



Knowledge- intensive EIS Fund

**Information Memorandum
Closing 27 March 2024**

17 November 2023



Important notice

– Please read –

Don't invest unless you're prepared to lose all your money invested. This is a high risk investment.

The approval of a fund by HM Revenue and Customs is relevant only for the purpose of attracting certain tax advantages provided in Section 251, Income Tax Act 2007. Such approval covers only certain administrative matters. It in no way bears on the commercial viability of the investments to be made; neither does it guarantee the availability, amount or timing of relief from income tax or capital gains tax.

This IM is for UK investors only or individuals ordinarily based in the UK for tax purposes and does not constitute an offer or invitation to invest to any persons other than such persons.

The Memorandum may only be distributed to individuals who are classified as being at least one of the following:

- a. A professional client by reference to the FCA client categorisation rules
- b. A client of an authorised firm that will confirm whether this investment is suitable for them
- c. A client who will invest no more than 10% of their net investible portfolio into non-readily realisable securities, and therefore will self-certify as a 'restricted investor' in accordance with COBS 4 Annex 5R
- d. A self-certified high-net-worth investor within the meaning of COBS 4 Annex 2R
- e. A self-certified sophisticated investor within the meaning of COBS 4 Annex 4R

This Memorandum is not to be disclosed to any other person or used for any other purpose and must not be relied upon by any person who does not qualify to receive it.

This Memorandum is issued solely for the purpose of seeking subscriptions from prospective investors for investments in the Mercia Knowledge-intensive EIS Fund 2023/24 ("the Fund") which may only be made on the basis of this Memorandum, Investor's Agreement and Application Form.

The Fund is an Alternative Investment Fund for the purposes of the Alternative Investment Fund Managers' Directive. The Fund Manager is Mercia Fund Management Limited, part of the group of fund management companies that are owned by Mercia Asset Management PLC.

The attention of prospective investors is drawn to the fact that amounts invested in the Fund will be committed to investments in non-readily realisable securities which are deemed to be high risk and classed as restricted mass market investments.

Investments made by the Fund should be regarded as being of a long term and illiquid nature, of significant and high risk and may expose an investor to the risk of losing all of the investment made. Neither the Fund nor the companies in which it invests will be quoted at the point of investment on any recognised or designated investment exchange. Investments in unquoted shares carry higher risks than investments in quoted shares. You should be aware that no established or ready market exists for the trading of shares in unquoted companies.

Your attention is drawn to the risk summary on the following page and to page 20 which provides more detail about the risks involved with the fund and also to the costs and charges on page 19.

Prospective investors should not regard the contents of this IM as constituting advice relating to legal, taxation, investment or any other matters and are advised to consult their own professional advisers before contemplating any investment or transaction.

Past performance is not a guide to future performance and may not be repeated. You should be aware that share values and income from companies may go down as well as up and you may not get back the amount you originally invested.

Your attention is drawn to Appendix A: EIS taxation reliefs on page 24.

The information contained in this IM makes reference to the current laws concerning Enterprise Investment Scheme ("EIS") Relief, and other reliefs from income, inheritance and capital gains tax. These levels and bases of relief may be subject to changes in law and HMRC practice. The tax reliefs referred to in this IM are based on those currently available and the value of such tax reliefs depends on individual circumstances.

The Fund Manager has taken all reasonable care to ensure that all the facts stated in this IM are true and accurate to the best of its knowledge, at the Date of publication, in all material respects and that there are no other material facts, or opinions that have been omitted, which would make any part of this promotion misleading.

This IM constitutes a financial promotion pursuant to section 21 of the Financial Services and Markets Act 2000 and has been issued by Mercia Fund Management Limited that is authorised and regulated by the Financial Conduct Authority.

Mercia Fund Management Limited, Forward House, 17 High Street, Henley-in-Arden, B95 5AA is authorised and regulated by the Financial Conduct Authority FRN: 524856 in the United Kingdom.

Estimated reading time: 2 minutes

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the key risks?

