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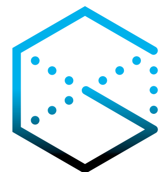

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Former Tory party treasurer Lord Fink backs Project Etopia

Former Conservative Party Treasurer Lord Stanley Fink has backed the next generation of UK housing with a £3 million investment in turn-key homes pioneer, Project Etopia.

Project Etopia claims to be the only turn-key homes specialist in Britain to create turn-key properties that combine passive design, affordability, renewable energy generation, intelligent heating and cooling systems and smart home technology.

The cash injection from Lord Fink — currently Chairman of investment manager ISAM Europe — will help the company scale up its operations and market share over the next two years. It comes as councils increasingly turn to turn-key building to rapidly boost stock levels of quality homes at drastically lower cost than traditional bricks and mortar.

Project Etopia's houses all incorporate smart technology, mechanical ventilation, heat recovery, air purification, daylight mimicry lighting, and solar power as standard.

Lord Fink said: "My affection for UK property investments is no secret and, given the current state of the housing crisis, I see a brighter future for first-time buyers if they are able to buy high-quality turn-key houses that offer technology that is relatively rare even in modern new-build developments.

"Project Etopia is a novel, credible, affordable and environmentally friendly way to provide starter homes for young people. Short build times, truly desirable houses and a broken housing market are three good reasons why Project Etopia has a colossal opportunity to deliver a lasting social impact.

"Generations of Britons are frankly desperate to get onto the housing ladder and I'm convinced these types of developments are going to play a central role in making that dream a reality for millions."

Joseph Daniels, Chief Executive of Project Etopia, added: "I feel so passionately about this business because so many young people are being forced to accept that it's unlikely they will ever own their own home.

"Traditionally, affordable housing has gone hand-in-hand with low quality housing. We are going to be burying that preconception with homes that are truly 'des res' for aspiring professionals and families.

"We're going to lead the way in providing state-of-the-art housing for a reasonable price tag, while continuing to develop our technology to make each project superior by design and with ever shorter build times."

Seneca plays the tunes

Seneca Investment Managers has backed the Hipgnosis Songs Fund, a royalty-based investment fund, across its portfolio of funds.

Gary Moglione, Fund Manager at Seneca Investment Managers, said GBI Magazine: "The Hipgnosis Songs Fund has raised £200 million to buy catalogues of songwriter royalties. Songwriters receive a share of royalties from a variety of different sources, including when their music is used in TV adverts, films, and videogames or digitally streamed, and essentially the fund seeks to acquire this copyright interest.

"The catalogue is managed by Merck Mercuriadis, an industry veteran of 34 years who has managed artists such as Elton John, Guns N' Roses and Iron Maiden and is supported by an experienced advisory board.

"The fund's objective is to pay investors a 5% yield whilst targeting a total net asset value annual return of 10% over the medium term (net of fees).

"Although music industry earnings had been in decline over the last 15 years, we believe that an inflection point has been reached and we are potentially entering an era of growth. Life is becoming more difficult for piracy sites and the rise of Spotify has resulted in streaming revenue growth averaging over 40% per annum between 2013 and 2017.

"Given valuation levels in fixed income markets, we are spending more time analysing other instruments that will give us access to "bond like" income streams and Hipgnosis Songs Fund fits this mould. Our scenario analysis shows the 5% yield target is highly achievable and there is a lot of potential upside. This gives the fund a good risk/reward profile. It also has the added benefit of diversification from many other investments in our portfolio."

Seedrs forms partnership with US equity crowdfunding platform Republic

Seedrs, Europe's leading equity crowdfunding platform, has formed a partnership with US platform Republic.

Seedrs told *GBI Magazine* that the collaboration will offer UK-based businesses the opportunity to run joint crowdfunding campaigns on Republic and Seedrs simultaneously, allowing start-ups to capitalise on large customer bases in the United States.

Republic, the sister company to US platform AngelList, has been in operation for two years, funding more than 50 American start-ups.

New York-based Republic champions start-ups across America, aiming to democratise investment and funding for companies everywhere. Seedrs operates a pan-European platform with its headquarters in London and entrepreneur hubs in Berlin, Amsterdam and Lisbon.

