14 January 2022

OXFORD CAPITAL GROWTH EIS

Oxford Capital Partners LLP

	Positives	Issues
Why invest	▶ **Strategy:** Investing in a range of technology companies across various themes and with a spread of stages of development.	▶ **Track record:** The current strategy has only been in place since 2016 – so the track record is limited, with a small number of exits.
The investment manager	▶ **Team:** Oxford Capital is a long-established EIS manager that has invested in growth EIS for over 20 years.	▶ **Corporate history:** Oxford Capital has, in the past, faced challenges in some of its energy asset businesses, which it has now exited.

Nuts & bolts

- **Duration:** The fund is evergreen, with investors participating in deal flow after investment. Oxford Capital aims to invest in 12-18 months.
- **Diversification:** The manager aims to provide 8-12 investments for each investor, with a spread of investments from seed up to series C.
- **Valuation:** Uses IPEV guidelines, with a mixture of last transaction and internal valuation.

Fees

- **Fees:** Apart from an initial company fee, all are charged to investors. A 10% deduction is made upfront, with the balance of annual fees collected from exits.
- **Performance fee:** This is charged at 20% on aggregate returns over subscribed capital.

Risks

- **Target returns:** The target return of 2x capital after fees suggests a high-risk investment strategy.
- **Companies:** Oxford Capital supplies risk capital to early-stage technology companies, with some pre-revenue companies, but mostly post-revenue. There will be a spread of company returns, as the successful ones will do very well, but those who fail may do so completely.

	Manager information	Contact details

Analyst

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- ***Scheme assets:*** *£2.6m in 2021*
- ***Scheme target:*** *£5m p.a.*
- ***EIS assets:*** *£140m*
- ***Total FUM:*** *£140m*
- ***Launch date:*** *2020*

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Investing in early stage growth companies is a high risk activity. Access to liquidity may be totally or highly restricted. Investors should seek appropriate professional advice before deciding whether to make a financial commitment.

For further information relating to the Client's activities, please contact management directly.

The attention of readers is drawn to important disclaimers printed at the end of this document.

Factsheet

Oxford Capital Growth EIS	
Product name	Oxford Capital Growth EIS
Investment manager	Oxford Capital Partners LLP
Investment adviser	n/a
Tax eligibility	EIS
Target return	2x after fees
Target income	None
Type of product	Alternative Investment Fund
Term	Evergreen
Sectors	Technology
Diversification:	
Number of companies	8-12
(Expected) Gini coefficient	c.0.10

Fees	Amount	Paid by
Initial fees:		
Initial fee	2.5% (excl. VAT)	Investor
Dealing fee	0.20%	Investor
Company transaction charge	Up to 3%	Investee company – see *Fees*
EIS3 Certificates	£15 each	Investor
Annual fees:		
Annual management charge	2.0% (plus VAT)	Investor – see *Fees* section
Custody charge	£80	Investor
Other charges	Capped at £25,000 or 0.2% of all subscriptions	Investors – see *Fees* section
Exit fees:		
Performance fee	20%	Investor – aggregate proceeds over net subscription
Dealing fee	0.30%	Investor

Advisor fee facilitation	Yes
Advisor fee amounts	As agreed with investor
HMRC Approved	No
Advance Assurance	Yes, for each investment
Reporting	Six-monthly, with investor portal access
Minimum investment	£25,000
Current funds raised	£125m
Fundraising target	£5m p.a.
Closing date(s)	Evergreen
Expected exit method	Mostly trade sale

Source: Oxford Capital, Hardman & Co Research

Fund aims

The Oxford Capital Growth EIS is an Alternative Investment Fund, which will provide a portfolio of early-stage technology investments. The target is a 2x return after fees. Returns will be focused on capital gains, and investors are unlikely to receive any dividends. The fund is evergreen.

Summary of risk areas

Note: *There are generic risks from investing in EIS or unquoted companies, in addition to the specific ones commented on below. Comments on relative risk refer to other EIS investments and not to wider investments.*

Investments

Portfolio risk

Each investment will be providing risk capital to an unquoted early-stage technology company. Oxford Capital aims to have 8-12 companies in each tranche, with new seed investments typically getting smaller weights than those receiving follow-ons. Some sector diversification should be expected, although stock-specific risk should dominate market or sector risk.

The target of 2x capital suggests high risk, and seems appropriate for the strategy.