1. You could lose all the money you invest

- If a business you invest in through this fund fails, you are likely to lose 100% of the money you invested in that company. Most start-up businesses fail.

2. You are unlikely to be protected if something goes wrong

- Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker here. <https://www.fscs.org.uk/check/investment-protection-checker/>
- Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection here. <https://www.financial-ombudsman.org.uk/consumers>

3. You won't get your money back quickly

- Even if the businesses you invest in through this fund are successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.
- The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.
- If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these.

4. Don't put all your eggs in one basket

- Putting all your money into a single type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.
- A good rule of thumb is not to invest more than 10% of your money in high-risk investments. <https://www.fca.org.uk/investsmart/5-questions-ask-you-invest>

5. The value of your investment can be reduced

- The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.
- These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website here: <https://www.fca.org.uk/investsmart>

Executive outlook

A message from Dr Paul Mattick - Head of Investor Relations and Sales, Mercia Fund Management



“

Mercia Knowledge-intensive EIS investments: Where investing in UK growth companies and tax efficiency sit hand in hand

Dr Paul Mattick,
Head of Investor Relations and Sales

In the ever-evolving landscape of investment, Mercia EIS investments stand out as an exemplar of opportunity, offering investors a distinctive path to unlock growth potential, enjoy substantial tax benefits and make a meaningful impact.

As we transition from the broader world of EIS investments to that which is knowledge-intensive, it is imperative to highlight the Mercia advantage. Mercia has carved a niche for itself as a consummate curator of high-growth technology companies, transforming them into market leaders. Within this year's IM, we will delve deep into the world of Mercia Knowledge-intensive ("KI") EIS investments, exploring our funds' unique advantages, past performance and the significant tax incentives they offer.

While young businesses require capital to sustain their growth, their continuity depends on their ability to drive progress. Appreciating Mercia KI EIS investments would not be complete without understanding their role as catalysts for innovation, job creation and economic growth. KI EIS investments are not just financial transactions; they are investments in the future. By providing crucial capital to start-ups and high-growth businesses, KI EIS investments enable these enterprises to develop groundbreaking technologies, expand their operations and hire more employees. It is a strategic choice that positions investors as drivers of economic growth and progress. Your investment is not just a financial decision; it is a contribution to a brighter, more prosperous future. This might involve diverse recruitment, innovative approaches that benefit both the business and the broader environment, or research and development efforts that empower other businesses to enhance their own solutions. Success begets success, making Mercia's track record the linchpin for incubating and realising the potential of high-growth technology companies across the UK. It is a virtuous circle that rewards those who invest in the entrepreneurial culture and technological talent of knowledge-intensive companies across the nation.

Our success story is anchored in a meticulous approach to balancing raising capital and deployment. The success of Mercia's KI EIS capital finds its purpose through swift deployment, exceptional returns and a thriving portfolio of investments. Mercia's

deployment efficiency, the strong performance of our portfolio companies and the latest achievements and exits that exemplify the Mercia KI EIS advantage. Mercia states a 12-month month deployment target, however, if Mercia's current deployment pace continues, then the tax certificate (EIS5) that unlocks cash flows from the tax reliefs, may be available before the end of 2024 – this is exceptional within the EIS market.

This unparalleled deployment rests on Mercia's scale and national footprint of investment professionals that are critically embedded in the UK's key cities, supported by an impressive ecosystem of advisers, non-executives and investment partners. Further, through a Mercia Ventures team that can leverage Mercia's full suite of managed funds, our capability to deploy at an advantageous cadence will be sustained.

We believe that we provide an investment context where growth meets purpose, and investment is not just a financial transaction but a strategic decision to shape your financial future and make a positive impact. Whether you are new to EIS or a seasoned investor, Mercia EIS investments offer a unique opportunity to participate in a dynamic and rewarding investment landscape. It is not just about investing; it is about investing with foresight and meaning.