Caroline Hofmann, Chief Operating Officer at Republic, said: "We've enjoyed getting to know Seedrs over the past months and are confident that this relationship will be beneficial to start-ups with a global reach. Our American investors will now have the opportunity to invest in companies in the UK and Europe. The partnership offers great opportunities for investors on both sides of the Atlantic."

Ben Aronsten, Chief Marketing Officer at Seedrs, added: "This partnership is an exciting move for Seedrs. We're thrilled to be able to give British and European companies the opportunity to tap into their U.S. customers and communities with a co-raise option. The partnership was a natural fit as Republic is aligned with Seedrs' best practice views on how to do equity crowdfunding properly, and we share in our pursuit of democratising both fundraising and investment. We're thrilled to be working with them."

UK CIOs want tech skills crisis solved

UK Chief Investment Officers (CIOs) want the country's tech skills crisis solved and they are calling on government, businesses and universities to help.

Research from recruitment specialist Robert Half Technology UK shows that 31% of UK CIOs feel that actively promoting IT as an attractive career path to millennials and generation zeros is crucial to address the skills gap.

Another 20% believe that an equal mix of measures – including more investment in training, closer collaboration with educators and additional government initiatives – is the best approach to solve the crisis.

This view is held across Europe, with the continent's CIOs agreeing that a mix of these initiatives would be beneficial in solving the skill shortage, even if exact solutions differ. CIOs in Belgium place higher priority on promoting IT as career path for millennials/ generation z professionals (45%). Whereas French CIOs place greater importance on in-house training (21%) compared with 13% in the UK to address the tech skills crunch.

Businesses are already facing increasing competition for talent in the technology sector. And 79% of CIOs claim it is now more challenging to find qualified professionals than five years ago. This is comparable with Europe, where 67% of CIOs agree that it is more challenging today. With a possible tech talent exodus imminent, upskilling and training current and future employees now is key to the UK's continued competitiveness.

Matt Weston, UK Managing Director at Robert Half, said: "With continued uncertainty surrounding Brexit and the potential of reduced access to skilled EU workers combined with visa caps, the IT skills gap is likely to increase unless all we take positive steps to address it," commented "By taking a holistic approach to tech recruitment challenges, UK organisations will start to see more candidates attracted to a career in IT.

"Our research shows that the UK is not alone in its challenge to find qualified, highly skilled IT professionals. This is a worldwide issue that is particularly prominent in IT as digital transformation, automation and industry 4.0 shapes the future of the working world. CIOs in the UK recognise that if government, businesses and universities can work together to provide the correct environment to nurture, develop and train IT professionals, the benefits to both organisations and employees will be a major boost to the UK economy."

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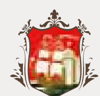

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GOVERNANCE IN THE WORLD OF BUSINESS RELIEF

Advisers need to look at the quality of governance behind business relief products, says **Hardman & Co**

