

Octopus Ventures EIS Service: an overview

An exciting opportunity to access a portfolio of early-stage companies that have been selected for their high growth potential by one of Europe's largest venture capital firms.

How does it work?

We offer a discretionary managed service for experienced investors to back a share portfolio of some of the UK's brightest early-stage companies. Each portfolio will have around 10-15 companies selected for their ambitious growth targets – each company typically aiming to return ten times the amount invested or more.

We will invest into Enterprise Investment Scheme (EIS) qualifying companies. As a result, investors should receive 30% upfront income tax relief on the investments plus all growth in value should be tax-free (see overleaf for a summary of all EIS reliefs).

The investment period is expected to span the years we think each company can maximise growth. This means we typically look to sell each company between five and ten years (or more) after investing.

Why Octopus?

Octopus is synonymous with small company investing. Our experience spans more than 20 years and, in that time, we have invested more than £2 billion in early-stage companies. Investors will have access to the expertise of Octopus Ventures, the team that manages Octopus Titan VCT – the UK's largest VCT¹.

We go beyond being a source of finance for early-stage businesses looking to grow. Our aim is to make these companies as successful as possible, by providing practical and strategic support. In fact, our proven reputation for successfully helping businesses grow has encouraged entrepreneurs to actively seek us out for investment. This means we have a large selection of exciting companies to choose from when constructing a portfolio. Ultimately, this is why investors can expect to see their money working for them within six to twelve months after each round of fundraising closes (approximately every three months).

In addition, we defer our annual management charge (AMC) until a company is sold, and only take our AMC if the sale price is higher than what was originally invested (see overleaf for details). So, we are incentivised to pick the best opportunities when building portfolios. Our previous track record for identifying, growing and exiting some of Britain's brightest companies includes investments in Graze, Secret Escapes, Zoopla and Tails.com, to name but a few.

¹Source: The Association of Investment Companies, 30 September 2020.

With the potential for high reward comes high risk

Investing in early-stage companies is considered a high-risk investment (see overleaf for a summary of risks) and we expect each portfolio to have some winners and some losers. So, should a company fail, this investment allows for loss relief against an investor's income tax and/or other capital gains tax liabilities – even if the portfolio has grown overall in value. In this way, the investment is able to target high growth for investors while tax reliefs compensate investors for the risk that naturally comes with early-stage investing.

Tax reliefs are subject to qualifying criteria and personal circumstances. Please see overleaf for key risks.

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What EIS tax reliefs are available?

The Enterprise Investment Scheme (EIS) was designed to encourage private investors to help small businesses to grow. As an incentive to take on the risk of investing in these types of businesses, investors can benefit from the following tax reliefs:

- **Income tax relief:** 30% of the investment (provided the shares are held for at least three years).
- **Tax-free capital growth:** 100% capital gains relief if the shares are sold for more than the original amount invested (provided the shares are held for at least three years).
- **Loss relief:** If a company fails, relief can be claimed against either income tax or capital gains tax liabilities (reduced by any income tax relief claimed).
- **Capital gains deferral:** If an investor decides to reinvest the capital gain on the sale of another asset into an EIS-qualifying company, they can defer the gain until the EIS shares are sold, or eliminate the gain on death.
- **Inheritance tax relief:** EIS shares held at death should qualify for business property relief and pass to beneficiaries free from inheritance tax, provided they have been owned for at least two years.

Key benefits

- **High-growth opportunity:** Investments in early-stage companies with high growth potential.
- **Strong pipeline of companies:** Our track record for successfully backing entrepreneurs and our reputation among the entrepreneur community drives the most promising start-ups to seek investment from us.
- **Driving maximum growth:** As one of Europe's largest venture capital firms, we add value to each company through our expert strategic and practical advice, networking, recruiting talent and more.
- **Valuable tax reliefs:** 30% upfront income tax relief, plus 100% capital gains tax relief and loss relief for each company that fails, regardless of overall portfolio performance.
- **We are aligned with investors:** We only take our AMC if the sale price is higher than the amount invested in each company.

Key risks

- **Capital at risk:** This is an investment in early-stage companies. It's possible that some or all of the companies could fall in value, potentially to nil. Investors may not get back the full amount invested.
- **The investment is high risk:** Investing in smaller companies is considered a high-risk investment. They can fall or rise in value much more sharply than shares in larger, more established companies.
- **The investment is illiquid:** Shares in unquoted companies cannot easily be sold as it may take time to find a buyer. We expect investment in each company to last for at least five years and that an exit will only be possible when each company is sold.
- **Tax rules could change:** HMRC could change existing tax rules, and tax treatment depends on personal circumstances.
- **Companies may cease to be EIS-qualifying:** A number of EIS tax reliefs depend on the portfolio companies maintaining their EIS-qualifying status for at least three years. Due to the nature of this investment it is possible that a company might cease to be EIS-qualifying. EIS reliefs previously granted could be reclaimed.

Investment details

- **Minimum investment:** £25,000.
- **Maximum investment qualifying for income tax and capital gains tax relief each tax year:** £1m.

Fees and charges

- **Octopus initial fee:** 2%.
- **Octopus AMC:** 2% (+ VAT) per annum, per company in the portfolio – deferred and contingent on sale proceeds exceeding the amount invested in each company.
- **Performance fee:** 20% (+ VAT) of the difference between sale proceeds and the amount invested when each company is sold.
- **Dealing fee:** 1% on the purchase and sale of shares within the portfolio.
- **Adviser charging:** We can facilitate an initial charge and ongoing charging for up to five years.

For full details on the benefits, risks, fees and charges, [please read the Octopus Ventures EIS Service brochure.](#)