Sourcing and external oversight

As a longstanding manager in this area, Oxford Capital has established sources of deal flow. It highlights its strength in Oxford, but does source across the country. Two thirds of investments will be follow-ons to existing investments. Having made just under one investment per month for 15 years, we have confidence in its ability to source the required number of investments.

Of the Investment Committee members, one is a non-executive Director. Decisions have to be unanimous.

Ongoing support and monitoring

Oxford Capital has a clear support philosophy, looking to leverage a board position on the initial investment in a company as the point of maximum influence. Involvement does reduce over time, but information, and often observer, rights are always retained. The manager is clear about three areas in which it can support investments. These include ESG, with Oxford Capital's policy going beyond the usual compliance.

Exits

With a short track record, Oxford Capital's expectations for exits are in line with industry norms, and trade sales are expected to dominate. It guides that exits should take five to seven years, although the earlier-stage investments may go beyond this timescale.

Manager

Team

There a nine people involved in the investment team, although not all of these have a full-time commitment. The team has a lot of experience of managing venture capital. The team seems adequate for the current scale of operations, although there may be additions in the future.

Track record

Oxford Capital changed it investment strategy in 2016, and it feels that the change makes the previous track record less relevant (and we have not been supplied with that data). The track record of the asset-backed strategies is also less relevant, as those operations have been exited. Hardman & Co has been supplied with details of investments from 2016 as of October 2021. In that period, Oxford Capital deployed £35.6m over 54 investments into 25 companies. While the successful exits produced a 1.8x multiple, across all the exits, the aggregate loss was 27%. The remaining portfolio is showing aggregate unrealised gains of 143%.

Regulation

Product

Advance Assurance is sought for each investment.

Manager

The manager of the Fund is Oxford Capital Partners LLP. It is FCA-registered (number 565716), with fund management permissions. Submissions to Companies House appear to be up to date.

Additional risk commentary

Although Oxford Capital is one of the longest-standing managers in the EIS sector, it has seen substantial changes in recent years. Challenges in its asset-backed investment business caused it to close all strategies to new fundraising from June 2019 to January 2021. However, it continued to make investments, and supported the growth portfolio.

For fullness of understanding, Oxford Capital historically faced substantial challenges in managing difficulties in its asset-backed investments. It no longer has any involvement in that area, and all of the asset-backed team has left the company. Management, who took it through that period, believes it has put the issues from that time behind it.

The Growth EIS presents a well-defined proposition, with a clear outline of the types of companies to which investors will get exposure. Oxford Capital's established sourcing seems to be effective in finding these companies. Although the current strategy has only been in place since 2016, there is promise in the performance to date.

The construction of the portfolio is distinctive. The number of investments per portfolio is typical for EIS funds, with the limited diversification this implies. Nevertheless, the spreading across different stages of development will be attractive to many investors, as will the philosophy of adding larger positions in companies that are already performing well.

Investment process

Deeper dig into process

The fund will be investing in technology investments across several stages of developments. Oxford Capital segments the types of companies that is it seeking in three ways.

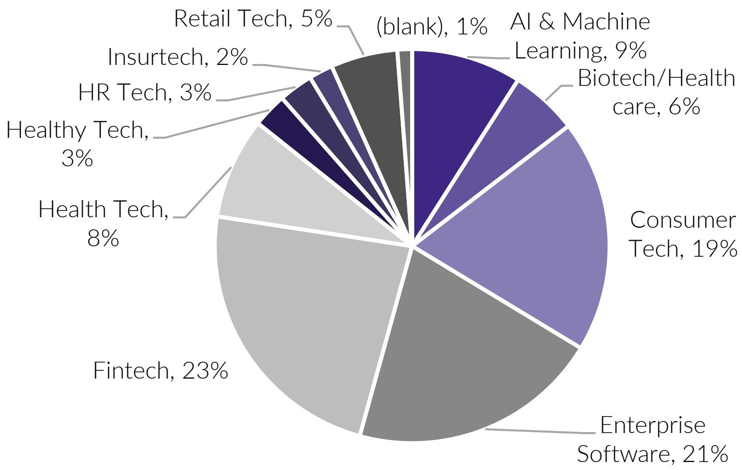
Fundamentally, the manager is interested in two different types of companies:

- Early-growth companies, typically with an early-stage product that may be close to product/market fit or has just reached it. Usually, the funding will be to help the companies to scale up. These tend to be B2C companies, although this is something that happens in practice, rather than a deliberate strategy.
- High-potential companies, which tend to be more IP-led. Usually, these will be looking to disrupt large markets or create new ones. Oxford Capital may make its first investment before the company has market traction. The thesis for these investments typically has IP leading the value, with exits likely to be triggered by a desire to acquire the IP.