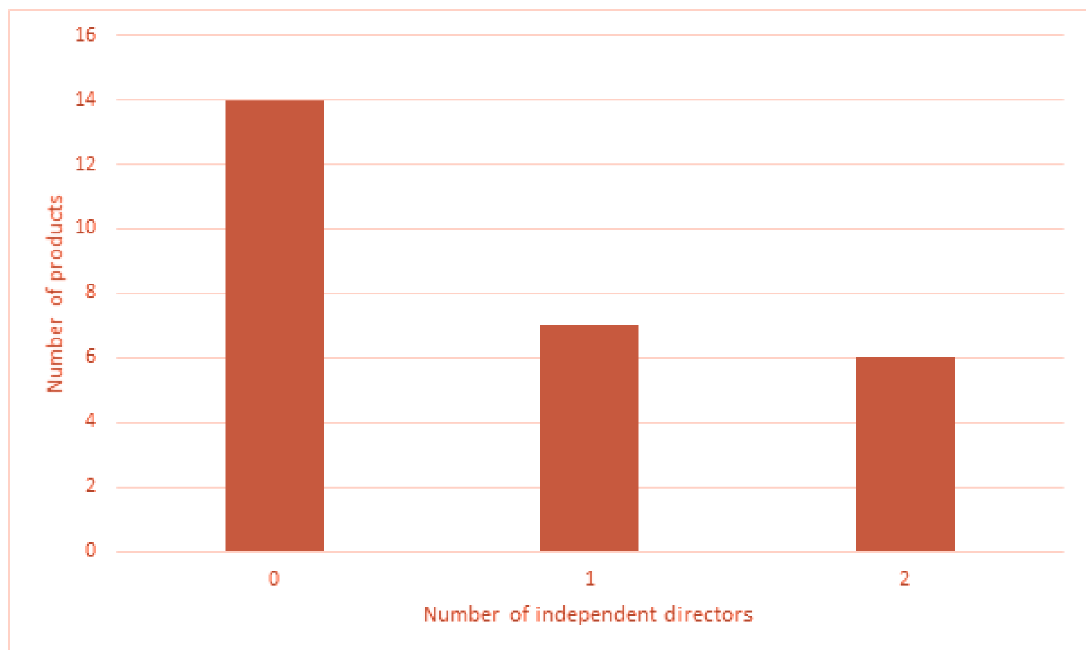
When advisers first start looking at business relief (BR) products, there is much to look at: the rules governing such products, investment strategies that are being used and what the investment risk is. It is easy to lose sight that for non-AIM products, the investment is being made directly into a company or partnership rather than a fund. This means it is essential that governance is part of the diligence process.

Independent directors

In the investment trust/company industry, the concept of independent directors is not only well known, but an argument that has long been settled. For the vast majority of investment trusts, the fund manager is a separate entity from the company that investors own shares in. The manager supplies services in return for a fee. The board has discretion as to how much the fee might be, or whether the manager should remain in that role. Once upon a time, investment trust boards consisted primarily of people connected to the manager, with all the potential for conflicts of interest that that brought. Over time, it was realised that this was a 'bad thing' and it was deemed that a majority of the board should be independent of the manager.

Most non-AIM BR products have much in common with investment trusts. Most of the companies have no employees, with managers being paid a fee or having expenses covered for both fund management and company management.

What is surprising then, is that over half the products in our database invest into companies with no independent directors.



This would seem to be important - in private companies, transparency is usually more limited than for quoted companies. From the research we have undertaken, over a quarter of products invest in companies that publish abbreviated accounts rather than full accounts. This is not restricted to the smaller companies: the smallest company publishes full accounts, while some of those with abbreviated accounts are among the larger in the sector. When information is limited, it is hard for investors to validate that companies are doing what they say they are.

Potential conflicts of interest

There are more concrete areas in which potential issues manifest. Many advisers are aware that potential conflicts can arise. At its simplest, these are the same issues as for investment trusts, such as whether the fees or expenses are appropriate. However, the potential for conflicts in BR runs deeper.

Many companies have participated in related party transactions, which take one of two forms. The first is buying assets that were previously under the management or control of the fund manager. Mostly these have been renewable energy assets, such as solar or wind farms that were previously in companies funded through EIS schemes. These can create a potential asymmetry of incentives for the fund manager, who may be due a performance fee for the sale or could lose market credibility for a poor outcome. And while some transactions have been small, others have been significant.

The second transaction is lending to related parties. Typically, this is making loans to other companies run by the fund manager, for example to fund the construction of renewable energy projects. Again, there is the potential for inappropriate pricing, though generally Hardman & Co views this as being less concerning than for asset transfers. Not only are the loans usually asset backed, but the connection can make diligence both easier and more comprehensive, so there are offsetting benefits.

If a company were quoted, then the independent directors would have a key role to play in ensuring that shareholders are being treated fairly. In the BR area, matters are less clear. While the managers we have spoken to have outlined their process for assessing the transaction price, and made these sound reasonable, independent oversight of this process would give some reassurance.

For investment trusts, independent directors have a key role to play in ensuring that investors are treated fairly. In the BR area, matters are less clear

Setting share prices

Another area that is worth highlighting is the share prices used for transactions. Most of the trades generate revenues from assets that they hold or lend using assets as security. Consequently, share prices are asset based. Over half of products use the net asset value (NAV) from the audited accounts, or the same basis between year ends.

