

# Vala



Vala EIS Portfolio

Information  
Memorandum

The tax treatment referred to in this Information Memorandum depends on the individual circumstances of each investor and may be subject to change in the future. In addition, the availability of any tax reliefs depends on the investee companies maintaining their qualifying status. This investment is not suitable for all investors as the underlying investments are illiquid.

## Important notice

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This notice is important and requires your immediate attention. If you are in any doubt about the action you should take in regard to the contents of this Information Memorandum you should contact an independent financial adviser or other professional adviser authorised under the Financial Services and Markets Act 2000 (FSMA) who specialises in advising on investments of this type.

Reliance on this Information Memorandum for the purpose of engaging in any type of investment activity may expose an individual to a significant risk of losing all of the capital invested. Your attention is drawn to the Risks section on page 26. Nothing in this document constitutes investment, tax, financial, regulatory or other advice by Sapphire Capital Partners LLP or by Vala Capital Limited.



This Information Memorandum and the Application Pack including Investment Management Agreement that accompanies it constitutes a financial promotion pursuant to section 21 of FSMA. Its contents have been approved for the purposes of section 21 of FSMA by Sapphire Capital Partners LLP (the “Authorised Person”), which is authorised and regulated by the Financial Conduct Authority in the United Kingdom and whose registered office is at 28 Deramore Park, Malone, Belfast BT9 5JU.

The communication of this Information Memorandum and the contents thereof is made to and directed at persons reasonably believed to be such persons as are referred to below and must not be passed on, directly or indirectly, to any other person in the United Kingdom:

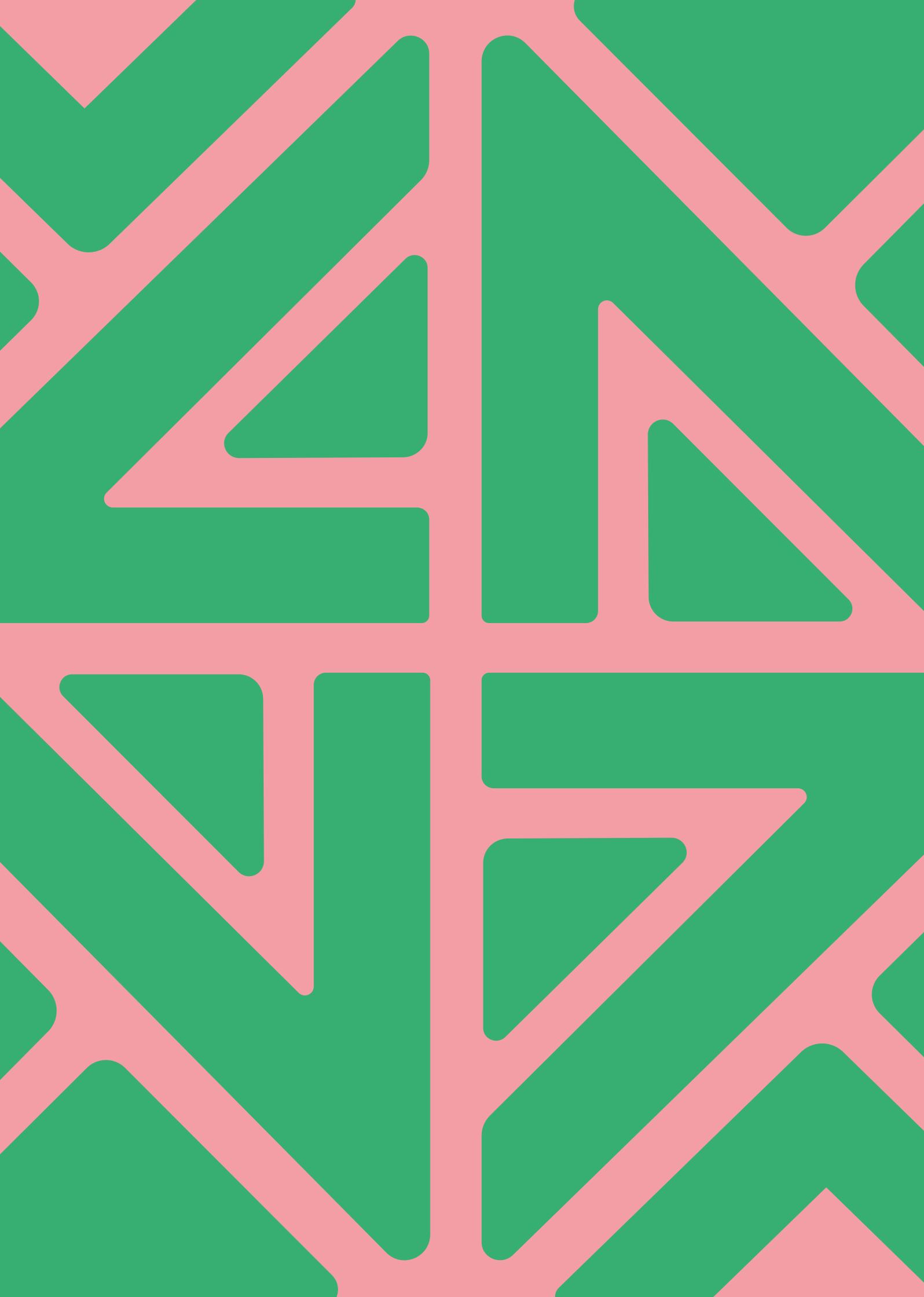
- (a) professional clients or eligible counterparties as defined in the Conduct of Business Sourcebook (“COBS”) forming part of the FCA’s Handbook of Rules and Guidance;
- (b) retail clients who confirm in writing that they will receive advice on the investments referred to in this Information Memorandum from a financial adviser authorised and regulated by the FCA;
- (c) persons who may otherwise be permitted to receive this Information Memorandum under the COBS rules.

