Vala EIS Portfolio (“the Service”) for the tax year 2019/2020, to invest in EIS-qualifying companies in the technology, engineering, media & entertainment, financial technology, lifestyle, and food & beverage sectors. Investments will be made according to an investment policy whereby subscriptions are allocated to quarterly tranches. The Offer launched in December 2018.

> ***Offer:*** Vala Capital Limited (“Vala” or “the Adviser”) is looking to raise up to £10 million for Vala EIS Portfolio (“the Service”) for the tax year 2018/2019, to invest in EIS-qualifying companies in the technology, engineering, media & entertainment, financial technology, lifestyle, and food & beverage sectors. Investments will be made according to an investment policy whereby subscriptions are allocated to quarterly tranches. The Offer launched in December 2018.

Investment Details:

Score:	83
Offer Type	Discretionary Non-Approved Portfolio
EIS Strategy	Generalist
EIS AUM (Pre-Offer)	£3 million
Manager AUM	£4.7 million
EIS Risk Level	Medium

Investment:

Minimum subscription	£25,000
Maximum qualifying subscription per tax year	£1,000,000
Early bird discount	None

Closing Date:

Quarterly tranche closures

This document verifies that *Vala EIS Portfolio* has successfully completed our independent due diligence process, having passed through all stages of the governance process in the run-up to the report’s publication on the date listed below. It has therefore been awarded the MJ Hudson Cornerstone Trustmark.

Risk Warning for EIS Schemes

Individuals should always read and bear in mind the risk warning notices that are included within providers' investment offer literature / documentation, including prospectuses, information memorandums, securities notes, brochures and other related marketing literature. Whilst the following list is not exhaustive, some of the main risks to be aware of include:

- Investments are in small, unquoted companies and should be considered as high risk;
- Investments are illiquid and need to be held for at least three years in order to retain the initial income tax relief;
- An EIS/Seed EIS investment should be viewed as a long-term investment;
- Legislation, along with the nature and level of tax reliefs is subject to change. There can be no certainty that investments will be eligible or remain eligible for EIS/Seed EIS Relief;
- Historic investment performance cannot be used as a guide to future performance, and the value of any given investment may rise or fall;
- Many EIS/Seed EIS Schemes involve investment in a single company or sector and therefore should only be considered as a small part of an overall portfolio;
- Investors may not have independent representation on the Boards of investee companies which can mean their interests are not adequately considered relative to the executive team;
- EIS/Seed EIS investments should only be considered by sophisticated investors who understand, and have given careful consideration to, the underlying investment strategy and associated risks. For help in determining potential investment suitability, professional advice should be sought;
- Often there will be no regulatory oversight and investors will usually not be eligible for compensation if things go wrong.

Executive Summary

MANAGER:

Sapphire Capital Partners LLP ("Sapphire"), which will act as the regulatory manager for the Service, was founded in 2009, and has been in operation for almost 10 years. In that time it has established itself within the tax-advantaged space, and we understand that it currently manages over 14 separate tax-advantaged funds. Sapphire is authorised and regulated by the Financial Conduct Authority, and its two founders Boyd Carson and Vasiliki Carson continue to play a significant role in the business.

INVESTMENT ADVISER:

Vala Capital was established in 2016 (under a previous name General Investment Partners) to be an investment vehicle for the joint investment activity of Jasper Smith and Arthur Hughes. They had been working together on a number of investments principally with their own capital for around 20 years and, in 2017, thought there was an opportunity to offer others the opportunity to invest alongside them on a deal-by-deal basis and through a 'fund'. This first fund (an EIS Portfolio) came to fruition as the UK Challenger Fund ("UKCF"), which raised and deployed £1.7m in the 2017-18 tax year. Formally GIP (now Vala) acted as the Investment Adviser to the UKCF, with Sapphire Capital as the Investment Manager. In July 2018 James Faulkner joined the team as a Director and the name of the company was changed to Vala Capital Ltd. Vala Capital became an AR of Sapphire Capital Partners LLP in November 2018.

Subsequently, existing Head of Finance Asker Fawmy has been made a Board Director and they have been joined by Jane Holland, an industry veteran from Ingenious Media, who is the COO. The team has also seen the addition of Kasper Hunt, ex-Apple, as CTO and Anthony Johnson, himself a serial entrepreneur, who heads up deal origination.

PRODUCT:

The Investment Adviser stresses that the inspiration for the product stems from the investment team's own background as serial entrepreneurs, serving more as mentors than people simply looking at opportunities as a potential financial return. Vala hope to build investors a portfolio of 6-10 companies across various industries but with a particular interest in the following sectors: Engineering, Technology, Media and Entertainment, Financial technology, Lifestyle, and Food & beverage.

Typical deal size will be £200k to £2 million, representing 5% to 35% of the post-money share value of the company. It is expected that most of the investor's capital will be in to companies that are already generating revenues and/or have previously been invested in to through Vala, allowing the Adviser to release more money to investee companies as necessary over several tranches, with a target holding period for the Service being 3 to 5 years.

SUMMARY OPINION:

Vala is a new entrant in the field of tax-advantaged investment, although its principals have been investing considerable sums from their own money in small companies for many years. As such much of the Adviser's infrastructure is still rudimentary: ownership is still overwhelmingly in the hands of Vala's founder, Jasper Smith, creating considerable key man risk; while the Adviser has added some more senior personnel, governance is wholly managed by the Vala Capital Board; and the financial stability of the Adviser, though underwritten by the long-term loan agreement provided by Mr Smith, relies on Vala continuing to gather assets and generating enough income to finance its own activities without the need for further personal funding from Mr Smith. Vala has stated that it expects to be 70% self-funding in 2019-20 and 100% funded by 2020-21.