However, a substantial minority, all of which invest in renewable energy assets, are using a distinct share price. The rationale is understandable: market values of these assets have moved in a way their accounting does not reflect. Where a company has constructed a project then, if it is successful, the market value should exceed the book value of the investment. However, using valuations that are outside the audit process raises governance questions.

From a governance perspective, the manager that has perhaps the clearest approach uses a named external consultant for the valuation and specifies the key assumptions, most notably the discount rate used. The latter is particularly useful for an external analyst, helping with assessments of whether the company will achieve its target returns and allowing easier comparisons with others in the market.

Unfortunately, they are the exception. Most managers are happy to outline the process they use but, while these seem reasonable, the lack of external validation has to be a serious concern for advisers. While the price of electricity has shown some volatility over recent years, the market for the assets appears to have remained solid. This suggests that in the current market, market evidence should converge on a clear valuation basis. If circumstances become less benign, this may become more difficult and an external audit will have more value.

This is not to say that there are no issues in the market at present. Given the comments above, it is not surprising that the growth in NAV per share has lagged the share price growth from these companies. In a strong market for the underlying assets, the premium to NAV may be justified. However, having a rising share price when the NAV per share is falling should require further investigation. An adviser should probably be sure that the premium is justified before recommending such products to clients.

In the world of quoted investments, governance is a topic that has been getting increased attention. It is probably time that it got the same attention in the unquoted world too.

Brian Moretta is the Head of Tax Enhanced Products at Hardman & Co and also leads the research of financials stocks and investment funds.

He has lectured on actuarial science and financial economics at Heriot-Watt University, is an examiner for the Faculty & Institute of Actuaries and is on the Bankers without Borders Financial Modelling Reserve Corp. He is a former fund manager with a 20-year career in financial services.

Brian holds a PhD in Applied Probability and a BSc in Actuarial Maths and Statistics.

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MANAGING EIS RISK: EXAMINING THE BABY AND THE BATHWATER

Rule changes mean EIS investing is more risky but that doesn't mean there aren't opportunities, says Oxford Capital

In the Financial Conduct Authority's (FCA) view, EIS investing has always been high risk. But, the reality is that many offerings have focused on the investor tax benefits much more than the companies EIS was originally designed to assist.

The government has decided this was detrimental to the main aim of EIS - to encourage investment into early stage, smaller, younger UK companies with high growth potential. Consequently, in the last nine months it has taken measures to prevent investment structures that provide a low-risk return from qualifying for EIS.

This has undoubtedly shifted the risk profile of some sub sectors of EIS investing. But, as EIS Association (EISA) Director General Mark Brownridge put it in the EISA's recent report, *EIS; New Landscape, New Opportunities,* there is "a very real danger of the baby being thrown out with the bathwater".

The changed risk profile certainly demands full and proper understanding by the adviser community, particularly in relation to those managers who have been forced to pivot their investment activities to comply with the new regulations. But EIS remains a crucial funding mechanism for emerging businesses – around 30,000 have already benefited from over £16 billion of investment.

Beyond this, with careful consideration, EIS also continues to offer suitable and justifiable solutions to various financial planning issues for a broad range of investors with differing needs and risk/reward sensitivities.

Generous reliefs remain

For a start, the recent changes have solidified EIS as a legitimate scheme, giving certainty to everyone involved. With personal tax investigations becoming one of the fastest growing revenue streams for HM Revenue & Customs (HMRC) in the last two years, according to UHY Hacker Young, and growing scrutiny of what it considers as tax avoidance, the government has again demonstrated its support for the scheme.

There has been no erosion of the generous tax reliefs on offer (subject to investors holding EIS qualifying shares for the required time periods). The rationale is to compensate for the additional risks and costs of involvement in start-up or SME firms and the consequent downside protection of the reliefs available is still substantial:

- 30% income tax relief
- Capital gains tax deferral for gains invested into EIS qualifying companies
- Capital gains tax exemption for profits from the sale of EIS qualifying shares
- Loss relief allowing any losses (less the income tax relief already received)
- Likely business relief qualification with potential 100% inheritance tax saving on EIS qualifying shares

So, what has changed?