Neither Sapphire Capital Partners LLP nor Vala Capital Limited or any of their respective directors, officers, employees, advisers and agents accept any liability for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any information or opinions contained herein or in any other communication in connection with an investment in the Fund, except where such liability arises under FSMA, regulations made under FSMA, the FCA Rules or any applicable law and may not be excluded.

All information and illustrations in this Information Memorandum are stated as at the date of its issue. All statements of opinion or belief contained in this Information Memorandum and all views expressed and statements made represent the Authorised Person’s own assessment and interpretation of information available to them as at the date of this Information Memorandum. No representation is made or assurance given as to the accuracy, completeness, achievability or reasonableness of any views, statements, illustrations or forecasts or that the objectives of the Fund will be achieved. Prospective Investors are strongly advised to conduct their own due diligence including, without limitation, the legal and tax consequences to them of investing in the Fund and must determine for themselves what reliance (if any) they should place on such statements, views or forecasts. Prospective Investors’ attention is drawn to the section entitled Risks.

This Information Memorandum contains certain information that constitutes “forward-looking statements” which can be recognised by use of terminology such as “may”, “will”, “should”, “anticipate”, “estimate”, “intend”, “continue”, or “believe” or their respective negatives or other comparable terminology. Forward-looking statements are provided for illustrative purposes only. Due to various risks and uncertainties, actual events, results or performance may differ materially from those reflected or contemplated in such forward-looking statements.

This Information Memorandum is dated July 2019 (ref: 0719-01).



# Vala

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# Vala

## Introducing the Vala EIS Portfolio

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Dear Investor,

Welcome to the Vala EIS Portfolio.

This Fund was created to invest in companies run by skilled entrepreneurs, who have the potential to build exceptional businesses.

The Vala EIS Portfolio builds on the expertise of a group of serial entrepreneurs, who over many years have given blood, sweat and tears to create, build and sell businesses across various industries. We have invested more than £30m of our own money into early-stage businesses and raised more than £75m from other investors for those companies.

Our philosophy is to stick by our portfolio companies through thick and thin, building relationships with founders that last a lifetime. We are investors, but first we are entrepreneurs. Which is also why we invest our own money into the Vala EIS Portfolio.

My own background is in technology, media and engineering, and it is a great time to be investing in these sectors. But the Vala EIS Portfolio will invest across a range of other industries too. This plays to our strengths as investors, and it should allow you to build a diversified portfolio.

I meet so many inspirational entrepreneurs with fantastic ideas and energy. My mission is to use the Vala EIS Portfolio to provide them with not just the investment capital, but the advice and support they need to make their ideas a reality. I hope you will join us on this journey.

A handwritten signature in black ink, appearing to read 'Jasper', with a horizontal line above it.

Jasper Smith

## Investment summary

The Vala EIS Portfolio will build a portfolio of shares in small companies with big plans for growth, chosen by an experienced group of entrepreneurial investors.

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The Fund will invest across a range of sectors, including technology, engineering, fintech, media & entertainment, lifestyle brands and food & beverage.

The companies we back qualify for the Enterprise Investment Scheme ('EIS'). This means your investment comes with generous tax benefits, designed to incentivise you to take the risks associated with early-stage investing. See page 26 for more details.



<b>Minimum subscription</b>	£25,000
<b>Portfolio size</b>	We aim to invest your Subscription into six to ten companies. The exact size of your portfolio may vary. No more than 20% of your Subscription will be committed in any investment round to a single company.
<b>Investment timing</b>	Your Subscription will normally be fully invested into shares within 12 months.  However, various factors will influence the exact timing of investments, including the availability of suitable companies to invest in.
<b>Investment duration</b>	You should expect to hold each of the investments in your portfolio for at least five years from the time that the shares are purchased. It is possible that some companies may be held for significantly longer or shorter periods.
<b>Closing date</b>	The Fund is 'evergreen' – always open to new Subscriptions.
<b>Target returns</b>	We target a return of 2x the amount invested. This doesn't include the value of any tax reliefs you claim. For more information, please refer to the Key Information Document that accompanies this Information Memorandum.
<b>Fees</b>	The Vala EIS Portfolio has a simple fee structure. We charge a one-off initial fee of 6%, with no annual management charges. The initial fee is collected from the Investee Companies rather than from Investors. This means that 100% of your Subscription amount (less any fees payable to your financial adviser) is invested into EIS-qualifying shares.  To make sure our interests are aligned with you, we also earn a performance fee equal to 20% of any sale proceeds that exceed 100% of the amount invested.  Please refer to page 21 for more details of our charges.
<b>EIS reliefs</b>	Prior to investment, advance assurance of EIS qualification will be obtained from HMRC for each portfolio company.