Dr Paul Mattick

Head of Investor Relations and Sales

Contents

Important notice - Please read	02
Risk summary	03
Executive outlook – Paul Mattick	04
Key features	06
Our business model	08
How knowledge-intensive investment benefits investors and businesses	10
Risk mitigation through diversification	13
The Mercia EIS advantage – Julian Denard	14
Case study: C7 Health	16
Case study: Medherant	17
What you can expect from Mercia	18
Costs and charges	19
Key risks	20
Appendix A: Tax benefits	24
Appendix B: Glossary of terms	26
Appendix C: Investor's Agreement	28
Further information and contacts	40

Key features

of Mercia's Knowledge-intensive EIS Fund



Minimum investment

£10,000



Target performance*

3X

- Mercia aims to triple invested capital (including income tax relief and loss relief)
- For tax relief purposes, investments should be held for a minimum of three years, with holding periods expected to be five to seven years



Target portfolio size
approximately

12 companies

- To meet the rules of a KI-Approved Fund, at least 4 investments must be made by the Fund, with no more than 50% invested into one company
- The Fund intends to invest into Knowledge Intensive Companies only. At least 80% will be invested into companies which are Knowledge Intensive Companies at the time of share issue

*Target based on the Net Investment. This is not guaranteed - please see the risk warnings in relation to past performance.



Our business model

The Funds are managed by Mercia Fund Management Limited, a wholly owned subsidiary of Mercia Asset Management PLC.

Mercia is recognised as one of Europe's leading and most active investment houses, with a proud legacy of supporting businesses and their founding teams throughout the UK. Functioning as a specialist asset manager, Mercia offers capital solutions paired with comprehensive support, extending from start-up to scale-up. Mercia's private equity and debt divisions are dedicated to profitable enterprises, while Mercia Ventures, which includes the Mercia EIS funds and Northern VCTs, offers investment from seed stages up to £10.0million, reflecting its role as a comprehensive technology investor.



Sustainable growth

Mercia continues to expand its reach and refine its services, reflecting the evolving needs of both investors and entrepreneurs. With its tested hybrid business model, Mercia stands poised to efficiently channel seed investment funding, guiding businesses from inception to exit. The goal remains steadfast: to fuel the growth trajectory of high-potential enterprises. This is achieved through a holistic suite of Funds and diverse capital sources working harmoniously; the KI EIS Fund can seamlessly co-invest with other Mercia-managed regional funds, the Northern VCTs, and Mercia's own proprietary capital.

Originating in 2010, Mercia Fund Management began with three employees and £12.0million in assets under management. Presently, Mercia has grown to accommodate over 140 employees, managing assets worth £1.4billion, and continues its expansion across the UK's financial landscape.



Operational excellence

At the core of Mercia's philosophy is the principle of value addition. The organisation's inherent operational acumen, bolstered by the 'Mercia Nucleus', creates a robust foundation of insight and stringent governance, helping portfolio businesses thrive. Moreover, Mercia's commitment to its portfolio extends beyond just capital; it envelopes services such as talent acquisition, strategic growth advice, non-executive board placements and fostering a culture of knowledge exchange.



Engaged investment

Mercia represents a nexus of interconnected strengths. Its commitment to comprehensive connectivity brings more than just capital — it offers a synergy that amplifies success. With 11 regional offices, Mercia's footprint is unmistakable across the UK. Embracing digital innovation, Mercia has optimised its operational frameworks to provide immediate, as well as face-to-face support. Significantly, every portfolio company is within a two-hour radius of Mercia's investment team. Furthermore, potential investment opportunities remain closely tethered, largely attributable to the rich regional ecosystem that proximity enables.

Streamlined digital tools and processes bolster Mercia's deal origination competence in an increasingly competitive market. This advancement not only accelerates Mercia's decision-making but also broadens its coverage and intensifies its investment rhythm.

How knowledge-intensive investment benefits investors and businesses

Mercia has a rich legacy of knowledge-intensive investment, and the definition closely aligns with our investment strategy.

Mercia has a successful track-record with knowledge-intensive businesses, in sectors such as Software, Life Science and Deep Tech/Enabling Tech.

