Par Equity EIS

Tax-Advantaged Investments

EIS Review

MARCH 2020

MJ HUDSON
Allenbridge

Contents

Overview

Par Fund Management Limited ("Par" or "the Manager") is seeking to raise £10 million for the Par EIS Fund (the "Fund"), a discretionary investment vehicle in a portfolio of technology-led EIS-qualifying companies, for the 2019/20 tax year, and up to £25m for the 2020/21 tax year. The offer is open to both new and existing investors on a continuing basis. Investors can expect to be allocated across a target portfolio of eight companies, all of which are expected to have a technology focus, albeit operating across a number of sectors.

The Fund was launched in 2012 and to date has deployed almost £7.5 million in 33 separate companies.

Investment Details:

Score:	85
Offer Type	Discretionary Non-Approved
EIS Strategy	Generalist
EIS AUM (Pre-Offer)	£10 Million
Manager AUM	£88 Million
EIS Risk Level	Medium

Investment:

Minimum subscription	£20,000
Maximum qualifying subscription per tax year	£1,000,000
Early bird discount	None

Closing Date:

Evergreen (monthly allocations)

This document verifies that *Par Equity EIS* has successfully completed our independent due diligence process, having passed through all stages of the governance process in the run-up to the report's publication on the date listed below. It has therefore been awarded the MJ Hudson Cornerstone Trustmark.

Risk Warning for EIS Schemes

Individuals should always read and bear in mind the risk warning notices that are included within providers' investment offer literature / documentation, including prospectuses, information memorandums, securities notes, brochures and other related marketing literature. Whilst the following list is not exhaustive, some of the main risks to be aware of include:

- Investments are in small, unquoted companies and should be considered as high risk;
- Investments are illiquid and need to be held for at least three years in order to retain the initial income tax relief;
- An EIS/Seed EIS investment should be viewed as a long-term investment;
- Legislation, along with the nature and level of tax reliefs is subject to change. There can be no certainty that investments will be eligible or remain eligible for EIS/Seed EIS Relief;
- Historic investment performance cannot be used as a guide to future performance, and the value of any given investment may rise or fall;
- Many EIS/Seed EIS Schemes involve investment in a single company or sector and therefore should only be considered as a small part of an overall portfolio;
- Investors may not have independent representation on the Boards of investee companies which can mean their interests are not adequately considered relative to the executive team;
- EIS/Seed EIS investments should only be considered by sophisticated investors who understand, and have given careful consideration to, the underlying investment strategy and associated risks. For help in determining potential investment suitability, professional advice should be sought;
- Often there will be no regulatory oversight and investors will usually not be eligible for compensation if things go wrong.

Executive Summary

MANAGER

Par Fund Management Limited ("Par" or "the Manager") is an Edinburgh-based Investment Manager established in February 2008, which has been investing in Enterprise Investment Scheme ("EIS") qualifying companies since 2009 but only launched its first EIS-qualifying product in 2012. As at November 2019, the Manager states it has approximately £90 million of assets under management ("AUM") although over half of this represents investments from the Scottish Investment Bank or the Par Syndicate, both of whom invest via the Manager. The Scottish Investment Bank does so on a pledged capital basis, but the Par Syndicate individuals have discretion over whether to invest.

PRODUCT:

The Par EIS Fund ("Par EIS" or "Fund") is a discretionary managed portfolio which is focused on co-investing with experienced business angels in innovative, technology-enabled UK companies with a high growth potential. The Fund focuses on providing early-stage growth capital to businesses that have demonstrated commerciality, typically with a monthly turnover of between £20,000 and £200,000. It focuses exclusively on sectors where members of the investment team or the Syndicate have specialist knowledge and are willing to be involved in a hands-on capacity. The Fund has a clear bias towards business-to-business ("B2B") propositions across a wide range of sectors. At the investor portfolio level, the strategy aims to create a diversified portfolio of around eight companies and aims to deliver a minimum IRR of 15% (net of fees, but before EIS tax benefits) over a five- to seven- year investment horizon.

SUMMARY OPINION:

Par is a well-established Manager with a strong regional presence, especially in Scotland, Northern England and Northern Ireland. Par's AUM has increased steadily over the last five years, largely as a result of investments through its Syndicate; although we note that there is now a focus on increasing the size of its EIS offering. In line with this growth in AUM, Par has seen a steady increase in revenue generation, now at more than £1.4 million per annum; however, expansion on the bottom line has been less impressive, with a net profit margin of just 0.4% for the latest financial period to March 2019. We acknowledge however, that the rise in costs has largely been driven by investments in the business, with a number of new hires in recent years. The Manager has an appropriate approach towards governance for a manager of its size, and we are encouraged by recent endeavours to improve in this regard. Further, Par's ownership structure demonstrates relatively low ownership concentration risk given that no partner holds more than 17.5% of Par.

Par's key strength is represented by its relationship with its Syndicate, a group of around 200 angel investors, which are helpful both to the Manager's deal sourcing function, but also as a platform to perform initial due diligence on investee companies. Further, Par has highlighted another of its USP's as the potential for favourable valuations across the regions in which it operates, notably Scotland. Par's team is formed of individuals which are well-placed to execute the Fund's strategy, based on their previous venture capital and commercial experience. The Fund has been in operation for almost eight years; however, we note that despite the length of time in which it has been operational, it has deployed just £7.5 million over that period. This is well below other funds of similar vintage, and underscores the Manager's historical focus on its Syndicate investments. The Manager would like to point out that it has realised 150% of subscriptions to their first two tax year cohorts (2011/12 and 2012/2013), with investors holding a further 150% of unrealised value. Further we note a number of conflicts which its co-investment policy may bring about; although we similarly acknowledge that the investor groups managed by Par always co-invest on identical terms and Par has also taken further steps to mitigate these potential risks.

Par EIS is likely to appeal to investors looking to diversify their portfolio of generalist EIS-eligible investments by investing in Par's portfolio of regionally-based businesses. The investment team's experience and their track record within the venture capital space should reassure investors looking to subscribe to the Offer. The usual risks associated with earlier stage investments are arguably mitigated by investments into revenue generating businesses, with a B2B focus. The target rate of return reflects the high level of risk in the strategy and although there have been a number of successful exits to date, the valuations of some of the earlier investments suggest some progress towards the target. That being said, investors should satisfy themselves that Par will be able to successfully scale this Fund, while at the same time managing the conflicts brought about by its Syndicate, which has historically, been the core driver of its growth.

Positives

AT THE MANAGER LEVEL:

- The Manager has a very strong brand presence in Scotland; we note that the Scottish Investment Bank ("SIB") recognise Par as a top-tier co-investment partner.
- The Co-investment relationship with the SIB provides a good source of committed capital which facilitates larger deals and greater influence over investee companies.
- Par's four founders all have approximately equal stakes in Par Equity LLP (the Manager's parent company) and are all actively involved in the management of Par. This helps to create a good level of business stability and mitigates potential key man risk issues.
- Par is accountable to a small group of minority shareholders (who own 10% of Par Equity Holdings Limited), which provides an extra layer of oversight on the operations of the Manager.
- Par manages investments from a diverse range of asset classes, therefore has lower revenue concentration compared to other manager focusing solely on EIS-qualifying investments.
- Par is less exposed to changes in rules governing tax advantaged investments given that a third of the Managers AUM sits outside of this space, within institutional closed ended funds focusing on forestry and residential property investments;
- Par has an appropriate approach to corporate governance given the size and nature of the firm; the composition of the Board and Investment Committee, the frequency of the meetings and the topics discussed are as we would expect. Furthermore, we have reviewed sample materials prepared for board and investment committee meetings and have found them to be comprehensive in scope;
- Although largely separate to the current Fund under review, as a Manager, Par has made a total of 18 realisations, returning over £50 million in cash to investors.
- The investment team is experienced and stable with low employee turnover along with a number of new additions to the investment in more recent years, with the core members of the Team have worked together for over five years;
- Par seems to have actively taken steps to ensure fair treatment of EIS investors ahead of this fundraising, which demonstrates a culture of putting its client's interests first.

AT THE PRODUCT LEVEL:

- The investment strategy focuses exclusively on sectors in which either the Team or a member of the Syndicate has specialist knowledge, potentially valuable relationships, and are willing to be involved in a hands-on capacity. This enhances the Team's ability to identify companies that can deliver the targeted exit multiples.

- The size of the Syndicate, at over 200 active members, provides a diverse knowledge bank of informed commercial insights and ensures that the Fund can participate in a wide range of sectors. Additionally, the involvement of the Syndicate in various aspects of the investment process is a feature we believe enhances it;
- The investment team has personally invested over £3.4 million across Par Equity's portfolio companies on the same terms as its investor base. Additionally, the Team's discretionary compensation is invested in Par EIS. Consequently, we consider the Team's objectives to be closely aligned with those of their investors;
- Due to its strong regional presence and through its connections with angel investor Par is in a good position to source opportunities at attractive valuations;
- The target return is attractive and fully rewards investors for liquidity risk although it remains to be seen whether such returns can be delivered consistently;
- The EIS Fund invests largely in companies operating in a B2B context, which means that it will be less exposed to typical risks associated with changes in consumer sentiment, and any potential macroeconomic headwinds;
- Par usually, but not always, will take a lead on any investment round and duly appoints a board member (usually from its investment team or sourced from its Syndicate) to portfolio companies who will provide both additional oversight, as well as bringing his or her own expertise to help investees overcome business challenges;
- Unusually for products within this space, all fees raised to investors are inclusive of VAT, and overall quantum of fees to investors places the Fund competitively; although we also note that Par reserves the right to charge fees to underlying investee companies;

Issues to consider

AT THE MANAGER LEVEL:

- We note that Par's revenue growth has historically been reliant on capital inflows from the Syndicate and the SIB into the portfolio companies, and it has only recently sought to actively grow funds within its EIS offering;
- The Manager's tax advantaged fundraising efforts have been slow to date, specifically when considering the age of the Fund, and are materially below other managers operating EIS funds within this space;
- Par has seen a compression in net profit margins in recent years, despite healthy growth in revenues; however, we acknowledge that much of this has been driven by investment in the business;
- As it stands Andrew Castell oversees both the compliance oversight and money laundering functions at the business, along with his involvement in the investment activities of the business; it would be preferable for these functions to be separated, and such it is encouraging to note that Par is currently looking to employ a dedicated compliance officer in the near term;