## Investment philosophy

At the heart of the Vala EIS Portfolio is a team of seasoned and successful entrepreneurs. Over decades of experience in industry and international finance, they have created, built and sold numerous innovative businesses around the world.

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This hard work, and the tough lessons learned along the way, puts the Vala EIS Portfolio in a strong position to find and nurture investee companies, giving them the best possible chance of success. Our experience has also shaped a set of values and beliefs that underpin the Vala EIS Portfolio.



## Born to build

The best entrepreneurs were born to build their businesses – they see it as their life’s mission. These are people who think big and are determined and fearless in pursuit of their dreams.

Our job is to empower these founders to make their ideas real and impactful. We are lucky enough to work with many visionary and innovative entrepreneurs, and this experience makes us incredibly optimistic about the future.

## The UK helps businesses thrive

Vala Capital believes that the UK provides a good environment for start-up businesses to flourish. Technology has transformed almost every industry, creating possibilities for start-ups to become significant players or major multinationals in record time. The UK has so far created 60 unicorns<sup>1</sup> – technology companies achieving valuations of more than \$1 billion. The next global giants could potentially be out there among the more than 500,000 new companies started in each year in the UK alone<sup>2</sup>.

## Ethics

Acting ethically isn’t a cost to business or a barrier to success. On the contrary, we believe an ethical core is a critical element of every great company. Ethical decision making, practiced at all levels of a company, creates more sustainable business practices, better financial outcomes, and stronger organisations. We seek entrepreneurs who share this vision of doing business.

## Competitive edge

We like to win, and so do the entrepreneurs we work with. We do everything we can to give our portfolio companies a competitive edge, drawing on our decades of experience of building businesses and our extensive professional networks. Some of the businesses that the Vala EIS Portfolio will invest in are companies that we have helped create, incubate and accelerate, putting us in the best possible position to help them grow.

## What this means for your portfolio

With these principles guiding our investments, what can you expect the companies in your portfolio to look like?

## Sector focus

Mentoring entrepreneurs through the lifecycle of their business is an important part of our investment approach. The individuals who act as mentors will also often put their own money into the portfolio companies and in some cases they may themselves be founders. As such, we tend to invest in companies operating in sectors that we know well, or where we can bring in exceptional sector expertise from our network.

These sectors may include, Technology, Engineering, Media & Entertainment, Financial Technology, Lifestyle, and Food & Beverage.

## Development stage

All the companies in the Vala EIS Portfolio are ‘early-stage’, but they may be at different phases of their business plans when we first invest. Some companies may already be ‘post-revenue’ - i.e. they have already started to sell their product or service and now require funding to accelerate growth (for example, by investing in their sales and marketing function or expanding their product range). Other companies may be ‘pre-revenue’ - i.e. they are still developing a product, and they require funding to cover the costs of finalising and launching it into their chosen markets.

The Vala EIS Portfolio may also invest in some businesses more than once. As such, your portfolio could include companies that have already been invested in by previous Vala EIS Portfolio Investors and mentored by Vala Capital over a number of years.

## Size of investments

Each investment round (i.e. the capital committed to each company by the Vala EIS Portfolio on a particular occasion) is likely to be between £200,000 and £2,000,000, but it could vary.

<sup>1</sup> Dealroom.co, “Tech Nation and Digital Economy Council Report Q3 2018”

<sup>2</sup> InformDirect.co.uk, “2018 Review of UK Company Formations”

## Target return

We hope to return to you 2x the amount you invest in the Fund, net of our fees. This target does not include the value of any tax reliefs you claim in connection with your investments. It's important to note that the returns from this sort of investing are hard to predict. The performance of each company will vary, and the bulk of your returns will probably come from the sale of the two or three most successful companies in the portfolio. The stated 2x target should remind you that this is a risky investment, with unpredictable but potentially significant returns.

## Portfolio examples

A good way to get a feel for what the Fund will do is to look at the companies in which it has previously invested. It's important to stress that these are only examples of past investments. It is possible that the Fund may invest in further rounds in some of the companies, but that does not mean that the companies will necessarily become part of your personal portfolio. Similarly, the performance of these companies is not an indication of the performance of future investments made by the Fund. Nevertheless, the examples opposite do give a sense of what we are interested in.

Sometimes, it is possible for us to share information with you about specific companies that the Fund might invest in over the coming months. You are always welcome to contact us or the Investment Manager to find out about upcoming investments, which might form part of your portfolio if you decided to subscribe to the Fund.



## Great British Biscotti Co.

A British biscuit brand that started life as a micro-bakery in 2016. The business grew quickly, and to keep up with demand the company bought its own factory near Christchurch in Dorset. The company's fresh and creative products are now distributed across the UK and overseas.



## Arksen

Arksen is developing a unique and innovative range of semi-autonomous explorer vessels for pleasure, research and commercial purposes. The vessels will have the range and capability to operate anywhere in the world, in the harshest of environments, safely and comfortably. Arksen's vision is to pioneer the technology that will define the marine industry over the next decade.



## Play.Works

A games developer currently aiming to capitalise on the nascent but potentially large market for games built into instant messaging platforms – WhatsApp alone has more than 1.5 billion monthly active users<sup>1</sup>. Play.Works generated more than £1m of revenues in its first year of operation.