On the product side things are somewhat rosier: the investment team has an impressive personal track record in operational roles within their chosen sectors and in personal investments, and the fees are distinctive and relatively low, in terms of having no annual monitoring charge. However, there are few previous portfolios to look to in terms of composition or past performance. Refreshingly for a new offering, the Adviser is not proposing to charge any management fees to investors or monitoring fees to investee companies, only a performance fee on exit. As such, Vala will be an intriguing proposition for those looking for a promising newer EIS Service and are looking for further diversification of their existing EIS investments. Vala point towards the completed investments made in April 2018 (£1.7m invested in to 7 companies) and in April 2019 (£3m invested in to 9 companies) as demonstration of their ability to raise and deploy funds as promised.

Positives

AT THE MANAGER LEVEL:

- Sapphire is an established Manager within this space, and has been in operation for almost 10 years, having managed numerous tax-advantaged funds in the past;
- Revenue almost doubled according to the latest available financial accounts for the year ended 31 December 2017, and Sapphire remains profitable;
- Sapphire has robust internal processes, with a detailed compliance manual and complaints procedure, both of which have been provided to MJ Hudson Allenbridge for inspection.

AT THE INVESTMENT ADVISER LEVEL:

- Vala have courted media and been savvy at trying to raise their profile since their launch, with potential marketing tie-ups looking to further boost their presence in the market;
- Vala have started to build out a wider management team, with the addition of experienced tax-advantaged investment professionals, such as James Faulkner, Asker Fawmy and Jane Holland; and business veterans Kasper Hunt and Anthony Johnson;
- While Vala is a relatively new entity, and therefore its balance sheet is insufficient to sustain the business, Jasper Smith has shown a laudable financial commitment to getting Vala off the ground and has promised to fund it further through a long-term loan arrangement;
- The £1.7 million raised for the UK Challenger Fund in April 2018, with a much smaller headcount at launch, followed by the £3m raised in Q1 2019 demonstrates an ability for Vala to fundraise, with some prospects for topping this number as it adds more resource to this area.

AT THE PRODUCT LEVEL:

- The investment team are very experienced in the sectors in which they specialise and have invested considerable amounts of their own money in small companies over the years;
- The investment team will invest alongside the fund into investee companies, on the same basis as investors, which shows a certain amount of "skin in the game";
- The Adviser's strategy to invest at both Seed and Series A should allow for a blended risk profile, with some investee companies which should be closer to exit although it should be recognised that even Series A investments may take significantly more than 3 years to exit;

- The investment team's operational experience in its core sectors could well be attractive to investee companies looking for venture partners compared to some other venture managers who have more of an investment-focussed lens and without the same degree of industry experience;
- The existence of some companies in the UK Challenger Fund, which operated the same strategy as Vala Portfolio EIS, and the subsequent investments completed in April 2019, gives investors a clearer sense of what their portfolio might look like compared to some other new funds without such a predecessor fund;
- The investment team's contacts, experience, and own incubators should allow them to find early-stage companies which might otherwise be difficult with a new fund whose name is not yet widely known;
- The fact that the Adviser is reliant on financial support from Jasper Smith until it starts to achieve profitable exits means the Adviser is highly incentivised not only to make good investments but also to achieve prompt exits;
- The Service has a distinctive fee policy, with no annual management charge, and 100% of an investor's subscription is EIS eligible;
- While the Service itself has no track record, the principals have an impressive personal track record which can be examined, which provides some information in terms of the team's investment aptitude.

Issues to consider

AT THE MANAGER LEVEL:

- Sapphire has a small team comprising just three individuals, and is heavily reliant on its two founders, Boyd Carson and Vasiliki Carson which does give risk to key person risk; however as both are 50% shareholders in the business, we deem this risk to be low and a replacement Manager is unlikely to have a material impact;
- As a small firm managing 14 different funds the level of input and oversight that Sapphire can be expected to provide is limited, although Sapphire do go into admirable detail before signing off investments.

AT THE INVESTMENT ADVISER LEVEL:

- As a new arrival on the tax-advantaged scene, Vala is not yet well known to advisers and will have to continue finding ways to market itself in a time of lowering flows to EIS and more competition for funds;
- Vala does not currently have a large back office, but has made commitment to grow the team in line with fund growth and by moving much investor servicing online, but it remains to be seen how this will work in practice;
- The Adviser is reliant on Jasper Smith continuing to support the business in order to remain as a going concern until such time as the Service starts to achieve profitable exits; Vala has stated that it expects to be 70% self-funding in 2019-20 and self-sufficient in 2020-21.
- As a small entity Vala operates its governance through its Board, with a separation of decision making responsibilities between senior members of the firm, but there is a concentration of ownership and decision making with Jasper Smith.

AT THE PRODUCT LEVEL:

- The Investment Team does not have much support from more junior members of the team and, with the team have myriad personal investments and other interests, though Vala have stated that Jasper Smith is full time and they expect the Investment Committee members to be committing an average of at least 30 hours a month across their Vala responsibilities, including their roles in Investee Companies;
- While the Adviser is a generalist there are specific areas of sector interest into which investments are likely to flow due to the investment team's areas of expertise;
- Due to the low brand awareness of the Adviser, Vala is likely to rely on the personal networks of the investment team in order to generate pipeline, putting more emphasis on the stability of the investment team;
- The lack of an annual management charge could incentivise the Investment Adviser to seek out the earliest possible exit opportunities with limited regard to longer-term value although we recognise this is partially addressed by the Investment Adviser co-investing and counteracts the possible criticism of annual fees incentivising managers to hold on to investments longer than necessary;
- The Investment Adviser plans to invest in follow-on rounds of existing investments which creates conflicts of interest in setting the entry price especially as the investment team are likely to be existing investors;
- While the team's personal track record can be consulted as a proxy for past performance, the Service itself is new and, therefore, has no direct track record to scrutinise.