AT THE PRODUCT LEVEL:

- Although the Fund has been launched for around eight years, it has only deployed £7.5 million of investor money. This might suggest that Manager will either need to significantly increase the number and/or size of the investments it makes each year to effectively service a £10 million inflow into the EIS fund over the next twelve months; however, Par has pointed to its active pipeline and recent track record of deployment as evidence of its ability to deploy this level of raise with no change to its current process;

- Much of Par's proprietary, high quality deal flow originates from its Syndicate network, members of which receive no remuneration from Par. Therefore, if the activity within the Syndicate should drop, Par's ability to source its best investment opportunities at attractive valuations may suffer;
- The relationship between Par and its Syndicate as well as with SIB may give rise to conflicts of interest with regards to co-investments made by the Syndicate alongside the EIS fund. These potential conflicts need to be monitored continuously in order to avoid placing EIS investors at a disadvantage, although we note that the Manager points out that the EIS Fund takes priority over other capital;
- We note that the Service is to some extent reliant on the expertise of the Syndicate pool in the execution of the strategy. Hence the quality of the pipeline could be adversely affected by inactivity within the Syndicate;
- Whilst the performance of the Syndicate is impressive, almost half of the profits on disposal came from just one investment, whilst around half of historic realisations have been written off. This emphasises the high level of risk and the importance of diversification;
- Whilst the performance of the Syndicate provides some comfort that the target returns are deliverable, allocation of past deals between the Syndicate, SIB and the EIS makes it hard to judge whether this is representative of what can be achieved going forward although the recently introduced allocation policy should address this going forward;
- While the breadth of sub-sector exposure does mean that there are different value drivers, all the opportunities are coming from the technology sector, which means that investor will have to find a level of comfort with the sector concentration.

Manager Quality

Manager Profile

Par Fund Management Limited ("Par" or "the Manager") was established in February 2008 by Paul Atkinson, Robert Higginson, Andrew Castell and Paul Munn. The Manager, which started out as a syndicate of business angels, began with the Par Innovation Fund I ("PIF"), and has grown into an asset manager with approximately £90 million in assets under management ("AUM"), as at October 2019. The Manager and its related entities trade under the "Par Equity" brand name.

Par has been making EIS investments since 2009 and the team has been involved in around 300 transactions since then, investing in 57 companies. Collectively the team has more than 70 years of EIS and early stage investment experience to call on, as well as additional corporate finance and private equity experience from previous roles. Three of the five partners, Robert Higginson, Paul Atkinson and Paul Munn have known each other for over 20 years, albeit whilst working in different industries. According to Par, the experience which this team gained across a variety of sectors brings a good depth of expertise, all of which helps to complement its investment strategy. The current headcount sits at 16, ten of whom are mostly focused on investing activities. Within this team, there are three dedicated staff who are on hand to resolve client queries.

Although Par offers a number of products, most of its offering is concentrated around its Investor Network (the "Syndicate" or the "Par Syndicate"), which comprises of a group of around 200 experienced angel investors, who invest alongside Par Equity, and the Par EIS Fund, under review here. Outside of the tax advantaged products which Par offers, it also offers exposure to forestry and residential assets through two sets of institutional funds. Par Equity also manages the Par Innovation Fund I LP, a traditionally structured VC fund, made up of around 80 retail investors; we have been informed that this fund has been fully invested since 2012.

TABLE 1: PAR EQUITY PRODUCT BREAKDOWN AS AT NOVEMBER 2019

(£'000)	AUM
Par Syndicate**	£29 million
Scottish Investment Bank Co-Investment*	£18 million
Par Forestry Partners LP (1)	£2.5 million
Par Forestry Partners (2)	£5.5 million
Par Residential Investments II LP	£3 million
Par Residential Investments III LP	£19 million
Par EIS Fund	£10 million
Par Innovation Fund I LP	£1.2 million

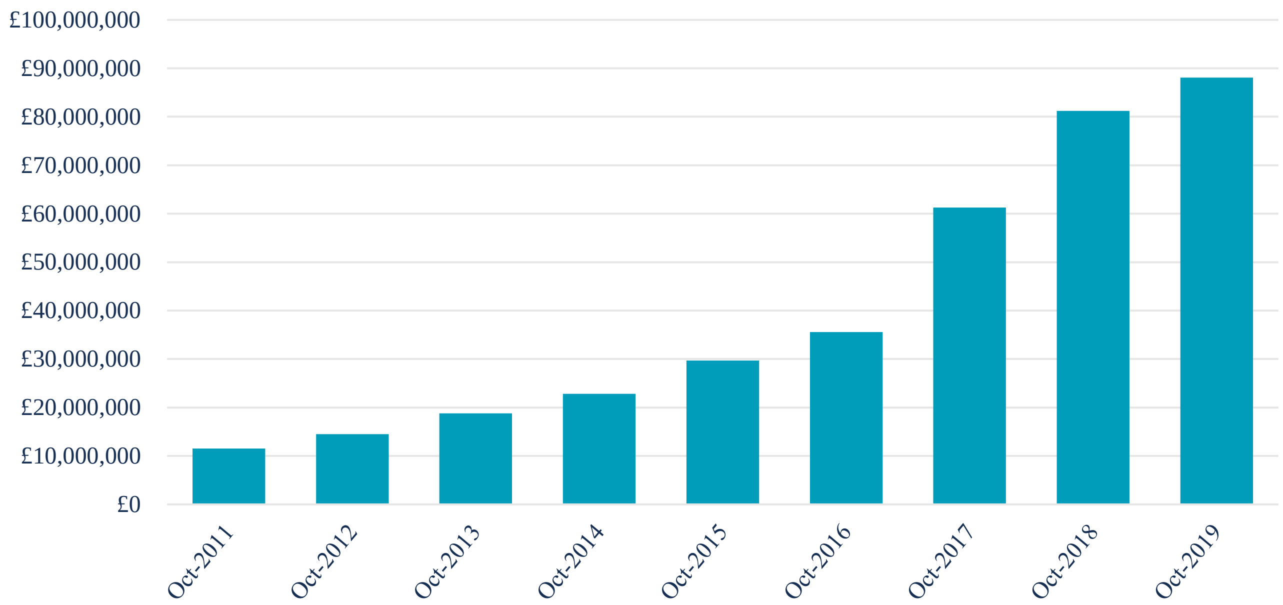
Source: Par Equity; Advantage IQ

*SIB co-invests alongside the Par Investor Network on identical terms.

** Par Syndicate comprises angel investors who have invested alongside funds managed by Par, albeit whilst retaining full discretion

Currently Par focuses on the management of investments made through its EIS fund, as well as through the Par Syndicate, and its fundraising success is directly reflected in the Manager's AUM growth, as illustrated below. There was a significant step change in AUM between October 2016 and October 2017, where levels almost doubled. This according was largely as a result of inflows into Par Residential Investments III LP.

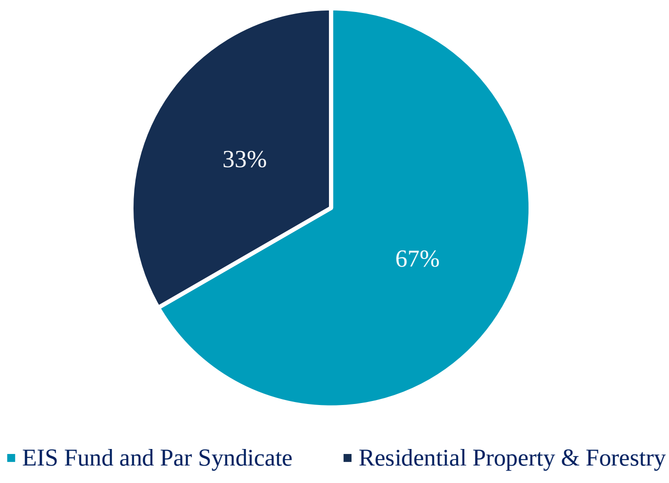
CHART 1: PAR EQUITY'S AUM AS AT OCTOBER 2019



Source: Par Equity, AdvantageIQ

Par is considering adding to its venture capital activities, with later stage funds, potentially in the form of a VCT (of around £50 - £100 million), as well as extending its forestry offering. However, its core focus is on raising and deploying greater amounts through the EIS Fund.

CHART 2: ASSETS UNDER MANAGEMENT BREAKDOWN AS AT NOVEMBER 2019



Source: Par Equity; AdvantageIQ

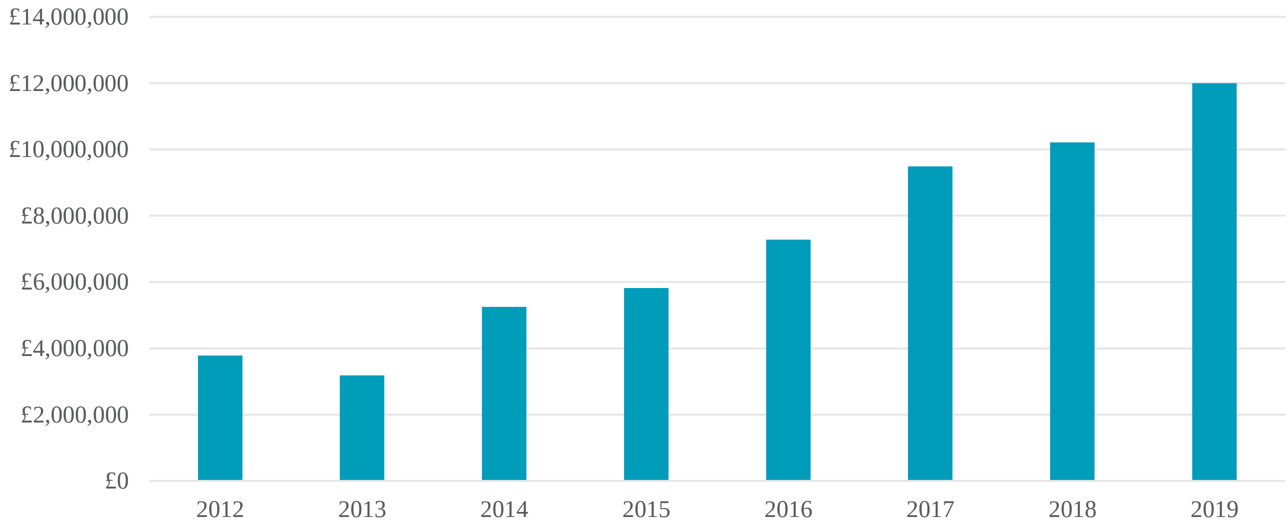
Venture capital, represented by the Syndicate and the EIS funds, remains the largest contributor to the AUM, at around £58 million of AUM. Other asset classes that the manager is involved in include forestry and property, with managed assets standing at £8 million within the former and £22 million in the latter. Par Forestry Partners aim to acquire and manage a portfolio that consist of commercial forestry plantations and Par hopes to launch further forestry products in the future raising around funds of around £10 million every 2 years. Par Residential Investments II LP is currently disinvesting and, the Manager informs us, with the final distributions to be paid out early 2020. Similarly, Par Residential III LP is closed and undergoing disinvestment. As such, it is likely that EIS investments will become an increasing feature of the Manager's profile.