Within technology as a whole, Oxford Capital has a preference for specific sectors, which it describes as vertical themes. There are areas in which it feels the UK has an established infrastructure and a competitive advantage, and where the manager feels it can access good deal flow.

Currently, these are fintech, digital health, future of retail, future of mobility, future of work and future of food. These are not fixed, and evolve over time. Future of food is a recent addition, but an area where the team sees potential for new investments.

Sector exposure of growth EIS investments since 2016



Source: Hardman & Co Research

The above chart gives the sector exposure of recent investments in the growth EIS. While the sectors do not quite correspond to the current list, the chart does show how the manager's thinking has evolved. More importantly, it shows that investors can expect to get some sector diversification across their portfolio.

Across these vertical themes, Oxford Capital has horizontal themes that it looks for. These could be business models or technology areas. The current themes are digital marketplaces, artificial intelligence & machine learning and B2B SaaS. All are well-established, and are popular areas among EIS managers.

The strategy is one of participating in several investment rounds as confidence grows in its investments. This means that investors will likely get exposure to several of the companies that are in the existing portfolio.

Overall, we find that Oxford Capital gives a clear exposition of the types of companies in which it is looking to invest. This should set clear expectations for investors.

Sourcing deals

As a longstanding EIS manager, Oxford Capital has a well-established network for sourcing new deals. This includes founders of its investee companies, non-executives and accelerator programmes. It also gets referrals from other investors, mostly those with whom it has co-invested.

It also gets its share of cold approaches, but, like most managers, these tend to be lower-quality. The team is also proactive about searching for opportunities.

Given its base in Oxford, it sits firmly within the local cluster there, which is an area of particular strength for sourcing. It highlights the deal flow from Oxford University, while noting that it is more interested in slightly different areas from other spinout investors. However, it also has an office in London, and it is not a regional investor. Its overall profile matches that of the industry, with an estimated 60% of deal flow from London and the South East, and 40% from the regions.

It estimates that it sees roughly 1,000 potential transactions a year. The target is for investor portfolios to contain 8-12 investments, although around a third of those will be companies new to Oxford Capital, with the balance being follow-ons. With it averaging almost a transaction a month for a number of years, there seems to be adequate deal flow to fulfil investors' expectations.

Decision-making

In broad terms, Oxford Capital's decision-making process is similar to that of most mainstream EIS managers, although there are a couple of areas worth highlighting, in particular the usage of team meetings.

All the potential deals go through an initial screening at a weekly meeting, with rejections based on straightforward criteria. The most common reasons are not fitting the mandate, being in the wrong areas, the stage being too late or the valuation being wrong.

Roughly a third of candidates progress to an initial meeting with a member of the team. Around half of these get more work done on them by one or two members of the team. The emphasis at this stage is on the opportunity and what the funding need is. Allowance is also made for portfolio balance, with the aim of making sure there is good diversification.

This is followed by the initial team meeting, which is seen as the key stage in the process. This is a two-hour meeting, with a presentation on the company, information on its market, with all the available data, and with discussion of its team, business model, strategy and stage of development.

After this, the process becomes more formalised, with 30-50 companies going further. A person is assigned to the company; this person will take it through to execution or rejection. A full proposal now goes to the Investment Committee. Hardman & Co has seen a sample, which seems to cover all relevant areas, and is also well-presented. This includes an outline of the metrics Oxford Capital expects to track.

This takes the form of another long meeting, typically 1.5-2 hours, and usually leads to a request for more information, or highlights areas that need more research. Once the information is obtained, a second Investment Committee meeting is held. The decision needs to be unanimous, including the independent, non-executive member.

This is followed by standard due diligence, mostly legal and compliance, before final approval and completion.

Follow-ons use the same process, from the initial team meeting onwards. In practice, much of the diligence is shortened by the experience since the previous investment(s). Oxford Capital wants to follow on when confidence is increased and there is evidence of progress in the investee company.

For later rounds, Oxford Capital will usually only participate in the round if there are new external shareholders who are setting the pricing. This contrasts with seed investments, where Oxford Capital is usually leading the round as the first institutional investor. There is a desire to broaden the shareholder base of investments over time.