Businesses benefit from qualifying as a knowledge-intensive business in these ways:

Knowledge-intensive businesses can raise an increased amount under EIS

- £10.0million in EIS investment per year (instead of £5.0million); and
- £20.0million in EIS investment in the company's lifetime (instead of £12.0million).

The company can be older

- Knowledge-intensive companies can receive investment within 10 years of their first commercial sale, rather than the seven years for non-KI companies.

Knowledge-intensive companies can hire more employees

- Up to 500, rather than 250.

What are knowledge-intensive companies?

The company must meet one of each of the sets of conditions:

Innovation condition

Innovation at time of investment



Within 10 years business
using or exploiting the innovation

Operating cost conditions

R&D costs
as a % of
operating
costs



OR

OR

Skilled employee



**20% skilled employees maintained
for three years post investment**

Skilled means holding and using
a masters degree or above

R&D costs
as a % of
operating
costs



Mercia KI EIS Fund tax benefits

Mercia KI EIS Fund aims to be deployed in 6 months, compared to competitor KI funds which may take 18 months. The Mercia KI EIS Fund therefore optimizes both:

1) cash flow from tax reliefs and 2) how quickly portfolio companies can start growing

Other EIS funds that deploy KI in 18 months provide income tax reliefs in either 23/24 or 22/23 (after September 2025)



Tax benefits that accelerate investment strategies

The EIS is more than a financial strategy; it is a fiscal ecosystem designed to reward responsible investing. At Mercia, we understand that investors are not just seeking returns, but are also driven by a sense of purpose.

There are three profound tax advantages that EIS investments bring to the table, and a number of supporting benefits. Note: the availability of tax reliefs depends on personal circumstances and is subject to change.

1) Income tax relief

Following a prolonged period of inflation and frozen tax bands, we are seeing fiscal drag resulting in significantly more tax being paid, and during 2022/2023 the UK public paid £249 billion in income tax to HMRC.

EIS investments can provide income tax relief of up to 30% on invested amounts if shares are held for a minimum of three years. This means that a £10,000 investment could potentially reduce your income tax liability by £3,000, a substantial benefit that fuels the attractiveness of EIS investments.

2) Deferral of a capital gains tax (CGT)

If a capital gain is invested into EIS, then there will either be no CGT to be paid, or you can reclaim the previously paid CGT. You can look 36 months back for CGT deferrals and 12 months forward. From our experience, it is more common to invest part of a capital gain, to partially defer a capital gain. Please note that the deferred gain becomes chargeable to CGT at the date of the disposal of the EIS investments, at the prevailing CGT rate (which may be different than at the date the original gain arose).

How knowledge-intensive investment benefits investors and businesses (continued)

3) Inheritance tax relief to maintain intergenerational wealth in families

Inheritance tax is a concern for many investors, and EIS investments present an effective solution. After holding EIS shares for just two years, they typically qualify for inheritance tax relief. This provision empowers investors to pass on their investments to their heirs without incurring substantial tax liabilities, thereby preserving wealth for future generations. It is a strategy that bridges the gap between financial prosperity and entrepreneurial ideology.

Downside protection and unlimited capital gains

EIS investments do not stop at these three valuable tax reliefs.

Downside protection in the form of share loss relief, allows investors to claim cash back at their marginal rate of income tax on any EIS company failures. Therefore, an additional rate (45%) tax payer not only gets the 30% income tax relief on investment, if the company fails, they can claim another 31.5% of relief. It is clear that the government is actively encouraging investors to take risk in knowledge-intensive companies.

The potentially significant upside is not limited by CGT as the gains realised from the disposal of EIS shares are exempt from CGT, provided that the investment is held for a minimum of three years. This exemption fundamentally transforms your overall return on investment, allowing you to maximise your gains without being encumbered by additional taxes. It is a financial strategy that aligns financial growth with prudent fiscal planning.