The Scottish Investment Bank (SIB), with which Par has coinvested a total of £22 million, pledged money to Par Equity and invested on identical terms to the EIS Fund and Par Syndicate. Having the support and backing of the SIB will be beneficial when seeking to close out larger investment rounds and for supporting follow-on investments as well as also providing a degree of external vetting to the internal investment model. We note that the Syndicate and the SIB both have formal co-investment relationships with the Par EIS via the Manager. The Manager acts as the lead investor, together with the EIS Fund with an understanding that the other investment groups will invest on the same terms..

Moreover, Par has recently appointed Kin Capital Partners as its placement agent, providing Par with the resources needed to increase its fundraising volume. The Manager tells us that the most significant source of fundraising over the past five years has primarily been through its network. However, Par is looking to leverage larger IFA networks and relationships with wealth managers; and, this is where Kin Capital can assist. We note that fundraising is aided by the Syndicate, many of which have also invested through the EIS Fund. The Manager informs us that approximately 15% of fundraising volume comes from the Syndicate.

As the diagram below highlights, fundraising has seen a modest upward trend since 2012. With the exception of a dip from 2012 to 2013 and, giving consideration to the fact that 2019 data is yet to be fully reported, each year has seen a rise in fundraising. We note that Par is aiming to increase its fundraising levels to approximately £25 million per annum, which would be a steep increase from historical levels.

CHART 3: FUNDRAISING TRACK RECORD AS AT DECEMBER 2019



Source: Par Equity; AdvantageIQ

Par inform us that their front of house, Pauline Cassie, leads the client facing team. Supporting Pauline are Mandy Porteous and Sabina Mahmood who handle client queries, as well as Emily Thompson, Diane McLaren and Monika McIver in the finance team. Although client accounts are maintained by The Share Centre and Kin Capital as administrators, the principal client servicing relationship is between Par Equity and its investors. Par inform us that each EIS investor will have access to an online portal, outlining pertinent information regarding their own portfolio, which can be viewed and explored in detail on the company's website. Through this portal, investors can also see electronic copies of their share certificates and EIS 3 forms, along with bi-annual reports on each of their underlying holdings in the Fund. Par Equity points out that it holds regular investor events in Edinburgh and the team is always on hand to meet with investors or their advisers in order to address any queries or concerns.

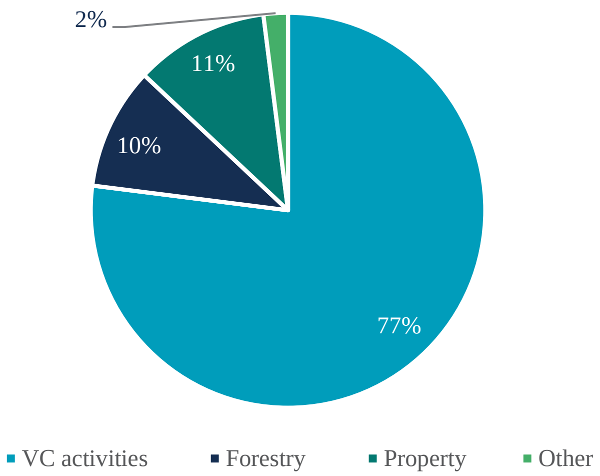
Par have told us that they have had no complaints or litigation charges made against them in the last 12 months.

Financial & Business Stability

Par equity derives its income solely from its investment management activities. Although much of its income is derived from managing EIS-eligible investments, the remainder comes from a diverse array of asset classes, including forestry and residential real estate, providing an element of diversification with regard to its revenue source. According to Par, its main sources of revenue are as outlined below:

A more detailed breakdown of the products that exist within the above graphs is below:

CHART 4: REVENUE BREAKDOWN AS AT DECEMBER 2019



Source: Par Equity; AdvantageIQ

We note that the FCA regulated Manager of the Fund, Par Fund Management Limited is a wholly owned subsidiary of Par Equity Holdings Limited ("PEHL"), which in turn is 89.9% owned by Par Equity LLP with the rest owned by several minority shareholders. The Founders all have an equal stake in Par Equity LLP and are all actively involved in the management of Par.

We present the financial position of both the Manager, and its parent below.

TABLE 2: KEY FINANCIAL METRICS SUMMARY OF PAR FUND MANAGEMENT LIMITED FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

	2015	2016	2017	2018	2019	5YR CAGR
Revenues	£503,390	£548,509	£777,308	£1,004,253	£1,393,004	28.98%
Costs	£478,351	£562,983	£756,727	£980,712	£1,374,843	30.20%
Cost to Income ratio	0.95	1.03	0.97	0.98	0.99	
Operating Profit (loss)	£25,039	-£15,962	£20,581	£23,541	£18,161	-7.72%
Net Profit (loss)	£12,300	-£18,471	£16,913	£10,864	£5,500	-18.23%
Net Profit Margin	2.44%	-3.37%	2.18%	1.08%	0.39%	
Net Assets	£152,855	£359,384	£376,297	£387,161	£392,661	26.60%

Source: Companies House

The table above shows steady progression with regards to revenue growth, with a 5-year compound annual growth rate of almost 30%. This steady growth, whilst positive, is overshadowed by Par's increasing costs, which has resulted in margin compression in recent years, with the net profit margin of just 0.4% for the latest financial period. While we acknowledge recent efforts to grow the business, in particular with a number of new hires in the past two years, we would expect these investments in the company to reflect more positively on the financial position of the business in coming years.

With regards to the balance sheet position, while net assets have more than doubled since 2014, much of this growth was seen between 2015 and 2016, and growth in net assets since then has been relatively subdued. Further, we note that the company has £200,000 in long term debt in the form of subordinated loan notes, which are due in 2026. Thus, while the current position does not give rise to any immediate concern, there is room for improvement in the Manager's financial position, specifically when compared to some of the other larger managers operating within this space. However, we also acknowledge that the Manager can call upon its parent, and ultimately its parents, for additional capital if required.

We present the financials of the Manager's parent below; however, it should be noted that as with all LLPs the above numbers are not directly comparable with those of a company since some of the member's drawings which would be treated as an expense in the accounts of a company are part of the profits in an LLP.

TABLE 3: KEY FINANCIAL METRICS SUMMARY OF PAR EQUITY LLP FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

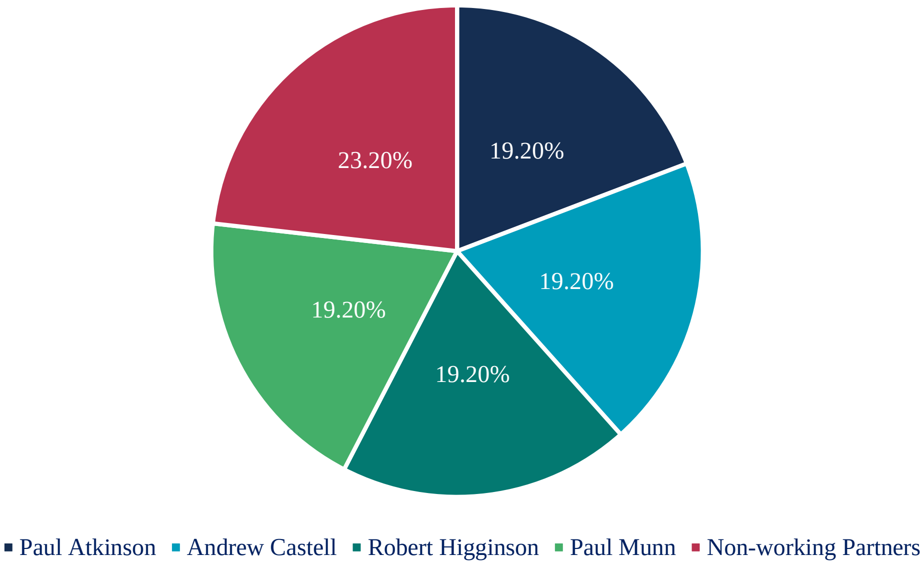
	2015	2016	2017	2018	2019	5YR CAGR
Turnover	£580,743	£743,944	£881,148	£1,147,307	£1,467,752	26.09%
Administrative Expenses, Cost of Sales and Other Income	£494,335	£827,807	£1,004,040	£1,282,710	£1,273,541	26.69%
Cost to Income ratio	0.85	1.11	1.14	1.12	0.87	
Operating Profit	£86,408	-£83,863	-£122,892	-£135,403	£194,211	22.44%
Profit for the year before members' remuneration	£72,635	-£85,903	-£117,549	£169,939	£220,118	31.94%
Net Assets	£264,048	£655,142	£644,147	£574,086	£554,204	20.36%

Source: Companies House

We note that in 2016, Par raised an additional £500,000 through issuance of new shares in PEHL. We understand that existing partners saw this as preferable to introducing a new partner to the LLP, and as such this group, which is comprised mostly of Syndicate members own 10% of PEHL. Par have noted that it sees this investment from Syndicate members as an endorsement of its investment philosophy.