Investment Adviser Quality

Investment Adviser Profile

Vala Capital Limited (“Vala” or “Vala Capital”) was incorporated in 2016 by Jasper Smith. Vala Capital was established in 2016 (under a previous name, General Investment Partners (“GIP”)) to be an investment vehicle for the joint investment activity of Jasper Smith and Arthur Hughes, a veteran European financier (see bio in Appendix). They had been working together on a number of investments, principally with their own capital, for around 20 years and, in 2017, thought there was an opportunity to offer others the opportunity to invest alongside them on a deal-by-deal basis and through a 'fund'. This first fund (an EIS Portfolio) came to fruition as the UK Challenger Fund (“UKCF”), which raised and deployed £1.7 million in the 2017-18 tax year. Formally GIP (now Vala) acted as the Investment Adviser to the UKCF, with Sapphire Capital as the Regulatory Investment Manager.

Jasper is the Founder of Vala Capital and acts as CEO, while Arthur Hughes maintains a non-ownership role as a member of the Investment Team. In July 2018 James Faulkner joined the management team as a Director, leaving a previous position at Oxford Capital, and the name of the company was changed to Vala Capital Ltd. Vala Capital became an AR of Sapphire Capital Partners LLP in November 2018. Jasper and James both have ownership stakes in the business with Jasper having a controlling interest as Founder.

Jasper has a background in technology, media and engineering and counts previous and current ventures in Static2358, Electra Entertainment and Playjam, amongst others. Jasper has invested a considerable amount of his own money into companies over the last 15 years, which led to him seeking to put a more permanent infrastructure around his investing as his portfolio size increased.

Jane Holland acts as the COO and joined Vala in mid-January 2019. She has a background in fund management from her previous position as Finance Director at the Ingenious Group. Kasper Hunt joined in July 2018 as CTO and manages security within the fund as well as building out the technology infrastructure of the Manager. Asker Fawmy comes from a background in real estate investment and serves as Financial Controller and is a Director of the company.

The investment team has also recently been further built out, which is discussed at greater length in the Investment Team section, later on in this report.

Investor Services are provided by the Vala Capital Investor Services Team. In the first instance applications are accepted for Advised clients only. The Investor Services Team is available 9-5.30 on normal working days. Advisers access the Vala online portal where they can process and application and monitor progress of the application. The investor and adviser portal is hosted by a 3rd party; clear Service Level Agreements (“SLASs”) are in place. Receiving Services and Custodian Services are provided by Woodside Corporate Services, with the agreement also governed by SLAs. Vala hope to add a more junior investor servicing team member in the coming months.

Post-application the adviser (and their client) can monitor their investment portfolio on a 'live' basis (though typically investments are only re-valued twice-a-year). The adviser and their client can agree with Vala where correspondence, such as EIS3 certificates and contract notes, is posted but all correspondence is copied to the online portal. Aside from pre- and post-application communication Vala expect to regularly communicate with clients twice a year with a fund report: an interim report based on the October valuation and company update; and the full report following the updates and valuation in April of each year. On top of this, if there are specific corporate actions or activity that may affect the shareholders then Vala would expect to communicate with the investors (and their advisers at that point).

Vala are in talks with potentially hiring a promoter for tax-advantaged funds which would significantly increase its ability to reach more investors, with a deal hoped to be concluded in the coming months.

Financial & Business Stability

Vala Capital is owned by Jasper Smith and James Faulkner, with the former investing a good deal of his own money in order to get Vala up and running. To date the only accounts filed at Companies House show share capital and net assets of £100. Jasper told MJ Hudson Allenbridge that up to £3 million could be made available to bootstrap the Investment Adviser, with only a raise of about £200,000-£300,000 needed for Vala to breakeven at current expenditure levels, although they hope to raise considerably more over the next year. Jasper also acknowledged that ownership stakes could be extended to others in order to help expand the company further. Given that no additional shares have been issued, we understand that the Investment Adviser will be financed by loans from Mr Smith which means technically the Investment Adviser will be insolvent although it is understood that there is no intention to call down the loans.

The major costs incurred by the Adviser are wages for a small number of staff. This means that members of the IC cost Vala very little ongoing fees but also means that they are free to leave if a better opportunity were to present itself, although we recognise that members of the IC have clearly taken on these roles on the basis they are prepared to take the long view as to remuneration prospects.

The Manager hopes to expand Vala as its first EIS product gets traction, with plans for the launch of a debt fund later in the year and a Northern office in Manchester or Leeds in order to be closer to both investors and investment opportunities outside of London and the South East. These expansion plans would need fees from the EIS to fund expansion into other products or further investment from Jasper or other new Directors who might yet join the company.

MJ Hudson Allenbridge found Vala's ambition for expansion thought through, however it is also fair to say that growth will have to be partially funded by some organic growth as well as perhaps further outside funding. It is reassuring that Jasper Smith has both committed substantial personal funds and is willing to make a further financial commitment to fund the Adviser's expansion but it is still somewhat early days in the growth plan and reaching relevant milestones has to be taken on trust at this point.

Quality of Governance and Management Team

Jasper Smith and James Faulkner both have ownership stakes in Vala Capital, with Jasper being the Founder and so holds a larger interest. Arthur Hughes maintains a non-ownership role. Jane Holland serves as Finance Director for Vala. The Regulatory Manager for the EIS is Sapphire Capital Partners, who we discuss in the Regulatory Manager section, below.

James Faulkner became a Director of Vala in August 2018, while Asker Fawmy also joined the Board as a Director in October. Jasper stepped down as a Director in September to concentrate on investment matters. The Board meets regularly and governs most areas to do with the business other than investment matters.