## Quvium

Develops innovative medical devices. Its latest product, CoughAware, is a wearable monitoring device that can predict and prevent attacks caused by respiratory conditions such as asthma and chronic obstructive pulmonary disease.



## TerraLogix

TerraLogix is developing a Software-as-a-Service designed to resolve the challenges of determining land ownership, in territories where land title is complicated or disputed. This will potentially unlock the value of land, by opening up new opportunities for development.



## VN Aertoxic Detection Solutions

Has developed the world's first real-time sensor for detecting the presence of poisonous compounds in aircraft cabins. There is a growing market need for this product, as aircraft manufacturers and operators are coming under pressure from public enquiries and class action law suits following the discovery of harmful chemicals in aircraft cabins.

<sup>1</sup> Techcrunch, "WhatsApp hits 1.5 billion monthly users. \$19B? Not so bad."

## What to expect

When you subscribe to the Vala EIS Portfolio, your Subscription will be used to purchase shares in a number of different companies – we will aim to build you a portfolio of six to ten companies, although the exact number could vary.

For each of these separate company investments, you will receive an EIS3 certificate, the paperwork issued by HMRC that allows you to potentially claim various tax reliefs, as set out on page 22.

- 14 The Vala EIS Portfolio is evergreen – always open to Subscriptions. We raise Subscriptions from new Investors at the same time as building up our pipeline of companies to invest in. In general, once we have raised a tranche of around £2.5m of Investor Subscriptions, we will invest that money into suitable companies over a short period of time. This will usually mean that your Subscription will be fully invested into companies 12 months after you invest in the Fund, but the investment process and timeframe can vary. Our priority is to find the best possible investment opportunities, even if that delays the process of deploying your cash.



Once we have built your portfolio, we work with each of the companies to help them grow and become more valuable. The ultimate goal is to be able to sell your shares after you have held them for around three to five years. However, that timeframe can vary considerably and it is also highly likely that some companies in the portfolio will fail to yield a profitable or any return.

## Understanding EIS ‘funds’

If you are new to EIS investments, remember that the Vala EIS Portfolio is not a ‘fund’ in the conventional sense. You are not buying units of a pre-existing fund, like you might do through your pension. Instead, as described above, your Subscription is used to purchase shares in the companies backed by the Vala EIS Portfolio. This means an Investor who subscribes in a year’s time will probably end up with a completely different portfolio to an Investor who subscribes today.

Other types of investment fund also allow you to sell your holding, either to access the cash value or to transfer into a different fund. You cannot do this with an EIS ‘fund’, which is an illiquid investment. You will only be able to access your cash when the Investment Manager is able to sell the individual companies in your portfolio.

## Legal structure and regulatory position

The Vala EIS Portfolio is unlike a conventional fund in key respects, and it is also not considered to be a ‘collective investment scheme’ (under section 235 of the Financial Services and Markets Act 2000). However, it is classified as an Alternative Investment Fund (AIF) under the Alternative Investment Fund Managers Directive (AIFMD).

The Fund is not a legal entity, but a collection of bare trusts – one for each Investor. As an Investor, you will be the sole beneficiary of a bare trust, and a Custodian arrangement will be used to hold your cash prior to investment and your portfolio of shares.

A few different parties will be involved in your investment. Their roles are summarised in simple terms below.

### Vala Capital – Investment Adviser

Vala Capital has developed the Vala EIS Portfolio’s investment ethos and strategy. We select the companies that the Vala EIS Portfolio invests in, and we are closely involved with the investment process from start to finish.

We also provide partnership, support and advice to the entrepreneurs who receive funding for their businesses through the Vala EIS Portfolio.

Vala Capital acts as an ‘appointed representative’ of Sapphire Capital Partners LLP<sup>1</sup>.

### Sapphire Capital Partners – Investment Manager

Sapphire Capital is an investment management firm authorised and regulated by the Financial Conduct Authority (FCA), with the reference number 565716. Sapphire has permissions from the FCA that allow it to act as an investment manager for retail investors and to act as an Alternative Investment Fund Manager.

Sapphire has responsibility for making sure that all of Vala Capital’s activities are carried out in a way that complies with the relevant regulations. As Investment Manager for the Fund, they will independently review the opportunities selected for investment by Vala Capital. They must give their approval before the Fund can complete an investment in a portfolio company.

### Woodside Corporate Services – Custodian

When you invest in the Vala EIS Portfolio, a client account will be opened for you by Woodside Corporate Services, into which your Subscription will be deposited. When the Fund makes an investment, Woodside Corporate Services will use a nominee company, WCS Nominees Limited, to be the legal owner of shares on your behalf. These shares will be allocated to your account at Woodside Corporate Services.

## Financial Services Compensation Scheme

The Investment Manager participates in the Financial Services Compensation Scheme, established under the Financial Services and Markets Act 2000. The scheme provides compensation to eligible investors in the event of a firm being unable to meet its customer liabilities. Payments under the scheme to an eligible investor for protected claims against a firm in respect of protected investment business are limited to a maximum of the first £50,000 of the claim. Not every investor is eligible to claim under this scheme. Whilst Sapphire Capital Partners LLP is authorised and regulated by the FCA, the FCA categorises the Fund as an alternative investment fund, and so participation in the Fund is not covered by the Financial Services Compensation Scheme. Further information is available from the Financial Services Compensation Scheme, 10th Floor, Beaufort House, 15 St Botolph Street, London, EC3A 7QU.