An investment must now meet the following requirements to be eligible for EIS investment:

- The company in which the investment is made must have objectives to grow and develop over the long term
- The investment must carry a significant risk that investors will lose more capital than they gain as a return (including any tax relief).

The upshot is that capital preservation strategies are no longer allowed. Consequently, companies employing structures where asset backing, such as a pub owning the freehold, or contract backing, such as a film-production company with distribution contracts already in place, are now highly unlikely to be eligible for EIS. HMRC is using a "principles-based test", applying a 'rounded' approach, to assess the level of risk to capital on a case-by-case basis.

Of course, the EIS market has not just focused on capital preservation strategies and there are plenty of opportunities to invest in EIS qualifying companies which have had no assets to pledge as protection to investors, nor pre-agreed income streams.

Brownridge said: "If you understand risks you can mitigate them and improve your chances of success."

And the managers with long term involvement in growth-focused EIS investing understand the risks and that their activities can be a critical contributor to their success or failure.

Many risks can still be minimised

Putting all your eggs in one basket by investing in a single company can be a big issue. It might be a winner, but it might not, leading to total loss other than loss relief. Good EIS managers actually plan success by expecting some failures among their investees. Of course, they target companies that fit a considered investment strategy and have been reviewed against a rigorous selection process, after in depth due diligence, as the aim is for a significantly improved success rate. But the reality and the statistics cannot be ignored; smaller, younger companies are more prone to failure.

Experienced managers mitigate this risk by building diversified portfolios of EIS-qualifying companies to spread risk and improve the chances of good overall returns. This can be achieved by varying the sectors, geographic regions, managers, or maturity stages of the investee companies. This last method balances early-stage investments that have high potential but are higher risk with later-stage investments with a higher valuation but lower risk.

The right manager, the right risk mitigation

So, choosing the right investment manager is a key risk mitigator, although the selection process is only one of the factors to look at. As well as track record, including successful exits, the experience and expertise of the investment team are important. Not only do these affect the investment selection and beyond, they also inform the size and quality of the deal flow the manager has access to. EIS investment managers rely heavily on contacts, often developed during their careers. A good reputation can also open doors and attract opportunities. The more deals viewed, the greater the likelihood the best deals will be identified and the better the likely quality of the deal that is eventually invested in.

The level of ongoing involvement with the investee company is an indicator of how much influence a manager has on the specific risk that applies to that company. HMRC advance assurance gives a stamp of approval that a company and investment structure appears to meet EIS-qualifying criteria, based on the information provided to HMRC. But, it doesn't guarantee the company will not, at some point, fall foul of qualification by undertaking activities that break the rules. Proper monitoring of what investee companies are doing is vital to reduce or remove the potential for a company to become ineligible for EIS, leading to clawbacks of the tax reliefs.

Specialist support

Beyond monitoring, the provision of specialist business support to help nurture an investee company can be invaluable. Early-stage businesses can be easily distracted by the volume of day-to-day operational challenges. Expert input into prioritising the strategies that will drive value creation may not be accessible to the investee company unless an investment manager can deliver it. And managers with board presence and the ability to set and access key metrics to compare progress against strategic milestones can also introduce an important degree of accountability.

Many early stage EIS managers recognise that managing these investments is an active process. What's more, the close working relationships that can result, put them in a great position to identify companies with positive metrics that are ready to scale.

Another risk that should not be overlooked by advisers is the risk of not engaging with EIS. Some commentators expect a drop in demand from advisers and investors with a singular interest in low-risk schemes. However, a broader view should take into account a likely increase in demand from those looking for pension alternatives as a result of tighter restrictions on pension contributions, and CGT shelters.

There is no lack of companies with ambition to grow and the new rules seek to incentivise innovation and entrepreneurship. Indeed, it's worth remembering that EIS has not been singled out and punished with the new regulations. Instead, it has been identified as a crucial driver of SME prosperity with the potential for impressive investment gains, the reality of substantial tax reliefs and the considerable advantage of seasoned and sophisticated early stage EIS managers.

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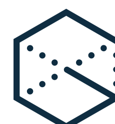

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