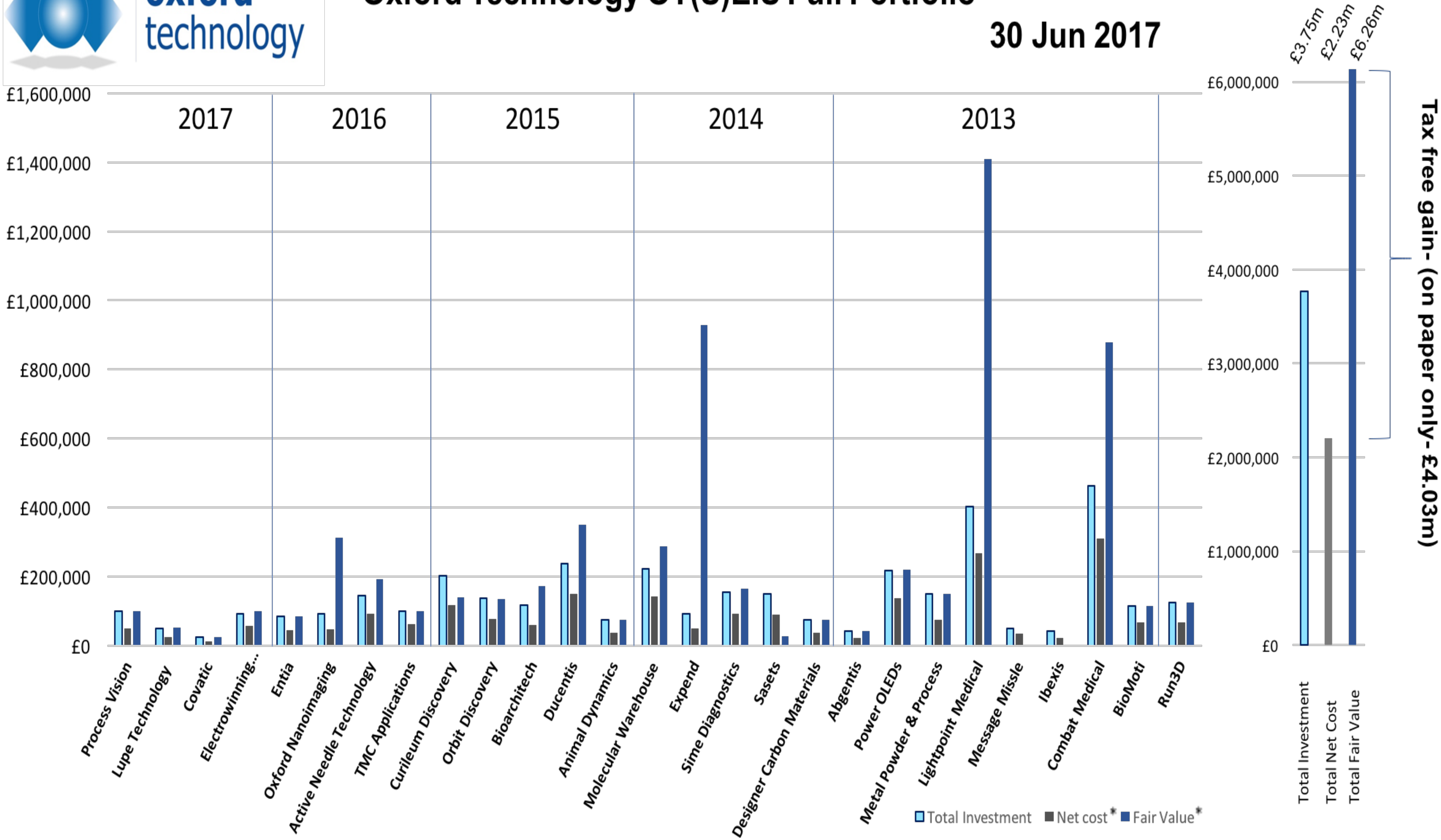
Oxford Technology OT(S)EIS Full Portfolio

30 Jun 2017



*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 30 June 2017

Summary

By 30 Jun 2017, OT(S)EIS had completed 70 investments in 28 companies.

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

Gross amount invested by OT(S)EIS:	£ 3.75m
Net cost of these investments after tax reliefs (1):	£ 2.23m
Fair value (2):	£ 6.26m
Tax free gain (on paper only so far):	£ 4.03m

1. 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.

2. 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.

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.

New one year EIS Fund

During the last year, some investors have asked us whether they could give us extra capital so that we could make extra EIS investments on their behalf, and do this in a shorter time period than the three year investment timescale for OT(S)EIS. The answer was that we could and we have. This was possible because at any one time there are usually several of the OT(S) EIS investments which are seeking to raise additional EIS capital. Typically OT(S)EIS has invested part of this capital, and has then helped the companies to find additional investors many but not all of whom have been investors in OT(S)EIS. Companies which have raised capital in this way in the recent past have included Combat Medical, Ducentis, Curlieum, and Expend.

Investors may also make larger investments under the EIS scheme than under the SEIS scheme. The maximum amount allowed under the SEIS scheme is £100k per year; the maximum amount under the EIS scheme is £1m per year.

In order to cater for this demand, we have therefore created a new EIS only fund - OTEIS. Like OT(S)EIS this will be open for investment at any time with a minimum investment of £15,000. The aim of the fund will be to invest all the capital provided by any investor in a portfolio of 6-10 EIS investments within one year of investment in the fund. Most of these are likely to be in earlier SEIS investments of OT(S)EIS which are now seeking capital to expand. Because we will have worked closely with these companies for several months or years, we will know them well and be in a good position to judge whether it is sensible to invest more in them and at what price. Having an additional source of capital and so help them to close their fundraisings more quickly will also be helpful for the investees, and so also helpful for their early shareholders.

An Information Memorandum and an Application Pack for OTEIS may be downloaded from www.oxfordtechnology.com.

News in brief.

Congratulations to Anna Boniface, who won the non-elite women's London Marathon in April with a time of 2.37. Before this her best time had been 2.45 so this was a major improvement. In February, she had had a Run3D gait analysis which, surprisingly since she was already such a good athlete, showed up various major flaws with her gait, in particular that she was wasting energy by bouncing too much. Of course one cannot know how much of her dramatic improvement was attributable to the Run3D gait analysis, but it certainly can have done no harm. She is hoping to run for GB in the next Olympics and we wish her every success.

Bertha, MP&P's atomiser produced her first titanium powder in the quarter. Much development remains to be done, but this was a significant milestone achieved.

There was a major change of personnel at ONI, with the MD, Chairman and Finance director all leaving, with suitable severance packages, and Bo Jing, the technical expert behind the company becoming the CEO.

Designer Carbon Materials won a £300k grant to help develop particular endohedral fullerenes for medical applications. One of these is the possible use of a gadolinium containing fullerene as a better contrast agent for MRI scans. The outcome of another grant application for £700k is still awaited.

BioMoti which had been stalled for more than a year through lack of finance, won a grant which will now mean that it can progress with its pre-clinical work for its cancer therapy. The project cost is £900k of which £600k will be provided by the grant. So BioMoti needs to raise £300k of equity in order to take up the grant. OT(S)EIS will be contributing but other investors will also be needed.

Power Oleds has achieved further improvements in the efficiency of it Oleds for use in mobile phone and other screens.

Orbit has now signed a second partnership agreement with a pharmaceutical company.

Lupe visited China and had meetings with four possible manufacturers of its better vacuum cleaner.

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.
- Other conditions as for SEIS

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 (£50,000 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 succeed, 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.