<sup>1</sup> This arrangement may change in the future if, for example, Vala Capital Limited decides to apply for its own regulatory permissions from the FCA.

## Our investment process

<b>Sourcing deals</b>	<p>One of Vala Capital's key responsibilities is to find suitable companies for the Vala EIS Portfolio to invest in.</p> <p>Companies often approach us directly when raising money. We also learn about opportunities through our network of well-connected associates, business leaders and serial entrepreneurs.</p> <p>Sometimes, the Vala EIS Portfolio may invest in companies which members of our investment committee, or other entrepreneurs who we know well, have themselves started or incubated.</p>
<b>Due diligence</b>	<p>We love a good sales pitch from an enthusiastic founder. But we also love the forensic research required to decide whether or not to invest. Due diligence is crucial. It helps us to manage risk exposure, and it lays the groundwork for supporting the businesses that we select for investment.</p> <p>Vala Capital carries out extensive due diligence in collaboration with professional advisers, handpicked for their experience in the relevant sector.</p> <p>We spend time researching market dynamics to assess whether the company's product is the right fit with the right route to market.</p> <p>We unpick the company's business plans, financial projections and budgets to understand how they will use the investment and what their prospects for growth are.</p> <p>Finally, we get to know the founder and the team they have built to help them grow the business.</p>
<b>Investment decision</b>	<p>Once the detailed due diligence work is completed, the Investment Committee (see page 19) will review the opportunity in detail. The final decision to invest rests with the Investment Manager, represented on the Committee by Boyd Carson. However, the policy of the Vala EIS Portfolio is that investments will only proceed if there is unanimous agreement across all members of the Investment Committee.</p>



**Mentoring**

Like many investors, we prefer to take a seat on the board of each company we invest in. For us, this is not solely about monitoring performance. It is about becoming a trusted mentor to the founders, empowering them and providing whatever support they might need to be successful.

That might mean providing broad strategic help, or specific advice in relation to legal issues, taxation, marketing, accounting, finance, public relations or information technology.

**Exit**

The ultimate goal for each portfolio company is to achieve an exit event, to allow the Vala EIS Portfolio to produce a profitable return to Investors. The companies may be acquired by other parties (such as bigger company in the same industry or a private equity firm) or listed on a stock exchange.

At the time of the initial investment, it is impossible to know how long a company might take to reach an exit. However, Vala Capital and the Investment Manager will work closely with the companies during any exit process.



## Our team

Our core team is a group of experienced and successful entrepreneurs who have been investing in start-ups for many years. These individuals receive a steady stream of introductions to companies in need of equity finance. As a group, they choose the most promising companies to look at more closely and then eventually take through due diligence.

Our team members also form the Vala EIS Portfolio's investment committee, which must reach unanimous agreement before the Investment Manager will consider making an investment for the Fund.



## Investment Committee

### Jasper Smith

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

Arthur 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.

### John Swingewood

After senior leadership roles at BT and BSkyB, where he was instrumental in developing their early internet strategies both through organic development and significant joint ventures and acquisitions, 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 Chairman at DITG and Executive Chairman of Emizon, both of which were sold through significant trade sales. John continues to conceptualise, incubate, support and invest in businesses through growth, specialising in media, technology and IP.

### Paddy Willis

Paddy was co-founder of Plum Baby, a range of premium organic baby foods. Launched in 2006, Plum Baby became one of the UK's fastest-growing food start-ups, achieving 10th place on startups.co.uk's Hot 100 list in 2007. In 2010 Plum Baby was sold to Darwin Private Equity in a deal which valued the company at £10m. Paddy went on to co-found Grocery Accelerator, which offers support and investment for ambitious food and beverage startups. To date, Grocery Accelerator has helped 17 companies raise more than £5m. Paddy is active in the not-for-profit sector supporting entrepreneurship, currently as a Freeman of the Guild of Entrepreneurs and until recently as CEO of London-based incubator Bathub2Boardroom.

### Boyd Carson

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 300 companies with the process of qualifying for tax reliefs. The firm has won multiple industry accolades, including the EIS Association's award for Best SEIS Fund Manager.

**Vala**

# Investing in the Vala EIS Portfolio

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## How to invest

To invest you will need an Application Pack, which includes our Investment Management Agreement and Application Form. The Application Pack is available as a separate document.

You cannot make a joint application. If another person, such as your spouse or civil partner, wishes to invest, they will need to apply separately.

Please take care to read all the instructions on the application form, make sure you meet the specified anti money laundering requirements, and submit all the requested documentation.

Your application should be sent to the Fund's Custodian, Woodside Corporate Services. The relevant address and payment details are provided on the Application Form.

## Charges

Fees (except adviser fees) are charged to the companies in the portfolio rather than to the Vala EIS Portfolio's Investors. This maximises the proportion of your Subscription that can be invested into EIS Qualifying Shares, and therefore maximises the potential tax reliefs available.

### Initial fee

Vala Capital charges an initial fee equal to 6% of your Subscription. This is not deducted as a one-off charge when you first invest. Instead, the Investment Manager collects the fee when the Fund makes investments, by invoicing the Investee Companies 6% of the amounts invested.

