# The Seneca AIM EIS Fund

**Exit focused**

**Don't invest unless you are prepared to lose all of the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong. Please take two minutes to learn more by reading the following Risk Summary.**

# Risk summary **(Estimated reading time: 2 minutes)**

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

## What are the key risks?

1. **You could lose all the money you invest**
   - If a business you invest in fails, you are likely to lose 100% of the money you invested in that business. Most start-up businesses fail. Please see page 14 of the Information Memorandum for an overview of the types of businesses this fund invests in.
2. **You are unlikely to be protected if something goes wrong**
   - Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker at https://www.fscs.org.uk/check/investment-protection-checker/.
   - Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection at https://www.financial-ombudsman.org.uk/consumers.
3. **You won't get your money back quickly**
   - Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.
   - The most likely way to get your money back is if the business is bought by another business or your shares are sold on the Alternative Investment Market. The latter can only occur if there is a willing buyer.
   - If you are investing in a start-up or EIS qualifying business, you should not expect to get your money back through dividends. Such businesses rarely pay these.
4. **Don't put all your eggs in one basket**
   - Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.
   - A good rule of thumb is not to invest more than 10% of your money in high-risk investments. (See https://www.fca.org.uk/investsmart/5-questions-ask-you-invest).
5. **The value of your investment can be reduced**
   - The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.
   - These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

**If you are interested in learning more about how to protect yourself, visit the FCA's website at www.fca.org.uk/investsmart**

# The Enterprise Investment Scheme - in a nutshell

The Enterprise Investment Scheme (“EIS” or “Scheme”) was introduced in 1994, as a way of encouraging investment into smaller UK companies (“SMEs”).

## In order to qualify under the Scheme:

- ✓ You must hold the shares for at least 3 years and until the company in which you have invested has been trading for at least 3 years.

- ✓ The investee company must use the funds it raises under the Scheme for growth and development.

- ✓ An investment must meet the “risk to capital” condition. Basically, you must be genuinely at risk of losing more than the value of any tax reliefs you might receive.

There are also a number of other criteria that must be met. Further details can be found at www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme.

# Tax reliefs

Due to the risk of capital loss and the fact that it can be difficult and time consuming to sell shares in smaller companies, the Scheme offers investors the ability to claim a number of different tax reliefs. These include:

## Income tax reliefs

Relief against Income Tax, equivalent to 30% of the purchase cost of the EIS qualifying shares. This can be claimed against Income Tax actually paid or due in the Tax Year in which the shares are purchased.

Alternatively, you can "Carry Back" some or all of this Income Tax relief to the previous Tax Year.

Loss Relief is available against Income Tax or Capital Gains Tax due or paid, where the EIS qualifying shares are sold for a loss. It should be noted that, for this purpose, any loss is calculated by deducting the sale proceeds from the purchase cost net of any Income Tax relief received that is not repayable.