Investments and portfolio

Oxford Capital is deliberately aiming to give investors a spread across different stages of companies. Companies that are new to Oxford Capital are almost always what is calls "late-seed", with rounds typically of £0.5m, although it will do rounds from £200k upwards. Follow-ons are almost exclusively into existing seed investments, and are typically series A, B or C. Typically, later investors are institutional, which can mean that EIS capacity is still available in later rounds. It sees its sweet spot as £0.5m-£1.5m investments, although it did recently invest £8m in a round.

Investors should expect their portfolio of 8-12 companies to contain 3-5 seed companies, each at a 5% weight. Later-stage companies will typically be higher-weighted, reflecting their lower risk and larger rounds. Around half of the investments will have a weight of c.10% – these are often the first or second follow-on round. There will also be a couple of later-stage, series B/C investments at a c.15% weight. Given that the majority of the portfolio will be follow-ons, serial investors into this fund should be aware that this may not improve their diversification by as much as investing in another fund.

Oxford Capital also operates a co-investor circle for high-net worth investors who wish to invest directly in some deals. The fund has priority in any allocations – so the circle can only invest if there is capacity in the deal above the fund's ability to invest. The circle also sometimes take up pre-emption rights from the fund when rounds are no longer EIS-eligible.

Exits

Most exits are expected to follow market norms and be via trade sales, although we note a recent secondary sale into a later funding round. Oxford Capital guides that it aims to exit most investments within five to seven years. We note that the earlier-stage investments, if successful, may take longer than that. Exit scenario planning is part of the diligence process.

Governance and monitoring

Investors

Advance Assurance is sought from HMRC on all investments prior to completion.

All client assets, including shares and cash, will be held by Mainspring, which is the custodian for the fund.

The values of investments will be reported to investors every six months, with valuations at 5 April and 5 October. Unusually, and, in our opinion, pleasingly the April valuations are audited by Grant Thornton. IPEV guidelines are used with valuations agreed by a valuation committee. We note that a variety of methods are used in the supplied performance data, including some aggressive writedowns on underperforming investments. We also note the preference for third parties to set pricing in follow-on rounds, which removes a potential conflict of interest.

Valuations are distributed in hard copy or through the investor portal, along with narrative statements on the companies and fund accounts.

Investee companies

Oxford Capital's philosophy is to take advantage of its position of maximum influence. To do this, it always takes a board seat at the time of the initial investment into a company. Usually, it will give up the board seat at a later stage (usually when other investors come in), but it will always keep information rights and sometimes observer status too. It feels this gives the right balance, in that it is easier to influence a company in its earlier stages.

Like many EIS managers, Oxford Capital sees its mission as backing and supporting founders. In practice, it does this in three main ways:

- Supporting companies to deliver their plan. Its key operational strengths are helping founders to build a team and develop their KPIs, and also helping them in resource planning. Oxford Capital actively shares knowledge across portfolio companies, particularly in solving problems.
- It positions the business for the next round of funding. This may include coaching and goal-setting.
- It helps companies with implementation of an ESG protocol. Encouraging good governance is naturally a strength, but corporate culture is also worked on.

Alongside its philosophy and board role, Oxford Capital finds that its influence and workload in a company decrease as a company grows. Having said that, the established relationships with management mean that influence rarely fades altogether.

ESG

Oxford Capital has an ESG policy in place that covers both its own business and investments. It has a clear set of principles for its own team, although we note the small size of the latter, which can make diversity balance harder.

For investments, its sets out five criteria that it has integrated into its investment process. This is essentially a formalisation of a process that has been in place for some time. These criteria include a clear purpose, diversity in the company, integrity, treating employees fairly and active monitoring. There is some flexibility in its application, acknowledging that startups usually do not have well-developed systems, and investment is often made when it can be seen that things will progress in the right direction.

The Sustainability Accounting Standard Board's Materiality Map is used in framing many of the issues in the diligence process. Comparison with other companies is done where possible. As indicated above, companies are coached after investment on implementing ESG within their companies.

Overall, the approach does seem to go beyond mere compliance, although we would not categorise this as an impact fund.

Track record

Oxford Capital changed it investment strategy in 2016. Although it had been growth-investing for 15 years prior to that, these were later-stage companies, compared with current strategy. It feels that the change makes the previous track record less relevant and we have not been supplied with that data. The track record of the asset-backed strategies is also less relevant, as those operations have been exited. Hardman & Co has been supplied with details of investments from 2016 as of October 2021, updated for an later partial exit.

In that period, Oxford Capital deployed £35.6m over 54 investments into 25 companies, with several companies receiving several rounds. It has six exits, three successful, of which two are partial, and two failures. These cover £5.4m of invested capital, with £15.9m returned giving an aggregate multiple on invested capital of was 2.9x.