Vala has both a Conflict of Interests and a Code of Professional Conduct policy as the Adviser builds up its own internal governance processes. Client money and assets are not held by Sapphire Capital Partners and are instead forwarded to a third-party, FCA-authorised custodian, Woodside Corporate Services. Anti-money laundering is also checked by the custodian as well as internally by the Manager. Within the fund itself valuations both pre and post investment are supported by Emsworth Corporate Services.

The Adviser lists no governing committees, other than the Board, in terms of the running of Vala as a whole, which speaks to its still rather informal management structure beyond the Investment Committee for the EIS Service.

Regulatory Manager Profile

Sapphire Capital Partners LLP ("Sapphire"), which was founded in 2009, is a small corporate finance firm with offices in London and Belfast. Sapphire operates within the tax-advantaged space, and provides a number of investment services including fundraising, drafting of offer documents and assistance with HMRC applications. Since becoming an FCA authorised manager (sub-threshold AIFM) in 2012 it has acted as the investment manager for a number of EIS and SEIS funds across a number of different sectors, and we understand that Sapphire current manages 14 separate investment funds of this nature. In addition to this, it also manages two property investment limited partnerships, and has also assisted a number of companies launch online crowdfunding campaigns.

Sapphire has a small team, with the two co-founders Boyd Carson and Vasiliki Carson playing significant roles. Boyd Carson, the founding and managing partner, has a corporate finance and accounting background having previously worked as a Director for PwC LLP's Mergers & Acquisitions group in New York. He is a Fellow of the Institute of Chartered Accountants. Vasiliki Carson, Sapphire's co-founder and partner, has over 15 years' experience in accounting and corporate finance, also with PwC LLP New York, as well as with Goldman Sachs in New York and Tokyo - Vasiliki is also a qualified accountant. These two individuals, each hold a 50% interest in the company. Sapphire hired a third permanent employee in April 2018 at an Associate level, and who is responsible for SEIS and EIS applications, business plans, information memorandums, R&D tax credits, and sales operations. Finally, it utilises the services of an external consultant who assists with Sapphire's crowdfunding services.

We note that (according to the latest set of financial accounts for the financial period to year end 31 December 2017), Sapphire generated revenues of over £470,000, which was almost double the year prior. Net profits registered just over £100,000, resulting in a profit margin of 22%, while net assets over the same period, fell just short of £68,000. Increasing revenue at a decent profit margin, combined with a net asset position are indeed all encouraging. However, one should not lose sight of the fact that these numbers are small relative to many other managers within this space.

Boyd Carson serves as both the CF10 Compliance Oversight and CF11 Money Laundering functionality. We understand that the firm employs the services of an external consultancy firm in order to assist in this process, which provides some additional comfort given Mr Carson's many "hats". In addition to this, we have reviewed Sapphire's Compliance Manual (with the last review having taken place in February 2018), which outlines the appropriate measures to deal with (among others) complaints, conflicts of interest, treating customers fairly and procedures to adequately deal with FCA reporting procedures.

Sapphire has provided MJ Hudson Allenbridge with a copy of its formal complaints procedure. The document is comprehensive and outlines necessary procedures to formally register and log a complaint, along with the appropriate timelines to address these. The firm maintains a formal complaints register, and encouragingly it is not aware of any complaints laid against it in the past 12 months.

Sapphire is smaller than many other more established managers within this space, both in terms of its headcount and financial position. However, it is profitable nonetheless and we found the policies and procedures presented by Sapphire to be sufficiently detailed and well-maintained.

Product Quality Assessment

Investment Team

Jasper Smith, Arthur Hughes, and Paddy Willis have made up the investment team since the founding of Vala, with John Swingewood joining the team more recently. Paddy, John, and Arthur are Venture Partners: working with Vala due to long familiarity with Jasper and due to the prospect of opportunities sourced by them having an additional level of due diligence on top of their own personal investments. They have invested more than £25 million of their own money into early-stage businesses and raised more than £45 million from other investors for those companies. The Adviser points to a track record of the team having invested £48 million in to 36 companies that have exited and realised £142 million.

Arthur launched his career at Babcock and Brown, when he led an MBO. He ended up in charge of the business, responsible for 2.500 people with offices around the world. Arthur has invested £80 million of his own money in Super-Angel investments and has known Jasper since 2002. John worked up through BT. He subsequently joined Sky, helping the company with its transition from analogue to digital. Has done 5 to 6 deals with Jasper, after meeting in 2001. John is seen as adding strong mentoring and negotiation skills, in particular. Paddy runs The Grocery Accelerator and was the founder of Plum Baby, the world's first premium baby food in the ambient sector. He met Jasper through the Challenger Fund and brings a sector expertise in food and drink. Together with Jasper, these Venture Partners help form the Investment Committee, along with Boyd Carson from Sapphire as the Regulatory Manager.

An Investment Director is due to join in the coming months but the original team was augmented in January 2019 by the addition of Anthony Johnson as a Venture Partner. Anthony manages deal flow and maintains the Service's pipeline. He conducts first-stage analysis, deciding whether a company is worth progressing into a more detailed level of scrutiny.

The team are obviously experienced in terms of a background in industry as well as making their own substantial investments over time in smaller companies, which serves as an intriguing track record on the back of which to launch an EIS fund. One could imagine that the prospect of working with such an industry veteran would be valuable for investee companies both in terms of strategic insight as well as potential industry contacts. However, confidence in the Investment Team would be enhanced by building out the team with junior members, both to help scout new opportunities and also in terms of helping with investee company reporting and managing progress against KPI milestones.

These entrepreneurs will personally invest in to the portfolio companies alongside the Vala Portfolio investors, and on the same terms, so that they are aligned with the success of the company.

We have included the bios of the key personnel in the Appendix 1 below.