As has been noted, the Manager is a wholly owned subsidiary of Par Equity Holdings Limited. Par Equity LLP owns 89.6% of Par Equity Holdings Limited, with minority investors holding the remaining 10.4%. The ownership structure of the ultimate parent, Par Equity LLP is outlined below. 76.8% is equally owned by the four founding partners, who remain actively involved in the business; further we understand that Andrew Noble who recently re-joined the business will become an equity partner in the near future. This structure, under which all working partners have an equal shareholding helps to mitigate any potential key man risk issues akin to those of small investment managers.

CHART 5: PAR EQUITY LLP OWNERSHIP STRUCTURE



Source: Par; AdvantageIQ

Quality of Governance and Management Team

Par Fund Management Limited's two oversight bodies are its Board and Investment Committee. The Board is made up of the four founding Partners of Par, which we are informed meet once a month. Each of the five partners (including Andrew Noble) also sit on the Investment Committee.

TABLE 4: OVERSIGHT COMMITTEES

COMMITTEE	DETAILS
Board	**Mandate:** All matters relating to Par's business activities. **Members:** All founding partners; Paul Atkinson, Robert Higginson, Paul Munn, Andrew Castell **Frequency:** Monthly
Investment Committee	**Mandate:** To propose and review all new investments **Members:** All partners, Paul Atkinson, Robert Higginson, Paul Munn, Andrew Castell, Andrew Noble **Frequency:** Weekly

Note: Par Equity; AdvantageIQ

We have been provided with Par's draft Firm Governance document, dated December 2019, which outlines the firm's approach to a number of key functions within the business, including: corporate governance, conflicts of interest, risk management, compliance, internal audit, money laundering and business continuity planning, among others.

We note that members of the Board are ultimately responsible for compliance, and ensuring that the firm remains compliant with the relevant regulatory requirements. Par have noted that it does not have a separate remuneration or audit committee as it believes that with their 16-person team, it would not be an efficient resource, which is not unusual for a firm of its size. It is often considered beneficial to have entirely independent oversight so to enable independence in decision making, and while we note that there is no non-executive directors on the Board of the Manager, Leith Robertson has been an independent Chairman of its parent, Par Equity Holdings Limited since 2016. Leith has an established career within Banking and Private Equity; and as such, he is a useful resource to oversee governance.

We note that Andrew Castell holds both the SMF16 (Compliance Oversight) and SMF17 (Money Laundering Reporting Officer) functions, in addition to his role within the investment committee and general oversight of the business. It would be preferable for these functions to be separated from the investment function, not only to mitigate any conflicts of interest, but also to ensure that a comprehensive level of oversight is provided in light of Andrew's other list of responsibilities within the business. It is encouraging therefore to note that since our meeting with Par, it has taken steps to hire a dedicated compliance officer, who is expected to start in April 2020. We welcome this addition as indicative of the Manager's efforts to ensure strong corporate governance and oversight.

For a decision to pass through the Investment Committee, decisions must be unanimous. However, we note that where relevant, Par will often bring in appropriate members of its Syndicate in order to assist with the due diligence process on any potential deal. We also note that members of this Syndicate often invest alongside the Fund; and involvement from the Syndicate does provide an additional level of expertise to the due diligence process. However, this policy of co-investment does give rise to potential conflicts of interest. These conflicts may include deal origination for companies into which Syndicate members are already invested, misalignment of interest (for example Syndicate members may not necessarily be seeking EIS reliefs), different fee structures and allocation of funding rounds. In order to address these conflicts, Par has introduced an allocation policy outlining the co-investment terms between the Par EIS Fund, the Par Investor Network (the "Syndicate"), as well as the Scottish Investment Bank. Within it, we note that the EIS Fund will take priority in all funding rounds. Further, we note that Par is expecting to update its pricing structure for Syndicate members, with the eventual outcome aimed at incentivising Syndicate members to also invest via the Fund, further aligning their interest with "Fund-only" investors.

Overall, while we highlight two potential conflicts which Par's investment structure brings about – compliance management and co-investment policies - we are encouraged by recent changes made in order to address these. Notably, the introduction of an allocation policy, revised fee structure for Syndicate membership, and the planned introduction of a dedicated Compliance Officer.

Product Quality Assessment

Investment Team

Par Equity's investment team consists of ten members, comprising the five Partners, and five additional investment specialists. We note that the Partners have varied backgrounds, many with entrepreneurial experience; this includes starting, growing and exiting successful businesses, as well as involvement with university spin-outs and commercialisation projects. The four co-founders of Par Equity have worked as a team on various managed funds as well as what is in effect a portfolio service (the Par Syndicate), focused on EIS, since Par Equity's establishment in 2008. This demonstrates a solid and stable team, which we find encouraging. However, we also highlight the fact that many of the core members of the team, specifically the Partners of the business, have other commitments on their time. These include responsibility for key operational functions (i.e. compliance & investor relations) required to run the business, the execution of other Par Equity product offerings as well non-executive board responsibilities outside the Manager.

That being said, in order to provide assistance, there is a dedicated team of five additional members, who will focus primarily on investment management. This includes three Investment Managers, an Investment Analyst and a dedicated Portfolio Manager. While many of these individuals joined within the past two years, they do provide an additional layer of depth to the team, and demonstrate the Manager's intent on putting additional resource behind its process. Aside from these recent additions, we note that Graeme McKinstry, who had been a Portfolio Manager for over three years, left Par to join Foresight.

Andrew Noble re-joined as a Partner in 2019, having previously worked with Par from 2010 to the end of 2013. Andrew has more than a decade of early stage investment experience. He is an entrepreneur in his own right having launched one business as well as a search fund, backed by ex McKinsey colleagues, Goldman Sachs and Par Equity partners, where he led deal sourcing, due diligence, and fundraising efforts.

There is a great degree of alignment between Par's investment team and its investors, with all investments, whether through an EIS Fund subscription or as a member of the Syndicate, being made on the same terms. The team has personally invested around £3.4 million of its own cash in the portfolio, or around 7.3% of Par's core early stage investment activity, which represents a unique level of alignment between the advisor and its investors, if compared to usual market levels.

Par Equity holds Key Man insurance for its executive partners, although we note that the investment team presents a low degree of key man risk, as sourcing and management are well spread out across its 10 person strong investment team. Moreover, growth in the team in recent years has helped to mitigate any over reliance on individual partners. Further, there is a good mix between more senior and junior staff, whilst the high volume of personal investment activity in its Funds shows that Par understands the importance of aligning itself to investors.

Investment Strategy & Philosophy

The Par EIS Fund ("The Fund") aims to combine the scale of a retail fund with the expertise of angel investors by delivering capital growth from a portfolio of high-growth technology businesses, with a focus on B2B propositions. Although the Fund is sector agnostic, there are areas which Par avoids, such as biotech (specifically drug discovery) and, as a matter of principle, aims to steer clear of technologies with direct relevance to lethal or potentially lethal applications in the defence/arms industry. Further, Par specialises in regional investments, with 66% of the portfolio being based in Scotland, a further 11% in Northern Ireland and the remainder in England.

The Fund will typically seek investment in early stage to growth capital or Series A investment rounds, targeting companies with a monthly turnover of between £20k and £200k. Par tends not to invest in pre-revenue opportunities and prefers companies which have demonstrable commercial traction and a compelling "product-market fit". However, while revenue generation is preferred, Par will not rule out investment into promising companies which have yet to bring their product to market.

The investment strategy focuses on three key areas:

1. **Valuation Focus:** Given its regional focus around Scotland, Northern England and Northern Ireland, Par feels that it has access to deals at far more attractive valuations than would otherwise be found in London and the South East. Further, it feels it is able to attract and retain key talent at far lower salaries than would be expected in other areas of the UK, notably London, without having to compromise on the quality of employee.

2. **Technology Focus:** Par will primarily invest into technology, noting that it believes that technology has the ability to find product market fit and scale quicker than ever before.

3. **B2B Focus:** According to Par, B2B businesses can be brought to market on a far more cost effective basis in comparison to B2C comparables, with the success of the latter largely dependent on marketing spend. Further, B2B businesses tend to be more sheltered to macro-economic headwinds, providing a lower level of risk across the portfolio.

The strategy aims to return a minimum multiple of 2-3x (not including tax reliefs) with a holding period of five to seven years although it should be borne in mind that investing in such growth companies carries a lot of risk and there are likely to be a significant number of write-offs which will partially offset any gains, Par will focus on investments into companies with pre-valuations of less than £10 million, although it expects the majority of these to be within a range of £4 million to £6 million. These companies are expected to be raising between £0.5 million and £2 million. The expected ticket size for investments is around £0.8 million, but this will be considerably less in the case of more early stage opportunities and Par will generally look at taking a minority position.

Par Equity manages the Par Syndicate (the “Syndicate”), a group of around 200 experienced angel investors, who invest alongside the Par EIS Fund and on the same terms. The arrangement essentially operates as a co-investment and deal origination platform, which, according to Par, allows the EIS Fund to source deals at better valuations than available in the wider market. Par employs an identical investment strategy for its Syndicate as it does for the EIS Fund, which ensures that there will be a stable pipeline of compatible opportunities for the Fund. It's also worth noting that around 50 members of the Syndicate (Investor Network) are also investors in the EIS Fund, so there is substantial cross over between the two groups.

Par notes that co-investment with its Syndicate brings with it a number of benefits. Most notably, that members of this Syndicate can bring a depth of specific sector expertise, otherwise not available to Par’s own investment team. Further, given its size, which we understand is in excess of 200 members, provides an extensive source of quality dealflow.

We note however, that this co-investment does give rise to a potential conflict of interest, for example where the two groups have differing investment objectives, or where the Syndicate makes follow-on investments and particularly in instances where Syndicate members bring deals in which they are already invested. Further, we note that historically Syndicate members had been charged a different level of fee than investors in the Fund. However, we understand that Par is amending its fee structure in order to incentivise Syndicate members to also invest in the Fund, and as well as alongside it. This is a welcome adjustment which should assist in managing these conflicts; however, Par will still need to manage this process carefully.