The remainder of the portfolio is showing much better performance, albeit unrealised. It shows a typical venture profile, with 11 companies showing positive performance, 8 having writedowns and one unchanged. By rounds, most of those made in the past year are unchanged, while all earlier ones show movements. In aggregate, the remaining portfolio is showing aggregate unrealised gains of 137%.

In summary, if we add the realised and unrealised portions, investments are showing a 2.4x multiple on invested capital. While much of this is unrealised, is does suggest that the existing portfolio has good potential, and the realised performance is partially bad luck. If this potential can be realised, then investors will be pleased.

Fees

The fees for the fund are set out in the table on page 3, with collection as outlined below.

Fee collection

Oxford Capital deducts 10% from an account to cover fees, with 90% being invested. The ongoing charges are mostly paid quarterly and deducted from the account. Once the initial funds are used up, fees will be accrued and deducted from any realisations. The annual fee will be reduced proportionately if the value of the portfolio falls below the next subscription amount (although it will not increase).

Company transaction charge

This varies widely between transactions. It is dependent on the lead investor in the round. Broadly, early rounds tend to be closer to 3% than later rounds. The average is significantly lower than 3%.

Other fees

The other fees cover the cost of the independent audit. Although the limits are substantial, the average for investors is currently £8.60 p.a., although it is scaled by portfolio size.

Exit fees

The performance fee is paid on a portfolio basis on returns over the initial subscription. The performance fee is based on the aggregate capital return over the client's subscribed capital, and is charged after the other fees.

Fundraising targets and deployment

The Growth EIS is evergreen, with no set close dates. Oxford Capital aims to raise and deploy £5m p.a.

The minimum subscription is £25,000.

Once deployments have commenced, investors will participate in subsequent deal flow until their portfolio is completed. Oxford Capital aims to invest subscriptions in 12-18 months after receipt. As indicated above, it has averaged an investment a month, and it hopes that funds will be invested closer to 12 months. However, it may take longer than 12 months to get the correct portfolio balance.

Currently, EIS3 Certificates take an average of 8-10 weeks from investment to be received.

Investment Manager

Oxford Capital was founded in 1999. It believes it created the first EIS fund, and it has been investing in this area since then. It has also managed Business Relief (BR) products, but has now exited this business.

As well as the growth investments, Oxford Capital has also, historically, invested in asset-backed energy investments, including solar power, reserve power and anaerobic digestion plants. The solar power investments performed as expected, and all of these were successfully exited. Unfortunately, the other two areas faced more challenges. Hardman & Co has discussed these issues with the manager, and the following is based on that discussion.

Reserve power was badly affected by unexpected changes to government policy and legislation that impaired the business model – a setback shared with several other EIS managers. Oxford Capital's strategy involved building substantial assets, which required multiple funding rounds. While these could have been more attractive on exit, some were only partially funded. Together with some geared funding, this led to meaningful impairments or writeoffs. Oxford Capital tells Hardman & Co that individual investor returns before tax reliefs were up to 65p for each £1 invested, depending on portfolio construction.

Another problem arose at an anaerobic digestion plant that had operational difficulties, with a leak from a digestate tank. These were traced to construction issues, and have been the subject of legal actions with the contractor ever since. Impairments, augmented by gearing, severely affected the BR product, with lenders taking over assets and, eventually, another manager taking over the product.

Oxford Capital has now exited from this sector and from managing these types of investments. The team that managed them has departed, with continuity in the company's senior management. There were some departures from the growth team too, but these have been replaced. While it was resolving these problems, it stopped fundraising for the growth EIS, although it continued to invest existing subscriptions. Having finished its exit from asset-backed investments, the Growth EIS reopened in 2021.

There are currently 20 people at Oxford Capital, including board members, with nine in the investment team. This includes four members of the executive team, complemented by the board and a part-time operating partner. There is a data operations team and an intern programme drawing from the University of Oxford. The investment team is allocated to one of sourcing, diligence and transactions and post-investment support.

The team's size seems adequate for the current portfolio, noting that its involvement in investments reduces over time. The team may also be added to, which we would welcome.

The Investment Committee consists of Edward Mott, David Mott, Richard Roberts, Alexander (Sandy) Flockhart – the independent NED, and Jonnie Bradshaw as a non-voting member.