Additional benefits of our KI EIS Fund

The KI EIS Fund is precisely the type of portfolio of companies that the government wants you to support, and therefore the tax reliefs are further enhanced.

KI approved EIS funds are approved by HMRC "approved EIS fund", which means that the maximum personal investment is raised to £2.0million per year, and that the deemed date of investment for income tax reliefs, is the date that the fund closes. This latter point is important, as it means that all of the income tax relief for a KI EIS fund investment, can be carried back into the previous tax year.

As an example, the income tax relief from an investment in the Mercia EIS KI Fund that closes on 27 March 2024, can be taken (entirely) in the 2022/2023 tax year.



Risk mitigation through diversification

Investing inherently carries risk, but Mercia EIS investments have engineered a robust solution which seeks to mitigate such risk. Diversification is the cornerstone of risk management, and our approach exemplifies this principle. Mercia EIS Funds strategically invest in a portfolio of early-stage companies across diverse sectors and regions. By doing so, we spread risk, ensuring that the underperformance of any single investment has a mitigated impact on the overall fund's returns. Investors gain exposure to a broad array of sectors, reducing their vulnerability to market fluctuations. This is not just about investing; it is about investing wisely.



Regional focus and impact

At Mercia, our commitment extends beyond financial returns. We are dedicated to supporting businesses in underserved regions of the UK, amplifying our positive impact on the regional economy. By nurturing companies in areas that often lack investment opportunities, Mercia contributes to regional growth, prosperity and job creation. Our investment approach aligns with responsible investing principles, fostering an environment where investors not only benefit financially but also partake in the positive transformation of these regions.



Exceptional returns and verified performance

The essence of our success story lies in the numbers - exceptional returns backed by verified performance. EIS investments made before April 2015 have consistently demonstrated outstanding results, with valuations often exceeding three times their initial cost. This stellar performance is not just anecdotal; it is grounded in facts and figures, providing investors with the assurance that their financial growth is not a mere aspiration but a tangible reality.

The Mercia EIS advantage

Swift deployment, exceptional returns and recent success



“

Mercia KI EIS investments, driven by a commitment to responsible investing, offer investors a gateway to a dynamic world of investment opportunities.

**Julian Dennard,
Fund Principal, Mercia Ventures**

Mercia Ventures possesses the scale that provides us with a distinct competitive edge. But what truly sets us apart is our commitment to operational efficiency. Structural changes within Mercia have streamlined our deployment process, consistently resulting in EIS capital deployment in a remarkable 3-9 months. It is not just about deploying capital; it is about doing it swiftly and with a strategic edge.

Operational leverage and scalability

Mercia's transformative journey extends beyond just swifter deployment.

The convergence of Mercia Ventures in April 2023 was an important event and significantly enhanced our deployment efficiency. This structural change at Mercia has meant that rather than EIS occasionally deploying alongside our other funds, this is considered for every investment, leading to the cadence of EIS deployment, increasing substantially. The ability to operationally leverage of our other venture capital funds is a benefit of working with a large, experienced manager such as Mercia, and this cannot be easily replicated.

Investment focus and performance excellence

Mercia's advantage is strengthened by our focus on performance excellence. Mercia Ventures maintains a broad-based investment approach, supported by our specific expertise in various sectors.

Our investment target for 2023/24 is an impressive £27.5million, allocated to a combination of new investments and follow-on funding for existing portfolio companies. In the first half of this period we have already deployed £17.0million EIS so we are ahead of this target, and we can accelerate further is enough EIS capital is available. However, we aim to always invest carefully. Rigorous deal selection policies, backed by sector analysis, peer reviews and formal Investment Committee evaluations are in place to maximise our investments and well-place them for success.

A legacy of exceptional returns and recent success

The hallmark of the Mercia EIS advantage is a legacy of exceptional returns — a testament to our performance. Recent exits, such as C7 Health, among others, have consistently delivered returns that surpass expectations. These are not just exits; they are successes that underscore the strength of our investment strategy.