This charge covers running costs, such as:

- Setting up and administering the Fund.
- Vala Capital's salaries and overheads.
- Research and due diligence costs incurred by Vala Capital.

- Fees owed by Vala Capital or the Investment Manager to third parties, such as the Fund's Custodian.

### Performance Fee

When a company in the portfolio is sold at a profit, Vala Capital and the Investment Manager will earn a shared performance fee, equal to 20% of any sale proceeds that exceed 100% of the amount invested. 75% of the performance fee is paid to Vala Capital, 25% to the Investment Manager. The fee may be paid either as cash from the sale proceeds or as equity in the portfolio company, but the economic impact on the Vala EIS Portfolio's Investors will not vary.

### Other costs

After an investment has been made into a portfolio company, Vala may invoice that company for services provided or for the reimbursement of reasonable arm's length costs.

Please refer to the Investment Management Agreement for more information.

### Adviser Fees

If an Investor requests that a payment is made to their financial adviser or Intermediary for advice received, this will be deducted from the Investor's Subscription, before their investment is made in the Investee Companies. The Fund Custodian charges a small fee for the administration of the payment to the adviser, which is also deducted from the Investor's Subscription as shown on the Application Form. Tax relief is not available on adviser or custodian fees, because they are deducted prior to investment into EIS-qualifying shares.

### VAT

The fees and charges described above are exclusive of VAT which will be added where applicable.

## Fund reporting

Investors will receive six-monthly statements and reports, with details of investments made within their portfolios. This may also include highlights and information regarding the progress of the Investee Companies.

## Tax reliefs

Each company the Fund invests in should qualify for the Enterprise Investment Scheme, which makes a number of tax reliefs available to Investors.

These tax reliefs provide a significant incentive to invest and protection from losses. For an individual who pays income tax at the top rate of 45% and who is eligible for all EIS reliefs, only 38.5p of each £1 invested is at risk.

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However, it is important to remember that these reliefs only exist because EIS investments are very risky. Also, the availability of tax reliefs will depend on your personal circumstances, and tax legislation can change in the future.

The main reliefs available are:



<p><b>Income Tax Relief</b></p>	<p>30% of the amount invested into EIS Qualifying companies can be claimed as a deduction from the investor's income tax bill.</p> <p>The investor can apply this relief to either the tax year in which the shares were purchased, or the preceding tax year.</p> <p>Relief can be claimed on investments of up to £1m (or £2m if the companies invested in meet HMRC's definition of 'knowledge intensive') per tax year.</p>
<p><b>Tax-free gains</b></p>	<p>There is no Capital Gains Tax to pay on any gains from the sale of EIS Qualifying Shares.</p> <p>For this relief to apply, the investor must have owned the shares for at least three years (the EIS Qualifying period) prior to the sale.</p>
<p><b>Loss relief</b></p>	<p>When losses occur, they can be offset against income on the investor's tax return.</p> <p>Losses can also be offset against capital gains in the usual way.</p>
<p><b>Inheritance Tax relief</b></p>	<p>If the investor owns the shares for at least two years and still owns them when they die, then the investment may qualify for Business Relief. This means there could be no Inheritance Tax to pay on the value of the shares.</p> <p>Business Relief is not an EIS relief, but EIS-qualifying companies will usually qualify for Business Relief too.</p>
<p><b>Deferral of CGT</b></p>	<p>Investments into EIS-qualifying shares can be used to defer part or all of the Capital Gains Tax due on gains from the disposal of an asset. Gains that arised up to 36 months before or 12 months after the purchase of the EIS shares can be deferred.</p>



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## How tax reliefs could impact your investment

EIS tax reliefs help to cushion the blow if an investment does not perform well, and enhance the return when a company is successful. This is illustrated by the simple example below, which shows an investment into a single company.

In Scenario 1, the company does not perform well and the shares are eventually sold at 50% loss on their acquisition price. In Scenario 2, the value of the shares doubles over the holding period.

	Scenario 1	Scenario 2
Initial investment	(£100,000)	(£100,000)
Sale proceeds on exit	£50,000	£200,000
<b>Tax-free gain/(Loss), if ignoring the impact of EIS reliefs</b>	<b>(£50,000)</b>	<b>£100,000</b>
Income Tax Relief on original investment	£30,000	£30,000
EIS loss relief	£9,000	-
<b>Loss after beneficial impact of EIS reliefs</b>	<b>£11,000</b>	<b>-</b>
<b>Tax free profit including beneficial impact of EIS Income Tax Relief</b>	<b>-</b>	<b>£130,000</b>

Scenario 1 example assumes the investor is able to set off their loss (which, net of Income Tax relief, is £20,000) against income tax at the highest rate (45%). The example does not show the further potential beneficial impact of Capital Gains Tax reliefs or Inheritance Tax Relief.

## Risks

Below we have set out some of the main risks associated with investing in the Vala EIS Portfolio. Please read this information carefully.

The most important thing to understand is that investing in small, early-stage companies is inherently very risky. It is possible for you to lose your entire investment. As such, you should only invest what you can afford to lose.

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Vala EIS Portfolio will not be suitable for all investors. We recommend that you seek financial advice before investing.



## Portfolio company risks

### Company underperformance or failure

To reiterate, the investments made by the Fund are inherently high risk. Small companies often struggle to grow. They may never become profitable and it is possible they could go out of business.