Usually Par will lead an investment round; however, where investment is at a later stage, it will let a third-party lead. In Scotland, Par is a co-investment partner of the Scottish Co-investment Fund, a fund run by the Scottish Investment Bank ("SIB"), a part of Scottish Enterprise, an economic development agency). Subject to certain conditions relating to the investee company, Par is able to access up to £1.5 million in each round. Par Equity tells us that this is the highest level of co-investment that SIB agrees to. In addition, the investment team members at Par Equity have personally invested £3.4m into Par's portfolio companies over the last 11 years. These investments have been made through the EIS Fund or through the Par Syndicate on identical terms.

Given Par's investment focus, a successful exit will most likely come in the form of a trade sale rather than an IPO. In addition to the investment team's work, Par will draft in experts in its network who can add value to the portfolio and, wherever possible, guide the company to a successful exit.

TABLE 5: EXPECTED INVESTOR PORTFOLIO CHARACTERISTICS

METRIC	TARGET
Number of investee companies	8
Target rate of deployment	12 months
Expected holding period[1]	5 – 7 years
Level of tax relief after fees	96%
Target investor portfolio return per £1 invested (net of fees, excluding tax reliefs)	£2.00 - £3.00[1]
Target minimum return on individual investee company	40% IRR
Target Stage of investee company development	Post-revenue to Series A
Proportion of follow-on investments	37.5%

Source: Par Equity; Advantage IQ

[1] Par note this is not an explicit target, but a minimum it aims to return to investors

The Service targets eight companies, spread across early and Series A investments, which should provide for a good level of diversification. However, we note that if Par undertakes to deploy an investor on an accelerated timetable, that is, a timeline quicker than its twelve-month target, the investor may have a reduced number of investments in their portfolio. As such, Par will require these investors to confirm that they are satisfied with the increased concentration risk each investor is taking on. Par will want confirmation that the investor is investing (or will invest) across other EIS Fund Managers, or is well diversified already in this asset class, such that the investor does not suffer from any portfolio concentration as a result of this specific investment through Par Equity and an accelerated basis.

The twelve month target deployment period is around market levels, however we note that, since April 2016, Par has registered a quicker actual average rate of deployment, of around ten months. The average holding period is between five to seven years, although Par points out that some investments may take longer to realise.

Overall, the investment strategy is well thought through and Par can leverage the expertise of a number of highly qualified individuals within its investment team, as well as rely on the support of its wider Syndicate members either for sourcing or investment insight. The Fund presents a generalist strategy, with a preference for investing in tech companies, and we believe that the unique selling points of Par's strategy are extracting the best possible valuation through its regional presence in Scotland, Northern England and Northern Ireland and leveraging the expertise of its Syndicate network of angel investors. However, investors must satisfy themselves that Par has put in place adequate measures in order to address the number of conflicts which co-investment can give rise to.

Pipeline/Prospects and Current Portfolio

To date, Par has made 33 individual investments from its EIS fund, having realised five of these. Further, we understand that Par expects to add at least another five new companies over the coming twelve months. Including the Par Syndicate and Par Innovation Fund activity (both of which pre-date the EIS Fund, with the Syndicate remaining very active), Par has invested in 57 companies, with 18 realisations. In addition, focusing on only EIS qualifying investments since 2012 (the launch of the EIS Fund), Par has invested in 44 new companies.

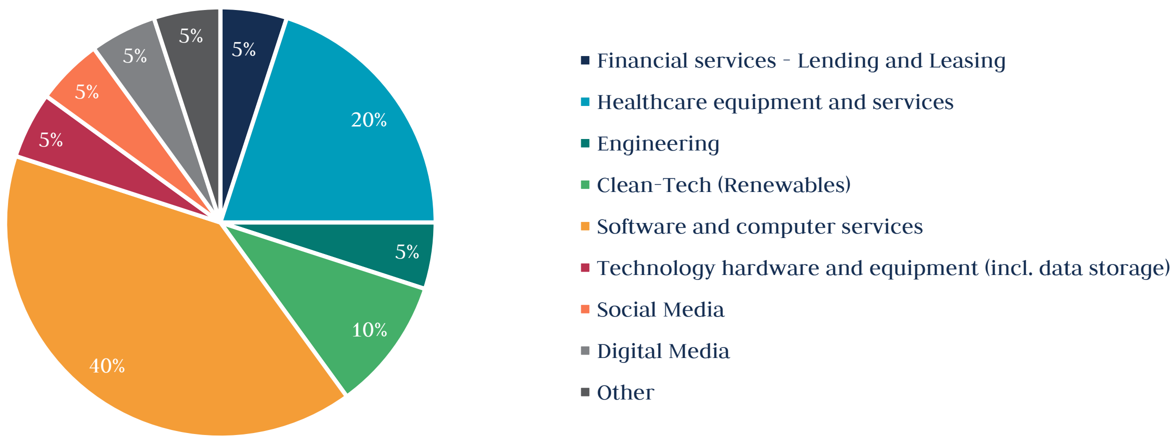
TABLE 6: PAR EIS FUND PORTFOLIO OVERVIEW

METRIC	DATA
Date of Fund launch	2012
Amount deployed	£7.5 million
Number of individual company investments	33
Current portfolio size in £M	£7.6 million
Number of companies in current portfolio	28
Number of exits above cost	2
Number of exits below cost	1
Number of write-offs	2

Source: Par Equity; Advantage IQ

As observed above, Par will place an emphasis on software/technology companies. Although this may result in a perceived lack of diversification, we acknowledge that there exist a number of verticals within this sector. Accordingly, we believe that the companies found in Par's portfolio cater to a wide range of service sectors, such as medicine, retail and biotech, therefore there is diversity across sub-sectors. The current sector breakdown can be found below.

CHART 6: PAR EIS FUND SECTOR SPLIT AS AT NOVEMBER 2019



Source: Par Equity; AdvantageIQ

TABLE 7: CURRENT PORTFOLIO AS AT DECEMBER 2019

COMPANY NAME	SECTOR	DATE OF INITIAL INVESTMENT	TOTAL INVESTMENT	CURRENT VALUE	UNREALISED VALUE	PROPORTION OF PORTFOLIO
Swipii	Technology	23/01/2019	£752,542	£599,596	0.80x	8.20%
Plotbox	Technology	05/04/2019	£557,714	£557,714	1.00x	7.60%
Censo	Health tech	28/09/2018	£660,635	£465,308	0.70x	6.40%
Mallzee	Technology	29/04/2014	£142,138	£408,381	2.87x	5.60%
UnikLasers	Technology	16/08/2017	£351,693	£410,508	1.17x	5.60%
Novosound	Industrial Tech	04/04/2018	£256,430	£382,066	1.49x	5.20%
BrainWaveBank	Med Tech	02/08/2019	£363,917	£363,917	1.00x	5.00%
Symphonic Trust	Technology	17/01/2014	£127,264	£359,973	2.83x	4.90%
Snap40	Med Tech	26/04/2017	£265,620	£358,904	1.35x	4.90%
Datactics	Technology	05/04/2019	£355,126	£355,126	1.00x	4.90%
Greengage	Agri Tech	20/12/2018	£286,677	£286,677	1.00x	3.90%
MarktoMarket	Fin Tech	08/07/2019	£266,913	£266,913	1.00x	3.70%
Sunamp	Clean Tech	31/03/2015	£104,207	£263,965	2.53x	3.60%
Kibosh	Industrial Tech	13/09/2019	£245,331	£245,331	1.00x	3.40%
Adaptix	Med Tech	02/08/2017	£267,260	£238,646	0.89x	3.30%
Speech Graphics	Technology	02/08/2018	£234,254	£234,254	1.00x	3.20%
Red61	Technology	07/08/2015	£171,869	£216,493	1.26x	3.00%
NPT	Clean Tech	01/08/2017	£263,578	£190,761	0.72x	2.60%
Cloudfind	Technology	22/05/2019	£193,505	£193,505	1.00x	2.60%
Optoscribe	Technology	22/04/2016	£84,944	£147,728	1.74x	2.00%
Manus	Med Tech	26/10/2018	£146,387	£146,387	1.00x	2.00%
Pufferfish	Technology	31/03/2015	£69,643	£139,286	2.00x	1.90%
Particle Analytics	Technology	31/03/2017	£327,063	£131,430	0.40x	1.80%
Vert Rotors	Industrial Tech	25/04/2016	£93,790	£112,743	1.20x	1.50%

GSI	Technology	07/02/2013	£64,940	£88,976	1.37x	1.20%
My1Login	Technology	29/05/2014	£88,950	£85,096	0.96x	1.20%
QikServe	Technology	29/07/2014	£176,466	£61,530	0.35x	0.80%
Total			**£7,000,457**	**£7,311,216**	1.04x	**100%**

Source: Par Equity; AdvantageIQ

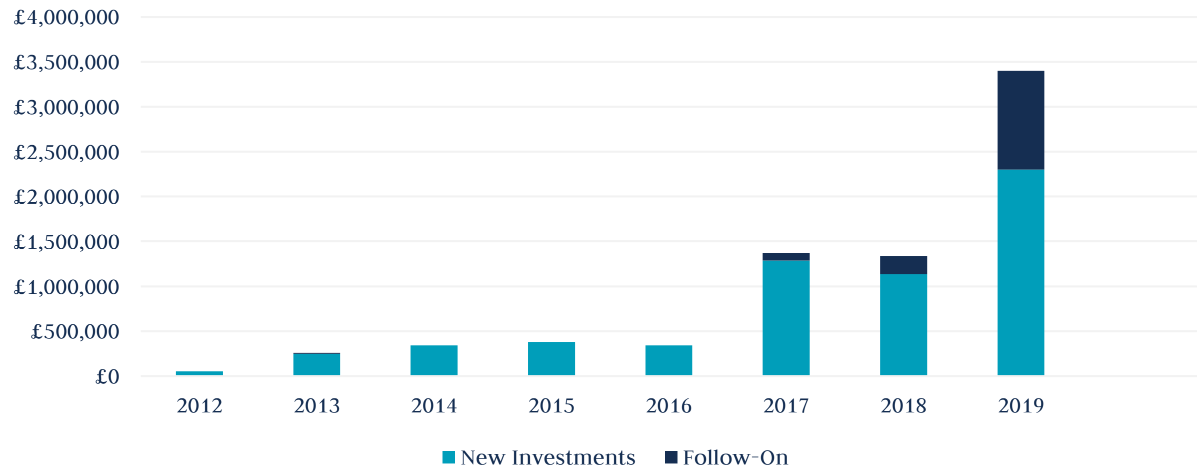
The table above represents the current EIS portfolio, of these seven have been impaired. However, these have been offset by an unrealised uplift in valuation for 12 other companies, resulting in an overall unrealised return of 1.04x. Many of these companies have been held for less than 12 months, with an average holding period (as at February 2020) of approximately 20 months. We note that two companies, Mallzee and Sunamp have both past the minimum three-year holding periods, and are therefore potential candidates for exit in coming years.