It is not just about investing; it is about investing with confidence, knowing that your capital is thoughtfully invested and your returns are substantiated by a strong track record. Mercia KI EIS investments, driven by a commitment to responsible investing, offer investors a gateway to a dynamic world of investment opportunities.

Julian Dennard
Fund Principal,
Mercia Ventures

Case studies

C7 Health (Exit)



Revolutionising healthcare: The C7 journey of innovation and growth

In 2018, Phil Webb, the former CTO of EMIS, established C7 with a vision to transform healthcare through technology. C7's proprietary software, AMP, streamlines healthcare services by automating several manual processes. Following Mercia's SEIS investment, the company embarked on a strategy to acquire health service providers and enhance their efficiency using AMP, thereby driving profitability through operational synergies.

Prominent clients of C7 encompassed the NHS, occupational health sectors, and various private corporate customers.

C7 adopted a 'buy-and-build' approach, specifically targeting healthcare service providers that boasted diversified revenue streams from long-term contracts and were either EBITDA positive or at a breakeven point. This meant that subsequent investments primarily fueled growth. Each acquisition not only paved the way for cost reductions through synergies but also enhanced operational efficiency with AMP.

This approach resonated well with the management team's expertise and industry experience. C7's notable acquisitions include TAC Healthcare Group Limited, Private GP Services (UK) Limited, The Aberdeen Clinic Limited, and Diagnostic World Limited.

In April 2018, C7 secured an initial investment of £300k, of which £150k came from Mercia's SEIS

Funds. These funds facilitated the appointment of Philip Webb as the new CEO, the development of an MVP for the software, and the crafting of the strategic acquisition blueprint. Subsequently, the company raised an additional £1.0million in a syndicated round, which saw participation from angel investors. This capital was pivotal for the expansion of the recently acquired TAC Healthcare Group.

Underlining its growth trajectory, C7 launched numerous COVID testing services across the UK and collaborated with major oil corporations in the North Sea.

Mercia's involvement in C7 transcended just capital investment. Our hands on approach, working with the Board and the management team to help shape strategy was illustrative of the way we work across all our investments, reinforcing our role as a proactive investment partner and helping to make this a highly successful investment.

£300k

**initial investment, of which
£150k came from Mercia's SEIS**

88%

**return on investment over four
years, a 14x cash multiple**



Several acquisition offers for C7 were made, but the trade sale proposition from InHealth emerged as the most lucrative for EIS investors. As one of the UK's leading diagnostic entities, InHealth's acquisition was finalized, yielding a 14x cash multiple and an 88% return on investment over four years.

Medherant – exemplar



Redefining women's health: Medherant's game-changing solution

In recent years, a significant gap in the women's healthcare sector has become apparent. Post-menopausal women frequently experience a decline in their libido, primarily due to diminishing testosterone levels. Surprisingly, despite the significant demand, there remains a conspicuous lack of approved testosterone replacement therapies tailored specifically for women, both in the UK and across the globe.

Medherant, a groundbreaking spinout from the University of Warwick has embarked on a journey to introduce the world's first testosterone patch for post-menopausal women. With the financial backing of Mercia and other investors, the company is poised to initiate clinical trials as it seeks to secure international regulatory endorsements.

Distinguished from its predecessors, Medherant's testosterone patch stands out in terms of its administration and effectiveness. Administered bi-weekly, the patch ensures that patients receive a consistent and precise dosage of testosterone. This innovative approach effectively negates the challenges associated with uneven dosages and inadvertent transfer of medication to other surfaces, issues that have plagued previous solutions.

The potential implications of Medherant's testosterone patch are far-reaching. Offering a targeted, regular, and user-friendly testosterone replacement therapy, the patch is anticipated to enhance the lives of millions of post-menopausal women worldwide. By catering to this unmet need, Medherant is not merely introducing a product but pioneering a transformative shift in women's healthcare.

Looking ahead, the horizon is promising for Medherant. Its ambition doesn't stop at product validation; it is geared towards bringing this trailblazing product to the mainstream market, thereby broadening the therapeutic spectrum in women's health.