The companies are also often heavily reliant on a small number of directors and employees. If a key team member resigns or becomes unable to work for the company, it can have a significant detrimental impact on the company's chances of success.

'Force majeure' events, such as floods, fires and terrorist attacks could also result in the underperformance or failure of a company.

In short, one or more companies in your portfolio may reach a point where their shares are worth less than you paid for them or have no market value at all. You should only invest in the Vala EIS Portfolio if you can afford to lose your entire investment.

### Economic downturns

The trading performance of portfolio companies, and therefore the eventual returns from the fund, could suffer in the event of an economic downturn or recession. The UK is also currently negotiating the terms of its exit from the European Union. The process of leaving the EU may last several years and could create some uncertainty or other challenges that might have a negative impact on portfolio companies.

### Debt finance

Portfolio companies will often need to borrow finance from third party lenders. This poses an additional risk. For example, if a company becomes insolvent and has to sell off its assets, lenders may be entitled to be repaid before shareholders receive any proceeds.

### International risks

Some portfolio companies may have their headquarters or another part of their operations in a country or countries other than the UK. This may expose those companies to additional economic, political, regulatory and commercial risks.

Investments into portfolio companies will usually be made in Sterling, but could occasionally be made in other currencies. Furthermore, some portfolio companies may generate revenues or incur expenses in other currencies. As such, your investment in the Vala EIS Portfolio could be adversely affected by fluctuations in the value of Sterling in relation to other currencies.

### Valuations

Investments into unquoted private companies are difficult to value. We will carry out valuations of your shares using standard venture capital industry methods. However, these valuations will be estimates and could vary significantly from the eventual sale value of the shares.

## Fund risks

### Past performance

The past performance of investments within the Vala EIS Portfolio (or of other investments connected to Vala Capital or the Investment Manager) is not an indication of the likely future performance of investments in the Vala EIS Portfolio.

### Illiquidity

The Vala EIS Portfolio is an illiquid investment. You cannot withdraw the money you invest after it has been used to buy shares. The shares will not be listed on a public market, so they cannot be easily sold.

You will receive a cash return from your investment only if we are able to sell your shares. This may occur when a portfolio company is purchased by another company or investment firm, or goes through an initial public offering. In the case of an IPO the decision to sell your shares remains the responsibility of the Investment Manager. Your shares may not be sold as soon as the IPO is completed, if we think it is in your best interests to postpone the sale.

### Duration

You should consider an investment in the Vala EIS Portfolio to be for the medium to long-term. We aim to sell the companies we invest in within five years, but it could take significantly longer.

### Minority stakes

The Vala EIS Portfolio will typically own a minority of each portfolio company's shares. We may therefore have limited ability to influence the strategy and policies of the companies, including decisions about selling the company to realise a return.

### Follow-on investments

The Vala EIS Portfolio will sometimes use funds raised to make follow-on investments into companies that the Fund has invested in previously. Follow-on investments may take place at different share prices, so when an exit occurs the returns to the Vala EIS Portfolio's Investors may vary. It is also possible that portfolio companies may require follow-on investments which the Fund is unable to provide. In such situations, companies may secure follow-on funding from other investors at terms which are unfavourable to Investors in the Vala EIS Portfolio.

### Key individuals

The Vala EIS Portfolio relies heavily on Vala Capital, and in particular on Jasper Smith. If Vala Capital could no longer provide services to the Vala EIS Portfolio for any reason, it could severely impact the performance of investments.

### Custody

Before it is invested into shares, your cash will be deposited by the Custodian (Woodside Corporate Services) into UK banks of their choosing. Cash deposits are held entirely at the Investor's risk. You can read more about these arrangements in the Investment Management Agreement.

### Conflicts of interest

The Vala EIS Portfolio may invest in companies on more than one occasion, and Vala Capital or the Investment Manager may use other investment products to provide different sources of finance to companies that have received investment through the Vala EIS Portfolio. As such, situations may arise where the interests of different groups of Investors are in conflict, or where the interests of Vala Capital or the Investment Manager and their partners are in conflict with Investors' interests. Treating our Investors fairly is a top priority for us, and any potential conflicts will be identified, managed and resolved with reference to our conflicts of interest policy and procedures.



## Tax risks

### No guarantees

We cannot guarantee that portfolio companies will qualify for EIS tax reliefs at the time of investment, or that they will remain eligible for reliefs for the entire investment holding period. Changes in the circumstances of a company can lead to the withdrawal of reliefs. Tax legislation can change, so it is possible that HMRC could alter or withdraw EIS reliefs in the future.

Neither the Investment Manager nor Vala Capital will be liable for any losses that result due to the unavailability of EIS reliefs for any reason. This includes situations (however unlikely) where the Vala EIS Portfolio invests into a company to which you are 'connected' (broadly defined as holding, either directly or through 'associates' more than 30% of the capital or voting rights in a company).

### Timing of EIS certificates

You cannot make any claim for EIS tax reliefs until you have received EIS3 certificates in relation to your investment. These certificates are only issued after shares in qualifying companies have been purchased. In other words, claiming reliefs is linked to the timing of the Vala EIS Portfolio's investments into companies, rather than the timing of your Subscription to the Fund. We cannot accurately predict when you will receive your certificates. It is possible you may have to pay your income tax bill for a given year in full and then retrospectively claim your reliefs when your EIS3 certificates become available.