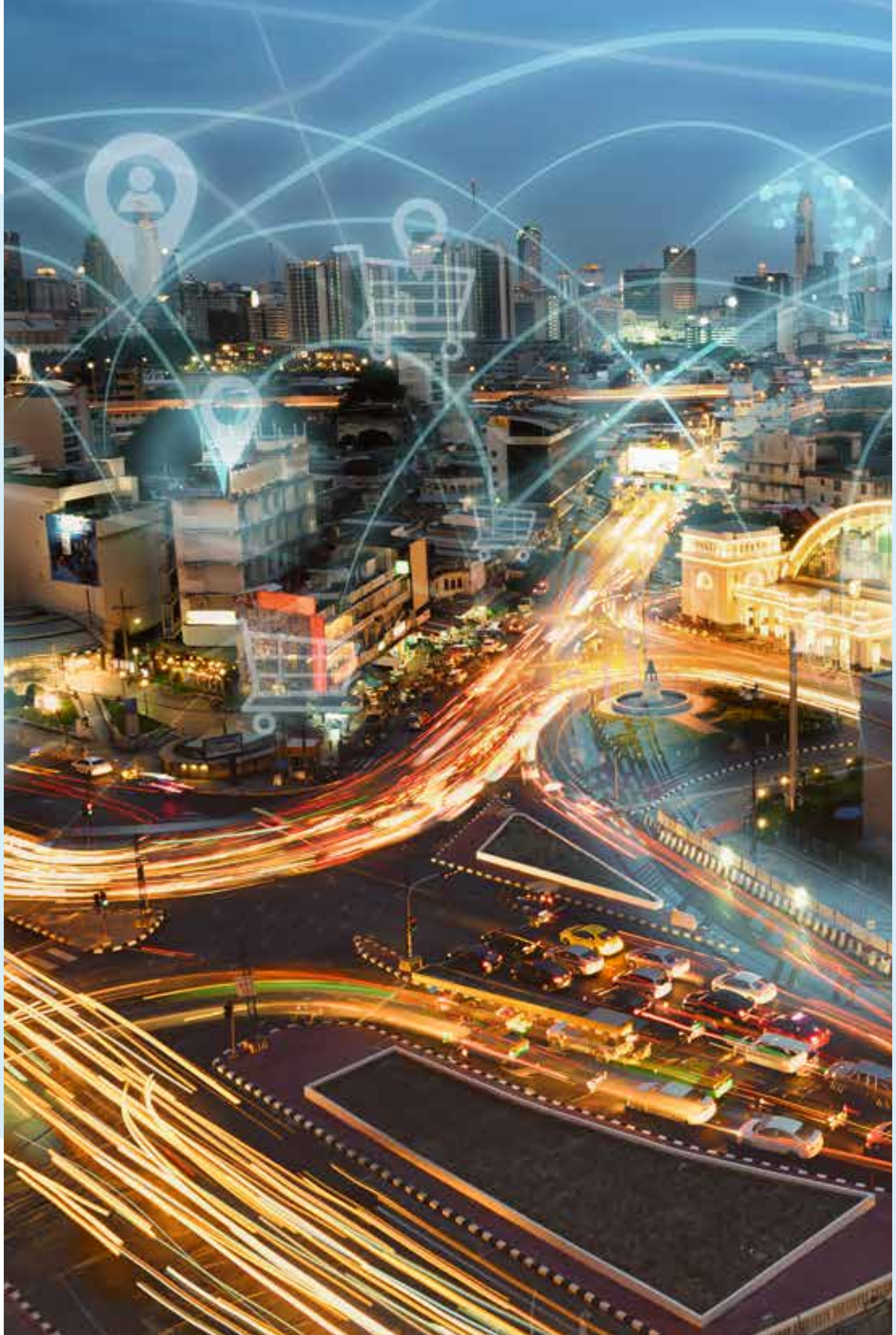
EIS qualifying shares should qualify for Business Relief. If you leave shares that qualify for Business Relief to your beneficiaries and have owned them for at least two years at the time of your death, no Inheritance Tax should be due on the value of those shares.

The ability to defer payment of Capital Gains Tax ("CGT") on a gain made in the period from three years prior to one year after the purchase of the EIS qualifying shares. Any gains deferred will come back into charge on the disposal of the EIS investment.

No Capital Gains Tax will be due on the gain made where the EIS qualifying shares are sold for a profit, as long as you have held the shares for more than 3 years and the company has been trading for at least 3 years.

Seneca Partners has invested more than £100 million in EIS qualifying investments and has so far achieved over £70 million of exits for investors. As at 28th February 2023, Seneca Partners held over £130 million of funds under management.

*Past performance is not a guide to future returns.*
*You may lose some or all of the money you invest.*



# EIS investing solely in AIM Quoted Companies which targets:

- An overall return of over 1.5x after the payment of all fees (excluding tax reliefs) with 3 to 4 years of shares being purchased
- More impactful use of up front tax relief, increasing the Return on Investment (ROI)
- Daily valuation of investment portfolios for investors
- Published information relating to each investee company via the Regulated News service from the London Stock Exchange
- Better liquidity to facilitate exit
- No annual management charges

# An AIM only focus

In recent years, there have been a number of changes to the qualifying criteria for companies seeking to raise capital via the Enterprise Investment Scheme 'EIS'. These changes have meant that investing in these companies tends to come at an earlier stage of their development than it used to, increasing the risk profile of EIS as an investment class and potentially resulting in investors having to hold their investments for longer (7 to 10 years in some cases) due to having joined the company's "growth journey" earlier than they previously would have done.

Additionally, many EIS providers openly state that their exit strategies for investors are likely to be via trade sale or an Initial Public Offer ("IPO"). However, it is not always easy to achieve trade sales for values that are significantly higher than the original investment cost. Equally, the likelihood of a future IPO cannot always be easily foreseen at the point the original investment is made. A number of positive things need to happen for an IPO to be a realistic exit vehicle, not least prevailing market conditions.

By only investing in companies already quoted on the Alternative Investment Market ("AIM") or those taking part in a current IPO or Placing, we are seeking to remove that element of uncertainty. Being quoted on AIM provides daily pricing for a company's shares and inherently accurate valuations when compared to privately owned businesses but crucially, it generally carries better liquidity: a valuable contributory factor when looking to exit an investment.