Investment Strategy & Philosophy

The Manager stresses that their investment philosophy stems from the investment team's own background as serial entrepreneurs, serving more as mentors than people simply looking at opportunities as a potential financial return.

Vala hope to build investors a portfolio of 6-10 companies across various industries but with a particular interest in the following sectors:

- Engineering,
- Technology,

- Media and Entertainment,
- Financial technology,
- Lifestyle, and
- Food & beverage.

Vala concentrates on these sectors due to the Investment Team's experience and ability to add value and mentor management teams, while also aiming to maximise synergies between investee companies, while courting contacts in order to facilitate exit opportunities, although the EIS fund itself is only at the beginning of its existence. Vala also point out that there is likely to be some exposure to companies in the video game industry, with Jasper Smith being an industry veteran and who has served on boards of EIS companies in the sector previously, as well as being on advisory boards of other EIS funds aiming to invest in the area.

Typical deal size will be £200k to £2 million, representing 5% to 35% of the post-money share value of the company. It is expected that most of the investor's capital will be in to companies that are already generating revenues and/or have previously been invested in to through Vala, allowing the Adviser to release more money to investee companies as necessary over several tranches. Targeting the majority of the investor's capital at companies that are post-revenue and with which the Vala investment partners have the longest relationship should mitigate the risk to the investor's subscription compared to investments in companies which are still at the prototype stage and do not have any customers, although investments should still be considered as Seed Stage or Series A rather than later-stage investments. Despite this relatively early stage of investment, the Adviser hopes to exit investments after 3 to 5 years, although they acknowledge that some investee companies might take longer to exit in certain circumstance. The Service has a target return of 2x after performance fees.

It is expected that the majority of the dealflow to the Vala EIS Portfolio will be come from the networks of the Investment Principals. The Investment Principals operate business incubators, supporting early-stage businesses with expertise and often their own capital, which is where most opportunities are likely to be sourced. The appeal of the strategy is primarily that the principals' own industry track record makes for a more alluring partnership than other venture firms who are less obviously associated with the industry into which Vala hopes to invest. Personal connections with Jasper's computer game companies, for example, or Paddy Willis's grocery accelerator, gives Vala credibility that might allow Vala to compete in beauty parades with other venture firms with a longer track record as a firm. However, investors must rely on the investment team's own personal investment and industry track record to ascertain the eye for an investment and ability to access deals individually, even as the existence of Vala will help formalise the due diligence process and perhaps provide some positive network effects of the investment team joining together under one organisational roof.

Pipeline/Prospects and Current Portfolio

The Vala EIS Portfolio had a small predecessor fund called the UK Challenger Fund and, though some of the policies, investment committee, and procedures have been updated, it had broadly the same strategy as the Vala EIS Fund. It raised £1.7 million and deployed that capital into 7 companies in April 2018. The fund is now closed but the portfolio and the investors are now being looked after by the team at Vala Capital and the Investment Manager is Sapphire Capital.

None of the seven have either failed or exited but some will be considered for further investment under the new Vala Fund, including Great British Biscotti Company, Arksen Ltd and PlayWorks. All three have met milestones since the initial investment and a new funding round will likely be at a higher price than the one completed in April 2018. This would of course mean an unrealised gain for the UK Challenger Fund investors. The external valuations provider, Emsworth Corporate Services, helps frank a valuation that balances the interests of both sets of investors.

Vala expect to build portfolios of between 6-10 companies, comprising companies that they have previously invested into via the UK Challenger Fund and those which are new to Vala. The three companies mentioned above plus Aerotoxic

Detection Solutions and Quivium are all companies from the predecessor fund that have been included in the first deployments made from the Vala EIS Portfolio in April 2019. Diversification will be achieved not just through the size of the portfolio but also through sector and through the life cycle of the businesses: some companies will be in a pre-revenue period and some will be in a growth phase. For example Arksen is expected to continue to be pre-revenue for a number of months but needs capital as it moves in to its marketing phase; Great British Biscotti Ltd has been generating revenues for a couple of years and is needing capital to build out manufacturing capacity having recently won a major contract; PlayWorks achieved profitability during 2018 and needs further capital to help expand its roster of games.

The experience of the UK Challenger Fund helps investors get a sense of the investee companies into which Vala might choose to invest, while the personal connections of the investment team suggests that finding enough leads to deploy cash in a timely fashion (the Service aims to fully deploy within a year) is unlikely to be too much of a challenge: both factors reassuring for a first-time fund.

Investment Process

The Manager has described its investment process as follows in AdvantageIQ:

TABLE 1: INVESTMENT PROCESS

INVESTMENT PROCESS	DETAILS
Deal sourcing/ origination	It is expected that the majority of the deal flow to the Vala EIS Portfolio will come from the networks of the Investment Principals. It is expected that at least half of the deal flow will come through these networks. The Investment Principals also operate business incubators, supporting early stage businesses with expertise and often their own capital. It is also likely that a number of business in the portfolio will come through these. The entrepreneurial experience of the team attracts business founders and owners wanting to develop their business, so although it is not expected to form the majority of the deal flow, it is possible that some companies might be sourced through incoming enquiries.
Deal filtering and selection	Initial filtering and then more detailed due diligence is likely to take place through the Investment Principals' incubators where they can access the specialist knowledge in support of the quantitative and qualitative analysis. Typically, companies that do not meet the investment strategy of sector or sub-sector, size of company, stage of company lifecycle, will be filtered out initially.
Due diligence process	The due diligence is likely to take place through the incubators (referred to in previous response) and by the investment professionals in Vala Capital. The due diligence process will be augmented by the networks of the Investment Principals who provide specific sector expertise.