### Personal circumstances

EIS tax reliefs are generally available to UK resident individual tax payers. But your ability to claim reliefs will depend on your personal circumstances. We recommend you seek independent tax advice.

### Complexity

Owning a portfolio of EIS Qualifying Shares can sometimes result in complicated tax consequences. It is your responsibility to comply with tax law and complete your tax return correctly – we are not able to provide you with any advice or guidance. We recommend you seek help from a financial adviser, tax professional or accountant if you are not confident about managing this aspect of your investment.

### Early exits

We may choose to sell some portfolio companies before you have owned your shares for three years. In these circumstances, some or all of the EIS reliefs relating to that portfolio company may be withdrawn by HMRC.

### Business Relief

Business Relief is assessed by HMRC after the Investor's death, so there is no guarantee that investments made through the Vala EIS Portfolio will qualify for 100% relief from Inheritance Tax. Any potential for an investment in a portfolio company to qualify for Business Relief will cease when that company is sold or listed on a stock exchange (although a company listed on the Alternative Investment Market may still qualify for Business Relief, subject to meeting a number of other criteria).

# Vala

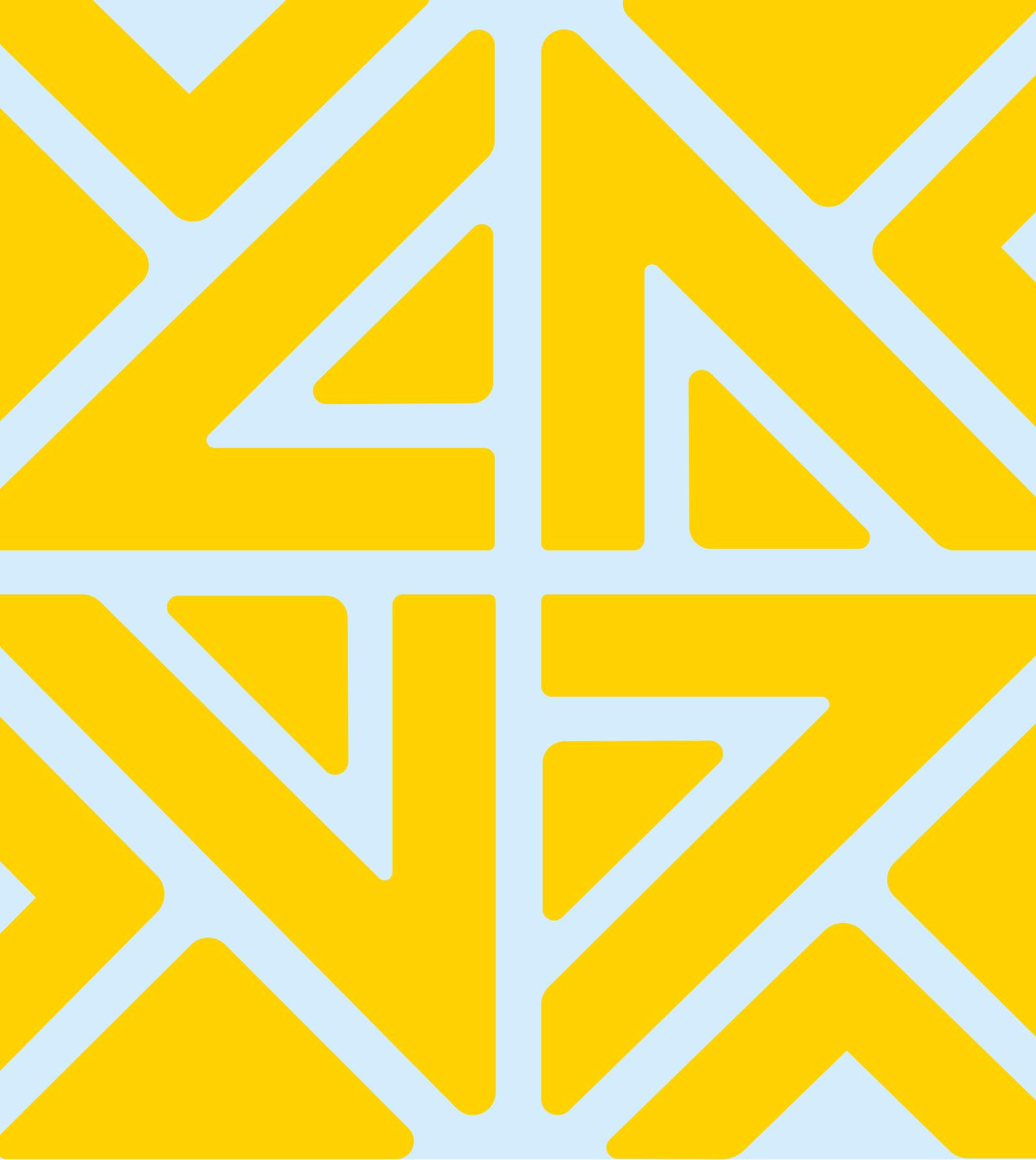
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# Next steps

If you would like to invest in the Vala EIS Portfolio, please request a copy of our Application Pack.

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# Vala



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