The strategy for the AIM EIS Fund looks to take advantage of the liquidity and potential exit points shortly after expiry of the 3-year EIS qualification period, which should enable investors to recycle their investments and utilise the initial tax reliefs more effectively than may be the case with an investment that takes closer to 10 years to realise.

# The Seneca AIM EIS Fund ("the Fund") is aimed at investors who:

Are looking for an investment that qualifies for the tax reliefs available under the Enterprise Investment Scheme with:

- A shorter investment horizon
- Faster "recycling" of their investment to generate further tax relief
- Visible, daily pricing of investments
- Better liquidity than typical EIS funds with a private company focus
- Regular newsflow
- The ability to realise investments
- A diversified portfolio of 5 to 10 companies

Are High Net Worth Investors with experience of investing in tax advantaged investments or buying shares in quoted or unquoted companies.

Understand and accept the risks associated with making an investment in companies whose shares qualify under the Enterprise Investment Scheme and be able to withstand the loss of some or all of the amount they invest.

See EIS investing as an ongoing 'annual premium' planning strategy.

# Seneca's strength in the UK broker network

We have invested in EIS and VCT qualifying deals well and have long standing relationships with the following UK brokers in the context of IPO's and secondary fundraising:

# Seneca's track record of investing on AIM

**£30.6m**
invested in 36 companies

**16**
full and partial exits with a return of 1.84x*

**£29.5m**
returned

**£9.4m**
still held

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Invested amount** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| Unrealised | 0.0% | 0.0% | 6.2% | 1.1% | 21.9% | 127.9% | 119.4% | 55.4% | 59.8% | 85.5% |
| Realised | 108.2% | 311.5% | 112.0% | 153.5% | 61.4% | 0.0% | 0.0% | 15.8% | 0.0% | 0.0% |
| **Total return** | **108.2%** | **311.5%** | **118.2%** | **154.6%** | **83.2%** | **127.9%** | **119.4%** | **71.2%** | **59.8%** | **85.5%** |

* Only one company failure to date.

As this fund was launched in 2021, we have yet to complete any exits from it. We have therefore used our wider exit track record as a simulated performance for this fund. If these exit proceeds had been generated from within this fund, they would have been subject to our realisation fee (4% + VAT) and a dealing fee of 0.5% + VAT and may have been subject to our Performance Fee (20% + VAT). Past performance is not a guide to future returns. This is a high-risk investment. You may lose some or all of the money you invest. Figures are correct as at 31st March 2023.

# Making the most of an investment into the Seneca AIM EIS Fund

The Seneca AIM EIS Fund aims to provide a quicker exit point than the more traditional EIS fund that invests some or all of its money in unquoted, private companies. This quicker exit point is very attractive if you are looking to maximise the tax efficiency of your EIS investment, as you can “recycle” your investment to gain further tax reliefs on your money.

For example, let’s assume you invest £50,000 p.a. for a four year period making a total of £200,000. If after four years we have exited the investments made with the money you invested in the first year, the proceeds will be available for reinvestment in the fifth year. If this same cycle happens for each of your four investments, with the money you invested in the second year being available for reinvestment in the sixth (and so on), you have the potential for fresh Income Tax relief every year without adding any new money.

We aim to generate a return of over 1.5x the amount used to purchase shares, net of all fees but excluding tax reliefs. If we succeed in doing at least this for each and every investment or reinvestment you make, the table on the next page shows the effect on your £200,000 total investment.

**Target returns are not guaranteed. This is a high-risk investment. You may lose some or all of the money you invest.**

# Maximising your EIS contributions

| | New Subscription | Reinvestment | Income Tax Relief | Net Exit Proceeds | Reinvested | Portfolio Value |
|---|---|---|---|---|---|---|
| **Year 1** | £50,000.00 | £0.00 | £14,463.22 | £75,000.00 | Year 5 | Exited |
| **Year 2** | £50,000.00 | £0.00 | £14,463.22 | £75,000.00 | Year 6 | Exited |
| **Year 3** | £50,000.00 | £0.00 | £14,463.22 | £75,000.00 | Year 7 | Exited |
| **Year 4** | £50,000.00 | £0.00 | £14,463.22 | £75,000.00 | Year 8 | Exited |
| **Year 5** | £0.00 | £75,000.00 | £21,694.83 | £112,500.00 | Year 9 | Exited |
| **Year 6** | £0.00 | £75,000.00 | £21,694.83 | £112,500.00 | Year 10 | Exited |
| **Year 7** | £0.00 | £75,000.00 | £21,694.83 | | Still held | £103,737.14 |
| **Year 8** | £0.00 | £75,000.00 | £21,694.83 | | Still held | £95,656.84 |
| **Year 9** | £0.00 | £112,500.00 | £32,542.25 | | Still held | £132,308.89 |
| **Year 10** | £0.00 | £112,500.00 | £32,542.25 | | Still held | £122,003.07 |
| | **£200,000.00** | | **£209,716.70** | | | **£453,705.94** |