Par places a focus on investments into companies operating in a B2B context. This, according to Par is due to the fact that these types of businesses tend to require less investment in order to breakeven; however, it also means that it will be less exposed to typical risks associated with changes in consumer sentiment. By focusing solely on investments with provable revenues, Par are excluding companies which may demonstrate a higher risk of failing, although this also means that returns will be comparatively lower.

Par benefits from a network which it believes is a source of proprietary deal flow. The Par Investor Network has over 200 members at regional level, many of them being experts in their respective fields, which allows the Manager to see a flow of opportunities with a limited degree of competition from other managers. Further, given its regional bias with a focus on deal origination across Scotland, Northern England and Northern Ireland, Par notes that it is able to source deal flow at far more attractive valuations than would otherwise be available in London and the South East.

Par points out that the average rate of deployment across all EIS investors has been around 10 months from subscription. The chart below outlines the Fund's deployment track record since it launched in 2012. We note that the level of deployment between 2012 and 2016 was subdued, and averaged just over £275,000 per annum. However, levels significantly increased from 2017 onward, with Par managing to deploy over £1.3 million in each of 2017 and 2018, and this level once again more than doubled to £2.8 million through 2019. Overall, the Fund has deployed just over £7.5 million (AUM of £10.5m), and therefore well below levels seen across its Syndicate network, where current AUM is in excess of £29 million. The discrepancy in deployment levels between these two groups highlights the historical focus placed on the Syndicate.

CHART 7: DEPLOYMENT BY CALENDAR YEAR FOR PAR EIS FUND



Source: Par Equity; AdvantageIQ

Note: this is the deployment schedule solely for the EIS Fund. It does not include investments made from the Par Syndicate.

An examination of the graph above illustrates that the EIS Fund has historically favoured deployment into new companies, with the first follow-on investments only being completed in 2017. However, the level of follow-on funding has increased subsequent to that; and, as the current portfolio continues to grow and mature, it will likely form a natural pipeline of potential investments.

Par has provided information on the current pipeline of investments, which it expects to complete with a high degree of certainty over the next six to 12 months. Of these eight companies, seven will be follow-on investments into existing portfolio companies, with one new investment. All companies have a technology focus, in line with Par's investment strategy; however, as would be expected these are spread across a number of different verticals. These deals amount to a potential investment of £11 million, and this pipeline takes into consideration investments made from the Syndicate, SIB, as well as the EIS Fund and some third party money. Par notes that the companies listed below is not exhaustive and includes only deals which have a high certainty of completion. Outside of this, there exists a watchlist consisting of an additional 13 potential opportunities looking to raise a total of £20.3 million, and Par are keen to highlight the fact that only 0.7% of its broader deal flow eventually receive investment.

TABLE 8: CURRENT PIPELINE OF INVESTMENT

COMPANY	SECTOR	CAPACITY	EXPECTED COMPLETION DATE	TYPE OF INVESTMENT
East Coast Oil & Gas	Technology hardware	£2,000,000	March 2020	New (Awaiting Advanced Assurance)
Manus Neurodynamica	Health Technology	£1,500,000	April 2020	Follow-on
Optoscribe	Technology	£2,200,000	March 2020	Follow-on
Speech Graphics	Technology	£240,000	Q2 2020	Follow-on
Censo	Technology	£400,000	Q2 2020	Follow-on
Plotbox	Technology	£2,000,000	Q2 2020	Follow-on
Datactics	Technology	£1,000,000	Q2 2020	Follow-on
Cloudfind	Technology	£750,000	Q2 2020	Follow-on
Total		**£11,090,000**		

Source: Par Equity; AdvantageIQ

Overall, the Fund's portfolio is relatively small for a service that has been in operation for seven years, and dwarfed by the level of funds deployed through the Syndicate. However, we acknowledge the recent ramp up in deployment in recent years and acknowledge that Par expects this to increase going forward; although this will require more focus on its EIS offering and outside of the Syndicate if it is to grow the size of the Fund to compete with larger Funds on offer.

Investment Process

The Manager has described its investment process as follows in AdvantageIQ:

TABLE 9: INVESTMENT PROCESS

<table>
<tr><th>INVESTMENT PROCESS</th><th>DETAILS</th></tr>
<tr><td>Deal sourcing/ origination</td><td>Par sees a large number of unsolicited deals, through the usual channels in this respect (its website, introductions from lawyers, accountants et al). A number of early stage angel investment houses and VC funds will also bring co-investment opportunities to Par as they like to benefit from Par's hands-on approach and network.

However, Par Equity receives its highest quality deal flow from within its strong investor network, which has a regional bias in Scotland, Northern England and Northern Ireland. As a number of the investors in Par's network are successful entrepreneurs in their own right, they are often approached by up and coming entrepreneurs. If a Par investor likes the look of something and wants to invest in it (in principle), the opportunity is often steered in Par's direction. This underpins Par's deal flow, as the investor base knows the type of opportunities that Par typically likes to see, and therefore, on the most part, this element of our deal flow is proprietary, pre-screened and high quality.

Overall, Par sees around 600 new opportunities in any given year but less than 1% of those applicants successfully secure funding.</td></tr>
<tr><td>Deal filtering and selection</td><td>Opportunities have to pass through a variety of gates, including: basic triage, where the size, stage and sector are considered (along with EIS-qualifying status). Following which, an investment opportunity will typically flow through the following process:

• initial review, where at least one member of our investor network will assess the commercial merits of the opportunity and occasionally its technological feasibility. Par tends to pass up on opportunities that the investment team either do not readily understand or where we are not able to add value;
• initial assessment of the team, this will include a management presentation to the Par investment team and several relevant syndicate members, as well as Par spending more time reviewing the plan and business model;
• commercial and management team diligence;
• IP and legal diligence and transaction documentation; and then,
• completion.</td></tr>
<tr><td>Due diligence process</td><td>Par's diligence process focuses initially on the commercial model, the market opportunity, the viability of the product/service and the quality of the management team. Par also considers likely exit routes for the prospective investee company. Par does not use 3rd parties for commercial or management diligence. Instead, and for no additional charge, Par leans on the experience of its investor network, members of which should have expertise in this space. If Par has no-one in its network that can help appraise an opportunity or add value, then it will not proceed with the opportunity. What distinguishes Par from other Fund Managers is that those Syndicate members undertaking some of the diligence (for</td></tr>
</table>

	free) must then be investors in that round (on the same terms as the EIS Fund), ensuring Par is getting high quality, well-considered advice. If these commercial and HR elements of the business stack up, the emphasis shifts to more technical areas, such as deal structuring, IPR and general legal. Although the Par investment team will typically drive the transaction through this process, using legal advisers, some individuals in the Investor Network (those with a corporate finance, investment, accounting, IP or a legal background) do take an interest in the some of the finer transaction points and often feed this advice back into Par.
Deal approval	The Par investment committee is made up of the 5 Par Partners, who will sign off every transaction on a unanimous basis. The investment committee meetings are every Wednesday, which the broader investment team will also attend and provide input. The committee and the investment team will discuss new opportunities, review existing opportunities that are in flight and discuss the merits / approval of new investments or follow-on investments in the portfolio. Notably, the committee and the investment team will consider the feedback from relevant members of the Par Syndicate who are supporting the due diligence process. For an investment to secure funding or follow-on funding from the Par EIS Fund, the investment team must complete a detailed investment committee paper with supporting diligence documents and analytical work on the prospective investee company's business model and financial statements and forecasts. Only once all 5 Partners are satisfied with the due diligence will they sign off the investment.

Source: Par Equity; AdvantageIQ

Par typically looks at around 600 new opportunities in any given year, with less than 1% these receiving funding. Notably in 2019, 33% of new applications received were referred through Par's network the majority of which is proprietary deal flow. An advantage presented by its investment process is that proposals which arrive through this route have essentially been vetted by other investors familiar with Par's investment criteria, accelerating the due diligence process. Once the proposal is with Par, what follows is an initial review where the investment team, assisted by members of the Syndicate, will assess the merits of the opportunity. An initial assessment of the team is conducted where both Par's investment team and the relevant Syndicate members will be present. Should the proposal pass these reviews, the Par investment committee, made up of the five Par Partners, will sign off each transaction on a unanimous basis. The sign off process is the same if the proposal in question is for follow on funding, although the initial steps are followed through on an accelerated basis, since the team is familiar with the target company at this point.

Par does not use 3rd parties for commercial or management diligence. Instead, and for no additional fee, Par leans on the experience of its Syndicate, the members of which all have expertise in this space. If Par has no-one in its network that can help appraise an opportunity or add value, then it will not proceed with the opportunity. The Manager believes that a key distinguishing factor for Par is that those Syndicate members undertaking some of the diligence must then be investors in that round (on the same terms as the EIS Fund), ensuring Par is getting high quality, well-considered advice. We note members of the Syndicate receive no remuneration from Par, and only incentivised through their involvement in each deal. Nonetheless, Syndicate involvement means that the EIS Fund is not limited by the deal flow and expertise of the investment team and, although it is always possible to supplement that expertise by buying in consultants, Par's model involves using the expertise and contacts of people in its network who are investing on the same terms.