	The due diligence process comprises two main components: quantitative - comprising company analysis and market analysis. And qualitative - getting to know the founder and/or management team; understanding the business plan and opportunity; understanding the technology. This leads to an initial Investment Committee discussion and general agreement to continue the DD or to close the opportunity.
Deal approval	The final decision to invest is made by Boyd Carson of Sapphire Capital, who sits on the Investment Committee alongside Jasper Smith, Arthur Hughes and Paddy Willis. Ultimately, although Boyd makes the decision to approve an investment, the four members of the InvestCo must agree unanimously to go ahead with an investment. An Investment Management Agreement is co-signed by Sapphire (the IM), Vala (the investment adviser and mentor) and the Investee Company. This lays out the obligations on each party both pre-investment and post-investment.

Source: Vala; AdvantageIQ

The presence of Boyd Carson from Sapphire allows investors to know that all elements of due diligence have been conducted satisfactorily. The sector-specific knowledge of the investment principals should allow for focussed due diligence, although as the portfolio of investee companies expands more dedicated resource- allowing for some more consistency of approach- should be brought in-house. While we have no doubt about the sector knowledge of the investment team, allowing them all to do their own due diligence does not take full advantage of having a centralised process, although MJ Hudson Allenbridge were assured that this was the aim as more hires are made for Vala in the next few months.

Risk Management

Vala has no formal risk management committee but falls generally under the remit of the management board. Risk management for the Portfolio is undertaken principally through the Due Diligence process feeding in to the Investment Committee level and then, on an ongoing basis, by the board representatives within each investee company reporting back through the investment committee that formally meets on a monthly basis.

One of the key facets of risk management is through portfolio diversification: whilst the principle objective of the Investment Team is to commit capital to the very best companies it would be expected that an investor's subscription will be invested in to companies across a range of sectors (reflecting the generalist nature of the Portfolio) and across companies in different stages of a business lifecycle i.e. companies that are receiving earlier stage 'pre-revenue' funding through to companies that have been generating revenues for a considerable period and might already be profitable. It is expected that the majority of an investor's subscription will be in to companies that are already revenue generating, on the basis that there has been some market validation of the proposition and the underlying technology. This approach can be evidenced (albeit on a smaller scale) by the investments made in to the UK Challenger Fund, which reflected sector diversification and companies on the spectrum of pre-revenue to profitable.

A bias towards more mature businesses should also help mitigate the risk of prolonged lack of liquidity, on the rational basis that these should mature to an exit sooner than earlier-stage businesses. This is also reflected in the fee structure which, because there are no ongoing fees, would seemingly be a greater incentive to seek prompter exits.

Vala also engages Marcussen Consulting to help identify risks at portfolio level or within the investee companies in terms of EIS qualification. All companies will have received HMRC Advance Assurance prior to deployment of capital.

It is expected that the Vala Portfolio will own a minority of each investee company's shares and therefore there is risk that the level of influence on strategy and policy is limited. Vala will endeavour to mitigate this risk by being the lead investor alongside a syndicate of other VCs or individuals with similar aspirations for the company.

Vala will formally review the prices of the shares twice-a-year in line with bi-annual reporting but the valuation of a company will typically follow the price of the last funding round (whether it includes the Vala funds or not). If there has been no funding rounds for a sustained period (for example where a company is fully funded and generating profits) then the use of other metrics, such as multiples of revenue or profit might be used. In order to value investee companies Vala will utilise the assistance of Emsworth Corporate Services, a valuation specialist for SMEs.

Key Features

TABLE 2: FEES CHARGED TO THE MANAGER

FEE	CHARGED TO:	
	INVESTOR	INVESTEE COMPANY
Initial Fee	-	6%[1]
Dealing Fee	-	-
Arrangement Fee	-	-
Annual Management Fee	-	-
Annual Admin Fee	-	-
Director's Fee	-	-
Exit Performance Fee	20%	
Exit Performance Hurdle	100p	-
Available discounts	-	
Adviser charges	All fees as above although, plus any fees as agreed with the investor and the adviser	
Execution Only Fees	Not accepted	
Direct Application Fees	Not accepted	

Vala is unusual in that it charges no Annual Management Fee or Monitoring fee. While this is clearly a plus for investors it does mean that, until profitable, exits are achieved the Investment Advisers only revenue is from the initial fees and accordingly the investment Adviser is unlikely to be profitable for the foreseeable future. The lack of AMC may also encourage Vala to seek an earlier exit than they might otherwise However lower fees are always preferable for investors compared to the higher fees seen elsewhere in the market and it is refreshing to see a new offering provide such an incentive for investors. The 6% initial fee is charged to the investee company- which may put off some potential investee companies or lead to inflated valuations as compensation- but does mean that 100% of an investor's subscription is eligible for tax relief.

Overall, despite the lack of a meaningful performance hurdle, Vala's fees are at the lower end of the market, which is a good idea for a newer fund trying to differentiate itself from better-known rivals.

Performance

As this is a new product there is no past performance to speak of. However, as can be seen from Table 3 and Chart 1, below, the investment team's personal track record of investments are impressive. Personal investments have returned a simple average of 387% over an average 4.5-year holding period, with approximately £48 million invested invested and returning approximately £146 million, representing a weighted average return of 215% over the same 4.5-year average holding period. Although this track record doesn't take into account the effect of the Service's 6% initial fees, and so can't be compared like for like, it does show an ability to generate the sort of investment returns targeted by Vala.