In this example, at the end of 10 years you will have been entitled to £209,716.70 of Income Tax relief and hold a portfolio worth more than £453,705.94.

By giving you the ability to recycle your investment more often and targeting a return of 1.5x or more in only four years, the fund aims to offer a significantly higher Return on Investment (ROI) when compared to many of the EIS offerings in the market which may remain unrealised well beyond their eighth year.

**The figures are by way of an example only and assumed you have been advised to make this investment by your financial adviser. Target returns are not guaranteed. You may lose some or all of the money you invest.**

# What does it cost to invest in the Fund?

Our charging structure is designed so that we are rewarded for delivering successful exits. Details of our charging structure is shown in the table.

## Upfront fees

### Initial fee

**2.5%**
**+ VAT**

*Where you have received advice from a financial adviser[1]*

*Where exit proceeds achieved in the Fund are automatically reinvested in the Fund, a reinvestment fee of 1.0% + VAT* is charged instead of an initial fee*

### Share purchase fee

**0.5%**
**+ VAT**

## Ongoing fees

### Annual management charge

**Nil**

## Exit fees

### Realisation fee

**4.0%**
**+ VAT**

### Performance fee

**20%**
**+ VAT**

*Only charged on any exit proceeds that exceed the amount needed to return your original Investment Amount[2]*

### Share Sale fee

**0.5%**
**+ VAT**

[1] Please note the initial fee will increase to 3.5% + VAT if you invest without having received advice from a financial adviser.

[2] The amount invested from your Subscription after the deduction of the initial and share purchase fees. Any advice fees you ask us to facilitate are in addition to your Subscription.

# Important information and key risks

This brochure has been published by Seneca Partners Ltd ("Seneca" or "we"), the Manager of the Seneca AIM EIS Fund ("the Fund").

You should base any decision to invest solely on the contents of the Information Memorandum, paying particular attention to the risks detailed in it, and our Terms and Conditions. We cannot offer you with financial, taxation or legal advice and we therefore recommend that you seek advice from your financial adviser before making an investment.

## You may lose money

There is a high risk of capital loss when investing in smaller companies. You may therefore get back less than you invest or no return at all.

## Growth is not guaranteed

Growth is not guaranteed and your investment may fall in value. Past performance should not be taken as an indication of what the performance might be in the future.

## It may take longer than you expect to invest your money

Your Subscription may not be fully invested within 12 months of you paying it. This may lead to your Subscription not being invested in the Tax Year you intended and therefore any EIS tax reliefs not being available when expected or at all. It may also lead to it an eventual exit being further in the future than you originally expected.

## Your investment may fluctuate in value

Investments in AIM quoted companies are likely to be more volatile and present a higher degree of risk to your capital than those on the London Stock Exchange official list.

## It may take longer than you expect to sell your shares

Whilst it should be possible to trade shares that are quoted on the Alternative Investment, this is dependent upon there being a buyer willing to purchase your shares. You should consider an investment in the Fund to be for a 4 year period although it may take longer to exit your investment.

## Changes to tax rules and legislation

Rates of tax, tax benefits and allowances described in this document are based on current legislation and HMRC practice and depend on personal circumstances. These may change from time to time and are not guaranteed.

## An investment in a company may lose or not obtain EIS Approval

We will only invest your money in companies whose shares we reasonably believe will be EIS qualifying. Whilst Advance Assurance will be sought from HMRC before we make an investment, it does not guarantee that they will grant EIS status once an investment has been made. Even after HMRC have granted EIS status and allowed the issue of your EIS 3 certificate, there is no guarantee that your investment will maintain its qualifying status. The failure of a company to continue meeting the EIS qualification requirements would likely result in you being required to repay any Income Tax relief received after purchasing the shares (plus interest on the same), a liability to Capital Gains Tax on any gain made upon disposal of the shares and any deferred gain crystallising and falling due for payment. In addition, where your shares are sold at a loss, your ability to claim loss relief against Income Tax may be affected.

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