As of FY23, the net cash invested by Mercia into this revolutionary endeavour stands at £1.7m, a testament to the confidence and belief in Medherant's vision.

£1.7million

as of FY23 is the net cash
invested by Mercia into this
revolutionary endeavour



In sum, Medherant is not just innovating; they are rewriting the narrative in women's health, offering hope and improved quality of life to countless individuals. With a blend of cutting-edge science and deep-seated commitment, the future looks bright for Medherant and the many lives they aim to touch.

What you can expect from Mercia

Consistent communication

Mercia appreciates that keeping track of your investments matters, which is why the team provides timely reporting via its Investor Centre alongside other, more personal, forms of communication.

The key features include:

- Digital tax certificates
- Contract notes
- Investment dashboard
- Loss relief letters
- Bi-annual consolidated valuation statements
- Portfolio commentary

Visit our website to find out more:

www.mercia.co.uk

Investors can contact the team on:

0330 223 1430



Newsletters

Regular newsletters will give investors access to all of Mercia's latest news, blogs and videos, as well as invitations to webinars and recordings of those that might have been missed.



Webinars

Join hosted webinars on a range of subjects that relate to EIS, for example fund performance, portfolio perspectives and Mercia insights. Topics also embrace engaging themes that go beyond investment, like sport and business performance and fund management.



Meetings

The team is always enthusiastic to meet investors or their advisers and answer their questions. Whether this in the form of a video call or a face-to-face, Mercia provides the highest level of visibility around its EIS Funds and their performance. Investors are always welcome to join events and bring along any investment questions.

Costs and charges

1. Adviser Fee

An Adviser Fee may be payable to a regulated adviser of an Investor. Upon instruction from the Investor, Mercia can facilitate this payment by deducting it from the Investor's Subscription before the investments are made. Please note that tax relief is only available on the amount invested.

2. Initial fee

There is a 2% Initial Fee payable to Mercia, reduced to 1.5% for existing and advised investors.

3. Annual Charges

A 1.75% charge per annum for the Fund Manager's Annual Management Charge will be payable for the first six years.

A 0.25% charge per annum Custodian and Administration Fee will be charged for the first six years.

The default position is for three years fees to be withheld from the initial Subscription, and subsequent year's fees will be accrued and deducted from Proceeds.

4. Fund Manager's performance fee

The Fund Manager will receive an incentive fee of 20% of the amount of cumulative cash returned to the Fund from Investments which is in excess of the amount of the Net Investment into Investee Companies. This performance fee is paid at Fund level, as opposed to being payable on each Investment sold.

5. VAT

Fees described are exclusive of any applicable VAT.

6. Other notes on fees

Mercia's fees are charged on the Subscription into the Fund, less any Adviser Fees.

7. Expenses

The Fund Manager shall be entitled to charge each Investee Company a pro rata proportion of expenses reasonably incurred by the Fund Manager in respect of the monitoring of the relevant investment. The Fund Manager will bear any legal, accounting and other fees incurred by the Fund in connection with potential Investments which do not proceed to completion and may retain for its own benefit any arrangement fees and director's or monitoring fees which it receives in connection with Investments and any fees for services relating to fund raising and corporate advisory services, accounts, company secretary, legal advice and assistance in maintaining EIS status.

Key risks

Important: Investors should be aware of the high-risk and illiquid nature of EIS investments that will be contained in the Fund portfolio. The below risk factors are not intended to be exhaustive but are included to help you understand the risks of investing. Please ensure you have read the risks as detailed on pages 2 and 3.

Investors should consider carefully whether an investment in the Fund is suitable for them in light of the information in this document and their personal circumstances. If in any doubt whatsoever, an Investor should not subscribe. In any case, it is strongly recommended that Investors seek the advice of a financial adviser authorised and regulated by the FCA and other appropriately qualified professional adviser(s) (such as tax and/or legal advisers).

