



\*Net Cost takes into account only the tax relief against income tax and Fair Value includes loss relief where applicable (and assumes a 40% taxpayer)  
**For those investors who also have capital gains tax to pay, there are further CGT reliefs (SEIS) or CGT deferrals (EIS) available.**



## Oxford Technology Combined SEIS and EIS Fund

### - OT(S)EIS -

*Quarterly Report to 31 Mar 2018*

### Summary

By 5 April 2018, OT(S)EIS had completed 96 investments in 31 companies.

The figures for the fund as a whole since its inception are as follows:

Gross amount invested by OT(S)EIS:	£4.59 m
Cash back to investors via tax refunds (1):	£1.83 m
Net cost of these investments after tax reliefs (2):	£2.76 m
Fair value (3):	£9.82 m
Tax free gain (on paper only so far):	£7.06 m

(1) The cash back takes some time to arrive, but it comes in the end. First, the company has to meet certain HMRC requirements (eg starting to trade and spending 70% of the money invested). Then we inform HMRC who then send blank forms, which may take two months, which we then complete and mail to investors who can then reclaim the tax when they do their next tax return.

(2) Assuming only income tax relief for a 40% taxpayer. The net cost will be even less for investors in the fund who also have capital gains tax to pay.

(3) Valuations are all done by valuing the shares held by OT(S)EIS at the most recent price paid by investors in the company. If, following an investment, things have gone wrong, then the valuation is reduced. But if things have gone well, the valuation is not increased. To this extent the valuations are conservative. For example, by December 2015, it was clear that Combat Medical was making excellent progress with its improved treatment for bladder cancer. But the valuation of this investment was not increased until investment was received in March 2016 at a higher share price. No allowance for fees has been included in the figures above.

Obviously nothing really counts until there are exits. In a sense, the share price achieved at exit is the only one that matters apart from the original purchase price of the shares. And exits are typically expected in a 5-10 year timescale. But the most recent share price paid is a fair guide to a true valuation.

## Possible future investments

At the time of writing, we are working on several possible investments, including:

1 A specially developed plant which contains a substance which greatly lowers blood sugar levels. We believe that this would be particularly useful for pre-diabetics, of whom there are more than 200m worldwide. They would need to have one meal per week containing this ingredient.

2. A novel technology which uses light to measure the mass of proteins in solution, and to determine whether proteins have interacted or remained separate. One scientist who saw this was very excited and said that it would enable his PhD students to complete their experiments in weeks rather than years.

Those whose money is in the fund will receive their pro-rata share of these investments if and when they are made. Those whose money arrives after these will receive their pro rata share of the next investments which are made.

## News in brief

OTM China now has an office on the 33rd floor of a building in Shanghai. The views are spectacular especially at night (photos can be seen at [www.oxfordtechnology.com/otchina.html](http://www.oxfordtechnology.com/otchina.html)). Chenjie works full-time in China and is likely to become the interim CEO of Sime China. Sime has a method for the early diagnosis of lung disorders in premature babies. No less than 66% of babies in China are born by C section, some of whom also have breathing problems. So Sime has found its technology welcomed in China, and the plan is to create a separate company, Sime China, in which Sime UK will have a share, and to raise funds in China to finance this.

Run3D has had a very good quarter, and the number of clinics in operation has increased to 11. There was also a long conference call with a company in China who asked if Run3D could support 1,000 clinics. The current plan is that the owner of this company will make a visit to the UK in May to see the Run3D system in action.

Designer Carbon Materials signed a contract with a US company, LocatorX, and received 100,000 founder shares, agreeing to supply N@C60 for the atomic-clock-on-a chip application. There will be two way exclusivity - DCM will be the sole supplier to Locator X and will not supply anyone else for this application.

Ducentis has made excellent progress with its science. It has been able to show very significant impact on a wide variety of immune cells and has a range of alternative molecules with varying affinities. This will be very useful as the drug moves through the development pathway.

Lupe has successfully raised all of the £650,000 which it sought to pay for the tooling for the manufacture of its vacuum cleaner - confirmed in independent tests to be the best and most energy-efficient vacuum cleaner in the world. Production will be in China and the plan is to launch Lupe in the UK at the end of 2018. There will likely be a kickstarter campaign in autumn 2018 where people will be able to buy a Lupe at half price by paying up front and waiting a few months for delivery (similar to the strategy adopted by Elon Musk for Tesla). Many thanks to all who invested.

Dark Beam has launched its crawlers searching the Deep Web and now has a database of more than 20m stolen credit cards which are for sale on the web. It has also achieved its first revenue from a bank for a trial contract. It is now launching its main product; software which analyses the vulnerability to cyber attack of a website using exactly the same techniques that a hacker would use. This information will be valuable to many, including to the insurance industry which is not sure how to quote for insurance against cyber attack. Dark Beam successfully raised capital in this quarter. Many thanks to all who invested.