People

Edward Mott – Chairman and co-founder
Started his career with Corning Glass, before moving into investment banking. Senior roles include CEO of CCF in Hong Kong, Board Director of HSBC's Investment Bank and CEO of Bank Austria's Asia Pacific operations.

David Mott – Founder Partner
Started his career with Deloitte, moving to PwC in 1998. After a year as a Senior Associate with Result Ventures, he co-founded Oxford Capital. He is the current Chairman of the BVCA Venture Capital Committee. He heads the investment team.

Richard Roberts – Investment Director
Spent his early career as a consultant at HW Fisher, before moving to The Route – City wealth club in 2004. After seven years, he became a partner at Lex Associates, before joining Oxford Capital in 2015. He heads the client services team.

Stephen Hampson – Investment Director
Following four years in management roles at Vosper Thornycroft, headed up Canterbury Innovation Incubator in New Zealand for seven years. He ran Powerhouse Ventures limited from 2008 to 2017, before becoming Managing Director of consultancy H2-Optimal. He joined Oxford Capital in 2021.

Sandy Flockhart – Non-executive Director
Has had an extensive banking career with HSBC. He was CEO of two of its largest operations and Chairman of HSBC UK, and he also sat on the main board. He is now a partner in a private equity firm.

Appendix 1 – due diligence summary

Summary of core due diligence questions		
Manager		**Validated by**
Company	Oxford Capital Partners LLP	
Founded	2012	Hardman & Co
Type	Limited Liability Partnership	Hardman & Co
Ownership	Three LLP designated members	Hardman & Co
FCA registration	565716	Hardman & Co
Solvency	Yes	Hardman & Co
EISA member	Yes	Hardman & Co
Fund Custodian		
Company	Mainspring Nominees Limited	Information Memorandum
FCA registration	591814	Hardman & Co

Source: Hardman & Co Research

The Fund Manager is Oxford Capital Partners LLP. It has three LLP-designated members: Oxford Capital Partners Holdings Limited, David Mott and Edward Mott, with the former being the controlling partner. It, in turn, is controlled by Emsa Trust, a Jersey-based trust.

The latest accounts (30 June 2020) show $3.23m of members' interests and $2.16m of cash, giving a very strong balance sheet for its level of activities. It is registered with the FCA as a Small Authorised UK AIFM (Sub-Threshold). Filings to Companies House appear to be up to date.

Appendix 2 – example fee calculations

These examples calculate the estimated total amount payable to the manager under certain assumptions.

Basic assumptions	
Term	5 years
Investor amount	£100,000
VAT on company fees is offset against revenue	
Number of investments	10

Source: Hardman & Co Research

Calculations					
		Hardman & Co standard			Target
Gross return		**-50%**	**0%**	**50%**	**157%**
Amount (pre-tax relief)		**£100,000**	**£100,000**	**£100,000**	**£100,000**
Initial fees	**Rate**				
Initial fee	2.5% (plus VAT)	£3,000	£3,000	£3,000	£3,000
Dealing fee	0.2%	£200	£200	£200	£200
EIS 3 Certificates	£15 each	£150	£150	£150	£150
Transaction fee (paid by company)	3.0%	£2,700	£2,700	£2,700	£2,700
Total		**£6,050**	**£6,050**	**£6,050**	**£6,050**
Balance of 10% deducted upfront		**£6,650**	**£6,650**	**£6,650**	**£6,650**
Net fund investment		**£90,000**	**£90,000**	**£90,000**	**£90,000**
Annual fees					
Annual management fee	2.0% (plus VAT)	£2,400	£2,400	£2,400	£2,400
Custody charge	£80	£80	£80	£80	£80
Other charges	£9	£9	£9	£9	£9
Total annual charges		£2,489	£2,489	£2,489	£2,489
Gross fund after investment return		**£45,000**	**£90,000**	**£135,000**	**£231,489**
Exit fees					
Dealing fee	0.3%	£135	£270	£405	£694
Balance of annual fees		£3,395	£5,795	£5,795	£5,795
Performance (above 100% return)	20%	£0	£0	£5,760	£25,000
Net amount to investor		£39,070	£83,935	£123,040	£200,000
Gain (pre-tax relief)		-£60,930	-£16,065	£23,040	£100,000
Gain (post-tax relief)		-£33,930	£10,935	£50,040	£127,000
Total fees to manager		£18,630	£18,765	£24,660	£44,189

Notes: post-tax relief figures assume initial income tax relief only; other reliefs may be available to investors
Source: Hardman & Co Research

Disclaimer

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