We have seen an excerpt of Par's investment committee papers which present examples of the type of investment criteria that Par would be assessing when deciding whether a proposal is appropriate for investment. Although the summary presents a fairly high level overview of the investment process, we can discern that Par is examining target companies against factors such as addressable market, capital structure and traction.

Par manages a number of investor interests in portfolio companies, notably Par EIS Service and the Par Investor Network, and when a company requires more than a single funding round, this may create a conflict of interest between the two cohorts around pricing. This is currently managed by having policies in place which require the Investor Network to invest on the same terms as the EIS Fund. We note that Par invests at an early stage, so virtually every company Par has ever invested in has required further funding, often in material amounts. Par believes that its model has the potential to work to the benefit of EIS Fund investors, as the EIS Fund generally invests in the earlier rounds Par is involved in. Further, because the Fund is co-investing with Par's Investor Network and pledged capital from SIB, Par may be in a better position to manage further funding rounds (often leading them), thereby reducing the risk of punitive down-rounds for earlier investors (notably the EIS Fund). However, we note that the Fund is not protected from down-rounds, which understandably, does happen.

Risk Management

Similarly, to other EIS funds, the primary source of risk management hinges on the depth of initial due diligence and deal analysis at the time of the original investment (as well as for follow-on investments) and the level of diversification in the portfolio.

Investors are expected to be allocated across eight investee companies, and Par will seek to ensure that individual allocations do not exceed than 25% of an investor's subscription into a single company. Further, we understand that where possible, Par will split investors across companies operating at varying stages of development; although this is less formalised.

Par's standard investment requirements where it is the lead investor, which represents a majority of cases, is to have both board appointment rights and observer rights. Usually, the board appointee is a member of Syndicate, but sometimes it will be a member of the core Par investment team. Of the 33 companies invested into, 70% have appointed a member of the syndicate onto their boards. Where Par shares appointment rights with a co-investor, the appointee is determined by mutual agreement. The board observer will be a member of the core Par investment team, with an alternate in reserve.

The Par board appointee provides a governance and early warning role, as well as being able to add value through their own expertise and list of contacts. The appointee is responsible for ensuring that the company and the board are managed properly and that the executive team is subjected to constructive scrutiny, whilst, if appropriate, challenged on strategic, operational and financial matters. Par will also look to the board appointee to report back to Par when anything material is identified that may require outside help. In addition to potential M&A interest, this could include a range of areas where other members of the investor network could contribute. Par's investor network is willing and able to engage with portfolio companies, bringing to bear relevant skills, contacts and experience to help portfolio companies overcome the inevitable challenges that small companies face.

Par requires information rights, the key element of which is board packs (including management accounts). Specific KPIs vary from company to company, although there are of course KPIs that are common to all, such as cash burn and the usual headline P&L items. Where companies are in product development mode, which in most cases they will be (because even if something works, it can always be improved), progress here is a key area of focus.

As has been alluded to, we do note that the relationship between Par and its Syndicate may give rise to some conflicts of interest with regards to co-investments made by the Syndicate alongside the EIS fund. Although both would invest on the same deal terms, it is encouraging to note that Par is looking to introduce a new pricing structure to further improve the alignment between the two groups.

Investments are held at cost initially, but valuations are reviewed on a quarterly basis and reported on a six-monthly basis. Par undertakes a re-evaluation of the company based primarily on corporate actions, such as new equity issued or M&A activity, but may revalue downwards if it believes that there has been a material adverse change in the prospects of a company. However, we do note that all valuations are undertaken internally, which may create a conflict of interest.

Currently Par follows a corporate governance code, which is currently in draft and may be subject to changes. The code deals with compliance and operational matters, followed by an outline of the responsibilities and authorisation levels within Par Equity.

Client money is held by The Share Centre and Kin as Par's custodian providers. While there will be (briefly) a credit risk arising in respect of cash held in these client accounts pending completion of a transaction or the remittance of any proceeds, this risk is immaterial in the context of the broader investment risk once a transaction has actually completed.

Par will require EIS Advance Assurance as part of its initial screening process. The table below outlines the time taken between the issuance of shares and forms EIS3. Since inception investors have received forms EIS3 in average of approximately five months; with almost 70% having received these documents within six months. We note three investments which have yet to receive these forms were all invested in through 2019.

TABLE 10: TIME TAKEN BETWEEN ISSUANCE OF SHARES AND FORMS EIS3

	PERCENTAGE RETURNED	NUMBER RETURNED
Total EIS3s returned		41
Less than 3 months	20%	8
3 - 6 months	49%	20
6 - 12 months	29%	12
More than 12 months	2%	1
Total EIS3s not yet received		3

Source: Par Equity; AdvantageIQ

Key Features

Par charges investors an initial fee of 1% and an AMC of 0.75%, both inclusive of VAT. Par will retain the initial fee and four years' worth of AMC up front, meaning that 96% of an advised investors subscription will be put towards EIS qualifying opportunities. After the initial four year periods, the AMC will be taken from exit proceeds, charged against the initial subscription.

Par reserves the right to charge an arrangement fee to investee companies on completion of an investment, or in relation to the ongoing monitoring of these companies. This fee will be capped at 5%, and we understand that Par will not be able to charge this fee in every instance. It will also charge investee companies a monitoring fee of up to 1.25%, which will be charged against funds committed by the EIS Fund investor. In addition to this, Par has the option to charge an exit fee of up to one year's monitoring fee on the company (i.e., up to 1.25%), which is only raised if Par believes it has conducted an exit management service for investors above and beyond the ordinary course of practice (which Par describe as ensuring the best outcome for investors). We understand that, of the five realisations Par has made through the EIS Fund to date, Par has never charged an exit fee, but the Manager points out that there is likely scope to do so in the future.

We note that all fees raised to investors are inclusive of VAT. Par Equity see this as an important consideration as retail investors have no way of offsetting any chargeable VAT. Further, we note that all charges relating to the custodian account are borne by the manager, which is welcomed.

The performance fee level sits below market average, that is 20% (inclusive of VAT). It is also encouraging to see that the manager is employing a 1.2x hurdle on the subscription amount.

TABLE 11: FEES PAID BY INVESTOR AND INVESTEE COMPANY

FEE (including VAT)	CHARGED TO:	
	INVESTOR	INVESTEE COMPANY
Initial Fee	1%	-
Custodian Fee	-	-
Arrangement Fee	-	5%[2]
Annual Management Fee[1]	0.75% on subscription amount[1]	-
Monitoring Fee	-	1.25%
Dealing Fee	-	-
Director's or other Company Fees	-	-
Exit Performance Fee	20%	+ 1.25%[3]
Exit Performance Hurdle	120%	-
Available discounts	Loyalty discount of 1% available for direct investors (see direct application fees below)	
Other Fees (please explain)	-	
Adviser/Intermediary charges	-	
Execution Only Fees	-	
Direct Application Fees	3% (incl VAT) initial fee	

Source: Par Equity; AdvantageIQ

[1] Four years of AMC will be taken upfront

[2] Par reserves the right to charge up to 5% on the initial fee, although will not do this in every instance

[3] Par has the option to charge an exit fee of up to 1 year's monitoring fee on the company (i.e., up to 1.25%), which is only raised if Par believes it has conducted an exit management service for investors above and beyond the ordinary course of practice.

Performance

Par has had 18 exits to date, turning 3.3x money and an IRR of 27%.

Specific to the Par EIS Fund, however, there have been five exits to date, two of which were successful trade sales and the third was a third-party investor who bought out Par's holding in the company. The other two exits were write offs. Across the 5 exits for the EIS Fund, Par has returned 2.0x money to investors and an IRR of 15%. Of the two successful exits PathXL was sold in 2016, representing a return to EIS Fund investors of 2.8x and DeltaDNA was sold in 2019, representing a return to EIS Fund investors of 7.9x.

It's worth noting that Par has had a further six exits returning cash to investors, but these investments were made through the Par Syndicate when the Par EIS Fund had not launched, or was in its infancy. Of these six exits, five were trade sales and one was a share buy-back. In total, Par has made nine exits returning cash to investors.

TABLE 12: SUMMARY OF ALL EXITS

INVESTEE COMPANY	VEHICLE	DATE OF INITIAL INVESTMENT	DATE OF FULL EXIT	TOTAL AMOUNT INVESTED	TOTAL AMOUNT REALISED	EXIT MUTIPLES
Ciqual	Par Syndicate, Par Innovation Fund, SIB	Mar 2009	Mar 2019	£3,862,965	£0	0.0
Shaw Water	Par Syndicate, SIB	Apr 2009	Jun 2010	£539,997	£0	0.0
Simple Audio	Par Syndicate, SIB	Jul 2010	Jan 2013	£1,753,420	£3,032,586	1.7
Star Net	Par Innovation Fund, SIB	Feb 2011	Jun 2013	£575,000	£1,262,644	2.2
Aircraft Medical	Par Syndicate, SIB	Apr 2011	Oct 2015	£1,298,002	£5,507,696	4.2
Larosco	Par Syndicate, Par Innovation Fund, SIB	Sep 2011	Sep 2014	£1,304,614	£0	0.0
SaveMe4Later	Par Innovation Fund	Dec 2011	Jul 2012	£280,690	£0	0.0
Dukosi	Par Syndicate, SIB	Apr 2012	Sep 2019	£1,253,895	£4,228,555	3.4
Groove Bulb	Par Innovation Fund	Aug 2012	Apr 2013	£8,112	£0	0.0
Beyond Movie	Par Syndicate	Aug 2012	Oct 2017	£36,930	£10,598	0.3
ICS	Par Syndicate	Nov 2012	May 2018	£345,928	£27,096,147	78.3
PathXL	Par EIS Fund, Par Syndicate, Par Innovation Fund,	Nov 2012	May 2016	£1,117,099	£2,875,984	2.6
DeltaDNA	Par EIS Fund, Par Syndicate, SIB	Jul 2013	Sep 2019	£2,509,062	£12,468,301	5.0
RefurbThat	Par EIS Fund, Par Syndicate	Oct 2013	May 2018	£414,450	£0	0.0
Senient	Par EIS Fund, Par Syndicate, SIB	Jul 2014	Jun 2019	£1,097,799	£0	0.0
Agency Core	Par Syndicate, SIB	Feb 2015	Jan 2019	£272,750	£0	0.0

Wearality	Par Syndicate	Nov 2015	Feb 2018	£376,759	£0	0.0
Elixir	Par EIS Fund, Par Syndicate	Sep 2016	Aug 2019	£308,615	£3,077	0.0
Total				**£17,356,085**	**£56,485,588**	**5.4 (Average)**

Source: Par Equity; AdvantageIQ

Par has marked up its EIS Fund holdings in GSI (+20%), Symphonic Trust (+55%), UnikLasers (+23%) and Red 61 (+57%) over the past 12 months, in each case due to share issuance at a higher price.