We invested in LRESsystems and Atelerix in January and both are making great progress.

## Funds

Oxford Technology manages two funds:

1. OT(S)EIS - The Start-up Fund: Investors' money is invested over 3 years - Approx. 1/3 (less fees) in SEIS investments in year 1, 1/3 in EIS investments in year 2 in those of the earlier SEIS investees which are doing well, and the same again in year 3. SEIS investments are very high risk and some failures are to be expected, although there have been very few so far which is why the track record is so good. So it takes 3-4 years before all the tax reliefs are obtained, which does not suit everybody.
2. OTEIS - The Development Fund: Investors have all their money invested within one year in EIS investments, mainly in earlier OT(S)EIS investments which are developing well. So this fund has a lower risk profile than OT(S)EIS and investors can claim their tax reliefs more quickly.

It is possible to invest in both funds. Information Memorandums and Application forms can be downloaded from [www.oxfordtechnology.com](http://www.oxfordtechnology.com)

### SEIS Tax Reliefs Summary

- Income Tax bill reduced by 50% of investment
- Income Tax bill reduced further if the business fails - up to 22.5%
- 50% relief against capital gains which is not merely deferred but cancelled
- No tax on Capital Gains from investments
- No inheritance tax on shares after 2 years
- Tax reliefs can be claimed as if the investment had been made in the previous financial year, if the investor wishes

### EIS Tax Reliefs Summary

- Income Tax bill reduced by 30% of investment
- Income Tax bill reduced further if the business fails - up to 31.5%
- The payment of tax on a capital gain can be deferred where the gain is invested in EIS shares. The Capital Gain to be deferred can be made three years before, or one year after the investment.
- No tax on Capital Gains from investments
- No inheritance tax on shares after 2 years
- Tax reliefs can be claimed as if the investment had been made in the previous financial year, if the investor wishes

For more in depth details, please consult HMRC, or your financial advisor.

### Example SEIS investment

An individual investor with income tax of £25,000 to pay and capital gains of £100,000 in the 2016/2017 tax year on which tax of £20,000 at the 20% rate is due to be paid invests £10,000 in an SEIS qualifying company in 2016/2017.

Investment:	£10,000
Income tax bill reduced by 50% of this:	-£5,000
Capital Gains tax bill reduced by:	-£1,000
Net cost of investment:	£4,000

For higher and additional rate taxpayers, capital gains tax was 28% in 2015/2016 then changed to 20% in 2016/2017. If the above investor also had income tax of £25,000 and capital gains of £100,000 in the 2015/2016 tax year on which tax of £28,000 at the 28% rate had been due then they could choose whether to

treat their 2016/2017 investment as having been made in 2015/2016 and claim relief in that year. This would result in a reduction in capital gains tax of £1,400 and therefore a net cost of investment of £3,600.

Should the investee company fail, the remaining part of the investment on which income tax relief has not been claimed (£5,000 in this example), may be set against the investor's income tax liability.

For a 45% tax payer, this relief is worth £2,250

For a 40% tax payer, this relief is worth £2,000

For a 20% tax payer, this relief is worth £1,000

So for a 45% taxpayer with capital gains tax to pay, the total loss on the investment of £10,000 would be reduced to £1,750 if the investment was made in 2016/2017 and not carried back to the previous year. If the investments succeeds, and the shares are sold for £20,000 (so twice the purchase price) the £20,000 would be tax free, a multiple of more than 5 times the net cost.

## **Fees**

**Initial fee:** 1%

**Management fee:** Annual fees on gross sum invested are as follows:

Years 1-3: 2%

Years 4-7: 1.5% (deferred to be paid only from proceeds of exits)

Year 8 and onwards: 0%

Any interest earned on uninvested capital will be used first for paying the management fee. The investee companies will mainly be within an hour's drive of Oxford as OTM will be actively involved in helping investee companies especially in the early days. OTM may charge the investee companies a separate fee for this help and involvement.

### **The Custodian's fees:**

These will be 0.175% annually (NB – at the outset this was 0.35% but from 2017 has been reduced). There will also be a £15 fee for each holding that is transferred into the individual investor's name (it is not intended that this should happen frequently). The fees will be paid from the investor's cash pool.

### **Performance Incentive:**

Once a typical investor, defined as a 40% taxpayer with no capital gains tax to shelter, has received a return of £1.20 (including tax benefits) for each £1.00 invested then 20% of all further payments to all investors who invested at the same time will be paid to OTM as a performance incentive.