TABLE 3: CURRENT EIS-QUALIFYING INVESTMENTS

COMPANY NAME	RECENT INVESTMENT DATE	AMOUNT INVESTED	POST-MONEY VALUATION	SOURCE	VALA INDIVIDUAL
Optimistic Media Ltd	2003	£300,000	£1,200,000	Incubated / founded	Jasper Smith
PlayJam Holdings Ltd	2008	£300,000	£300,000	Incubated / founded	Jasper Smith
Hutch Games Ltd	2010	£50,000	£2,000,000	Sourced through Jasper's Network	Jasper Smith
Snackbox Games Ltd	2015	£35,000	£750,000	Incubated / founded	Jasper Smith
PlayStack Ltd	2016	£500,000	£1,500,000	Incubated / founded	Jasper Smith
The Game Incubator Ltd	2018	£50,000	£100,000	Incubated / founded	Jasper Smith
Swapsy	2018	£50,000	£250,000	Sourced through Jasper's Network	Jasper Smith
Catalyst	2018	£150,000	£500,000	Incubated / founded	Jasper Smith
Ark Games Ltd	2017	£60,000	£50,000	Incubated / founded	Jasper Smith
Business Watch Group	2014	£750,000	£30,000,000	Incubated / founded	John Swingewood

GRAPH 1: EXITED INVESTMENTS

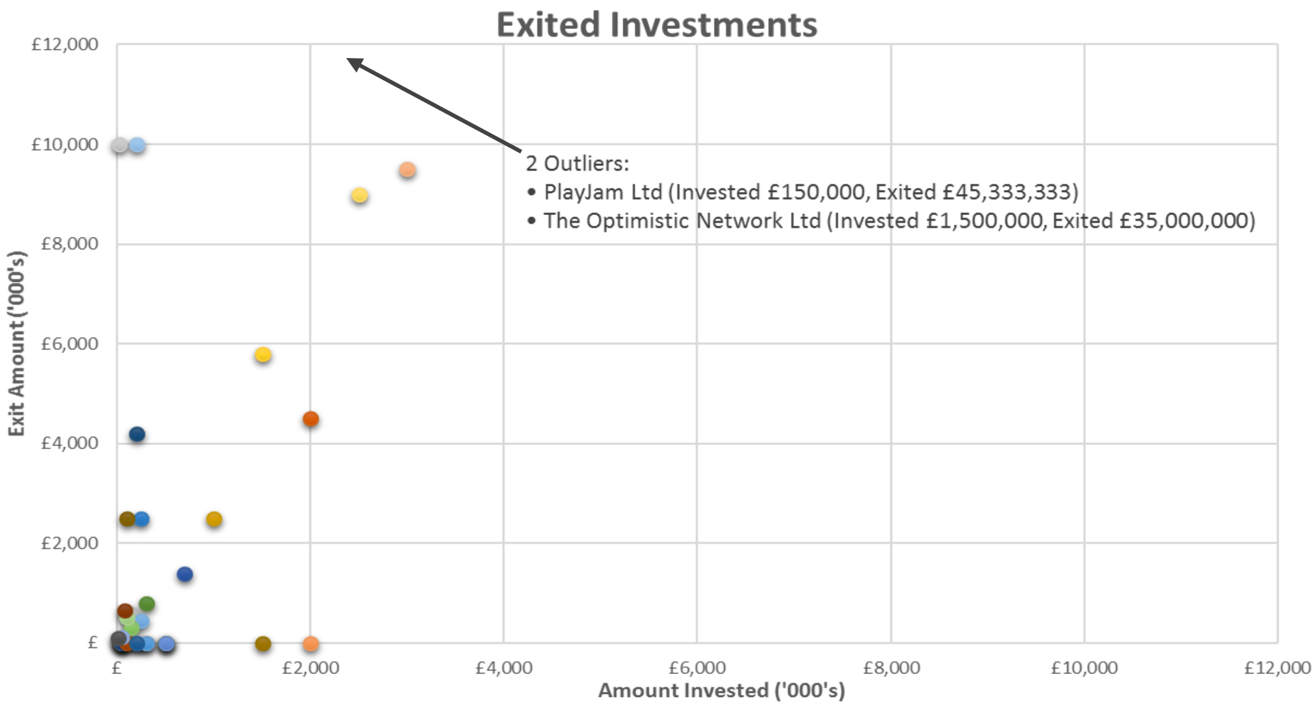

TABLE 4: EXITED INVESTMENTS

Company name	Exited Date	Amount invested	Exited Amount	% Change	Weighted Average % Return [1]	Exit Route
Translocation Direct	1996	£200,000	£-	-100%	-0.998%	
General Public Entertainment Ltd	2004	£300,000	£-	-100%	-1.497%	
General Media Finance VCT	2006	£50,000	£-	-100%	-0.249%	
Keenspirit Ltd	2006	£50,000	£-	-100%	-0.249%	
General Media Finance Ltd	2007	£300,000	£-	-100%	-1.497%	
Goldfinn Ltd	2007	£50,000	£-	-100%	-0.249%	
Subreeze Ltd	2008	£50,000	£-	-100%	-0.249%	
Fluroesent Media Ltd	2009	£100,000	£-	-100%	-0.499%	
Ekwienox Yachting Ltd	2010	£500,000	£-	-100%	-2.494%	
Adriatic Travel	2010	£1,500,000	£-	-100%	-7.483%	
Webflix Ltd	2011	£200,000	£-	-100%	-0.998%	