The portfolio has also suffered a series of mark-downs. Its EIS Fund holdings in QikServe (-72%), Adaptix (-11%) and Censo (-69%) have been marked down over the past 12 months, in each case due to share issuance at a lower price. The Par EIS Fund has sold one company at below cost in the last 12 months, Elixir, which returned around 0.01x money invested. The Par EIS Fund has also written down Bondmason to £0. The company is not yet in administration, but is winding up is debtor book and paying down the platform's investor base. The Par EIS Fund has written off one company in the last 12 months, Senient.

Finally, the Manager would like to point out that it has realised 150% of subscriptions to their first two tax year cohorts (2011/12 and 2012/2013), with investors holding a further 150% of unrealised value.

Appendix 1: Key Personnel

Key Investment Professionals

NAME	JOB TITLE	DATE STARTED	BIOGRAPHY
Paul Atkinson	Partner	Mar-08	Paul is an entrepreneur and serial angel investor. He has a substantial track record building value for companies in the technology and services sector and taking them to a successful exit. He has a BSc in Physics from Manchester University. Prior to co-founding Par Equity, Paul has started three previous businesses: Head Resourcing, which was founded in 2001 (2017 turnover - £65 million); Direct Resources, which was acquired by NASDAQ listed iGate Corporation in 1999; and RecruitmentScotland.com, which was acquired by another NASDAQ listed business, TMP Worldwide, in 2000. As a business angel, he has also invested in a number of other fast-growing technology companies, including Rocela Group, which was recently acquired by Version 1 of Ireland, and Mobiqa, which was acquired by NYSE listed NCR Corporation. Paul stepped down from his executive role with Head Resourcing in 2008 to establish Par Equity LLP but remains a major shareholder in the business and is also non-executive Chairman. Paul also serves on various boards and industry bodies. Paul has responsibility for investor relations and business development.
Andrew Castell	Partner	Mar-08	Andrew is a Chartered Accountant with extensive corporate finance and corporate restructuring experience, particularly across the insurance sector. Andrew has an MA in Jurisprudence from Oxford University. Andrew began his career in the audit practice and then management consultancy practice of Touche Ross (now Deloitte). He then spent a number of years working in investment banking, gaining broad-based experience in transactional corporate finance advisory work. Andrew was Group Finance Director of GoshawK Insurance Holdings PLC and subsequently CBS Insurance Holdings PLC. In both cases he was heavily engaged in restructuring work to address the consequences of significant underwriting losses, undertaking a variety of transactions as part of these processes. At CBS, Andrew was one of the principal architects of Insurance Capital Partners LP, an innovative and successful fund product providing direct exposure to property & casualty insurance underwriting returns. Andrew serves on various boards and industry bodies. Andrew is responsible for investment execution, as well as for Par's regulatory compliance and finance functions.
Robert Higginson	Partner	Mar-08	Robert is well-versed in the software and technology industry, having held a number of senior strategy positions within blue-chip organisations, based in various European countries and the US. Latterly he has operated as an investor on his own account. Robert's first technology role, in 1980, was as a programmer and, subsequently, Development Manager based in the US, at the start-up known today as Artemis International. Robert entered the Financial Services industry in 1986 as manager for real-time systems at Reuters. He subsequently joined Telekurs AG (now part of Swiss Financial Market Services AG,

			owned by the Swiss banking and asset management industry) in Switzerland to head up advanced systems, before moving into a strategy role at ABN Amro's Investment Bank in Amsterdam and finally Royal Bank of Scotland. Since 2002 Robert has based himself primarily in London and Edinburgh, working with universities on technology transfer, start-up and early stage businesses, leveraging his international network to provide consultancy advice in the technology sector. Robert is Par's internal technologist and gatekeeper.
Paul Munn	Managing Partner	Jul-08	Paul is a Chartered Management Accountant and has experience of corporate management, turnarounds, business development and active share holder engagement. He has a Bachelor of Laws degree from the University of Glasgow. Paul has over 20 years' corporate experience across several sectors, principally consumer goods, manufacturing and healthcare, with companies such as Mars Confectionery, BUPA and Price Waterhouse. He has worked in and has extensive experience of the US and the Far East as well as Europe. In addition to his management experience, Paul has acted as both principal and adviser in a number of corporate finance transactions. Paul joined Dawson International plc, an international textile business, in 1996, where he was appointed Group Finance Director before being appointed Chief Executive in 2000. Paul was a non-executive director of European Home Retail plc between 2002 and 2007. From 2005 until joining Par in 2008, Paul worked for Hermes Fund Managers Limited and was responsible for the successful commercial development of Hermes' corporate governance and active shareholder engagement services. Paul is Managing Partner and is also responsible for portfolio management.
Andrew Noble	Partner	Oct-10	Andrew is an entrepreneur and serial angel investor in technology companies with a broad range of experience across his years in venture capital, private equity and management consulting. Andrew is a former athlete, having competed for TeamGB in Alpine Skiing at the 2010 Winter Olympics and holds an MBA from INSEAD Business School. Andrew gave up a place to read Economics at Bristol University in 2002 to pursue a career spanning 8 years as a professional ski racer. Towards the end of his sporting career, Andrew's attention turned to business and in 2008 he started investing in early stage technology companies and commercial property, particularly outdoor advertising. Andrew traded the ski slopes for a role at Par Equity in 2010, where he worked for several years before leaving to do an MBA at INSEAD. Andrew then joined McKinsey & Co as a management consultant specialising in Sales Optimisation for FTSE 100 clients, before founding, Transition Capital - a search fund focused on Scotland, where he was managing director, leading the deal sourcing, due diligence, and fundraising efforts. Andrew re-joined Par Equity in July 2019, having built a personal investment portfolio of more than 30 technology companies and an impressive track record in the space, equating to 4.1x money and a 38% IRR across 10 realisations. Andrew is responsible for portfolio management and business development.
Aidan MacMillan	Investment Manager	Dec-18	Aidan has a background in corporate finance having worked in transaction services in London and Edinburgh. He holds an Economics & Finance degree from the University of Strathclyde, Glasgow and is a member of the Institute of Chartered Accountants England and Wales. Aidan passed CFA Level 1 exam. Prior to joining Par, Aidan worked with

			Deloitte in their Transaction Services team in London and Edinburgh, gaining a wide range of buy-side and sell-side due diligence experience advising both corporate and private equity clients. Focusing on the industrials and technology sectors, Aidan worked on 15 transactions during his time with Deloitte, including a £10bn cross-border private equity deal in Amsterdam, where Aidan worked for six months. During university, Aidan completed many internships across private equity, investment banking and accounting.
Alastair Orr Ewing	Portfolio Manager	Jun-18	Alastair's experience is in operational strategy and strategic relationship management. He has a degree in Land Management from Newcastle University and completed the Saltire Fellowship in entrepreneurship at Babson College, Boston US. Alastair's began his career serving 10 years as a Commissioned Officer in the British Army, Scots Guards, eventually serving as Captain. During his time in the military, he trained in leadership, operational strategy, communications and personnel training & development. Alastair served one tour in Iraq, two in Afghanistan, one in the Falkland Islands as well as a number of other deployments around the world. Following which, Alastair joined KPMG, London for 3 years as a strategic relationship manager for KPMG's top global Private Equity firms.
Tom Croy	Investment Manager	Dec-19	Tom has a background a corporate lawyer having worked on buyout transactions and early stage investments for the PE and VC community respectively. He holds a First Class honours degree in Law from the University of Aberdeen and is a member of the Law Society of Scotland, as well as holding a certificate in Corporate Finance. Prior to joining Par, Tom trained as a lawyer with Anderson Strathern, before moving to Addleshaw Goddard, working for clients such as an Accel-KKR investee company on the bolt-on acquisition of a software development and design agency, or Cairngorm Capital on the acquisition of the entire issued share capital of Thornbridge Sawmills Limited and three subsequent bolt-on acquisitions to create a group with a total EV of c.£200m. Tom has also worked on several investment deals for Par Equity.
Alastair Moore	Investment Manager	Feb-20	Alastair joins Par Equity from KPMG's Mergers & Acquisitions team in Edinburgh where he worked with a mix of Private Equity clients and owner managed businesses across Scotland and the North of England. He also led KPMG's Corporate Finance efforts in the Scottish start-up and scale-up community. Prior to KPMG, Alastair's career was in Corporate Banking with NatWest, where he managed the banking relationship for a portfolio of clients across Leeds and Manchester. Alastair holds an MBA from Alliance Manchester Business School, during which he delivered consulting projects for NorthEdge Capital on Investment Origination, and WL Gore & Associates and Janssen on Strategy.
Claire Cramm	Investment Researcher & Analyst Intern	Aug-19	Claire's experience is in finance in marketing, having completed previous internships across areas including marketing analytics, business development and investor relations. She recently graduated from Northeastern University, Boston with a B.S. degree in International Business.

Source: Par Equity; AdvantageIQ

Senior Management Team

PAUL MUNN – MANAGING PARTNER

As above

PAUL ATKINSON - PARTNER

As above

ANDREW CASTELL - PARTNER

As above

ROBERT HIGGINSON - PARTNER

As above

ANDREW NOBLE – PARTNER

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