Panda Media Finance Ltd	2011	£50,000	£-	-100%	-0.249%	
General Entertainment and Media Corp	2014	£500,000	£-	-100%	-2.494%	
Sail Croatia	2015	£2,000,000	£-	-100%	-9.978%	
Translocation Ltd	1990	£140,000	£600,000	-63%	-0.443%	Trade Sale
Wallach & Mathes Holding BV	2009	£1,500,000	£5,806,452	29%	2.173%	Trade Sale
Flipside Televison Ltd	2006	£250,000	£450,000	80%	0.998%	Sold to Founders
Hell Kite Films Ltd	2016	£150,000	£300,000	100%	0.748%	Sold to Founders
Interactive Investor	2015	£700,000	£1,400,000	100%	3.492%	Trade Sale
Adriatic Kabel	2012	£2,000,000	£4,500,000	125%	12.472%	Trade Sale
PlayJam Ltd	2001	£150,000	£45,333,333	150%	1.121%	Trade Sale
Static 2358 Ltd	2001	£1,000,000	£2,500,000	150%	7.483%	Trade Sale
Digital Interactive Television Group	2004	£250,000	£2,500,000	900%	11.225%	Trade Sale
Irish equity	2006	£300,000	£800,000	167%	2.494%	Trade Sale
Zapper Media Limited	2014	£40,000	£120,000	200%	0.399%	Sold to Existing Shareholders
Baydonhill	2015	£3,000,000	£9,500,000	217%	32.427%	Trade Sale
Plum Baby	2010	£25,000	£10,000,000	231%	0.288%	Sold to PE Group
ASPONE	2014	£2,500,000	£9,000,000	260%	32.427%	Trade Sale
STX	2015	£200,000	£10,000,000	4900%	48.890%	Trade Sale
CentralNIC Ltd	2015	£100,000	£500,000	400%	1.996%	AIM Flotation
The Optimistic Network Ltd	2005	£1,500,000	£35,000,000	678%	50.719%	IPO
Benefits Express	2015	£80,000	£650,000	713%	2.844%	Trade Sale
PlayJam Hong Kong	2016	£10,000	£100,000	900%	0.449%	Trade Sale
Emizon Networks Ltd	2017	£100,000	£2,500,000	2400%	11.973%	Trade Sale
Copernicus Adriatic LLP	2018	£200,000	£4,200,000	2000%	19.955%	Trade Sale

[1]Weighted Average % Return accounts for the proportion returned weighted for the total portfolio amount invested.

Appendix 1: Key Personnel

Key Investment Professionals

NAME	JOB TITLE	DATE STARTED	BIOGRAPHY
Jasper Smith	Founder and Investment Principle	Since inception	Jasper runs Vala Capital and has overall responsibility for the Vala EIS Portfolio's deal flow and mentoring services. He is an entrepreneur who has founded and invested in many companies in the media, technology and engineering sectors. Previous ventures include: Static2358, a design and digital media company; Electra Entertainment, an internet television technology platform; Optimistic Entertainment Plc, a TV production and channels company; PlayJam, one of the largest TV and mobile games networks; PlayStack a mobile games publisher; and Arksen, an engineering company focused on marine robotics. He has achieved a number of highly successful exits, creating significant shareholder value along the way.
Arthur Hughes	Investment Principle	Since inception	Arthur Hughes is a successful European financier with a career spanning 35 years. He spent ten years with the UK division of investment and advisory firm Babcock & Brown, overseeing numerous debt and equity transactions. In 1991, he took over and become Group CEO of Prebon Yamane, a broking business, which was sold to Collins Stewart Tullett for £125m in 2004. Arthur has extensive experience developing complex businesses and managing them from start-up to exit.
James Faulkner	Director	2018	James is one of the Directors and has responsibility for the experience of the investors and their advisers but also sits within the investment team, supporting the screening and DD process. James has enjoyed a successful career in sales and marketing for over 30 years primarily within financial services with PwC, ABN Amro and Dun & Broadstreet but with spells in manufacturing and consulting too.
Boyd Carson	Director of Sapphire Capital Partners	2017	Managing Partner, Sapphire Capital Partners Boyd runs Sapphire Capital Partners, the Investment Manager for the Vala EIS Portfolio. He is a Fellow of the Institute of Chartered Accountants and a former director of PwC in New York. Sapphire specialises in the SEIS and EIS sector. They currently manage multiple funds and have helped more than 200 companies with the process of qualifying for tax reliefs. The firm has won multiple industry accolades, including recently the EIS Association's award for Best SEIS Fund Manager.

Anthony Johnson	Investment Director	2019	Anthony has enjoyed a successful career leading management teams of start-up to mid-stage companies across a wide range of sectors including media, business intelligence, and technology. As Vala Capital's Venture Partner, Anthony has responsibility for sourcing investments and working closely with investees to provide advice and support throughout their journey with the fund.
John Swingewood	Member of the Investment Committee	2019	After senior leadership roles at BT and Sky, pioneering their growth in to digital content, John has gone on to lead various companies through substantial growth through to exit. John was the Chairman at CENTRALNIC, which successfully floated on AIM and the founder at DITG and Emizon, both of which were sold through significant trade sales. John continues to conceptualise, incubate and support businesses through growth, specialising in consumer technology and engineering. John obtained a first class degree in Electronic Engineering at Surrey University.

Source: Vala Capital; AdvantageIQ

Senior Management Team

JASPER SMITH – FOUNDER & CEO

As above

JAMES FAULKNER - DIRECTOR

As above

KASPER HUNT- CTO

Veteran software engineer, Kasper led the engineering teams at PlayJam - a revolutionary TV games network - and was responsible for the design and delivery of the PlayJam Platform. With a strong background in cutting edge technology, having previously run worldwide R&D for an industry leading PCB/ATE manufacturer working with high profile customers including Apple, Raytheon, Rolls-Royce, Ferrari, Foxconn and Cisco.

JANE HOLLAND- COO

Jane Holland joined Vala Capiatl in January 2019 and is Director. Jane, a 12 year veteran at Ingenious Media, brings many years' industry experience looking after middle and back office functions. Jane is a qualified accountant.

ASKER FAWMY- DIRECTOR

Asker Fawmy is a Director at Vala Capital has 15 years' proven track record in business partnering, financial leadership and project management roles. He is a CIMA qualified senior finance professional with substantial experience in reorganising complex financial systems. Asker has in-depth knowledge of statutory accounts taxation as well as equity & property funds, corporate finance and risk management. He is an expert on forecasting & accurate analysis of fiscal data in driving business revenues and in decision-making.

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