Investment risk

The Investee Companies will be small, unquoted companies and such investments carry a high degree of risk with regards to both investment returns and liquidity. Your capital is at risk and you may not get back the returns you hope for and you could lose all of the money you invested.

Liquidity

There is no market, nor is there intended to be a market for the Shares; you may not be able to sell your Shares to another investor should you wish to exit ahead of the Fund, as such, an investment in the Fund will not be readily realisable. You should not expect to receive dividend income from these companies. It is not intended that any income or capital will be returned to Investors during the Three Year EIS Period. After the initial holding period, it may still be difficult to realise the Shares or to obtain reliable information about their value as the market for shares in smaller companies is less liquid than that for shares in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such shares. Investment in the Fund should be viewed as a medium- to long-term investment, as the Fund will make Investments that may take five to seven years (and in some cases longer) to reach the right point for exit.

Diversification and dilution

When investing in a small fund, there is the potential risk that the Fund may either become overexposed to one Investment as it provides follow-on investment, or that it is heavily diluted by not participating in follow-on financing, or that the Investee Company is unsupported and so is unable to continue trading, losing the Fund its entire cost of investment.

Performance of Investee Companies

The performance of the Fund is dependent on the ability of Mercia to identify appropriate Investee Companies and on the ability of the Investee Companies to perform in line with their respective business plans. The income received by the Investee Companies will depend on the revenues generated by the activities they undertake, which may be less than the costs they incur. Proper information for determining their value or the risks to which they are exposed may also not be available. There is always the risk that Investee Companies are not able to cover their costs of growth and development with the revenues they generate in the expected time frame, thereby bringing the need for follow-on investment.

At the current time, smaller companies may be under greater pressure due to higher inflation and interest rates, the wars in Ukraine and Israel, political uncertainties and the macro-economic environment. We take a prudent approach to valuations in these circumstances and will continue to do so.

Management team

The departure of any of the Fund Manager's directors, employees or Associates could have a material adverse effect on the performance of the Fund. While Mercia has entered into appropriate agreements, the retention of their services cannot be guaranteed.

EIS-qualifying

The availability of various EIS tax reliefs is dependent on individual circumstances and anyone that is unsure as to whether they will be able to take advantage of any such reliefs should seek tax or financial advice before investing.

In addition, there are circumstances in which an Investor could cease to qualify for the tax advantages offered by the EIS following investment. For example, Capital Gains Deferral Relief for EIS could be lost if an Investor ceases to be resident or ordinarily resident in the United Kingdom during the Three Year EIS Period. In addition, an Investor could cease to qualify for EIS Relief in respect of an Investee Company if they receive value from that Investee Company during the period beginning one year before the Shares in the Investee Companies are issued and ending on the conclusion of the Three Year EIS Period. EIS Relief could also be denied or lost in respect of an Investee Company if the investor or an associate (such as a close relative) is or becomes employed by that Investee Company, or was so employed in the two years preceding the investment. Payment of a dividend, at a commercial rate, would not typically be regarded as a receipt of value.

EIS-qualifying status of Investee Companies

If an Investee Company ceases to carry on business of the type prescribed for EIS-Qualifying Companies during the Three Year EIS Period, this could prejudice its qualifying status under the EIS. There are other events and matters whereby an Investee Company may lose its qualifying status.

The situation will be closely monitored with a view to preserving the Investee Company's qualifying status, but this cannot be guaranteed. A failure to meet the qualifying requirements for EIS could result in:

- Investors being required to repay the 30% (EIS) income tax relief received on subscription for Shares and interest on the same
- Any gain deferred by Capital Gains Deferral through an EIS investment coming back into charge
- Liability to CGT if the Shares are sold and a gain is realized

Further details of the taxation implications of an investment in a Knowledge-intensive EIS Fund are set out in Appendix A of this document.

Assurances will be sought from HMRC and therefore Investee Companies activities should, at least initially, qualify under the EIS regulations. However, there is no guarantee that the formal EIS claims will be agreed by HMRC, or that such agreement will not be subsequently withdrawn. In those circumstances, subscription monies will not be returned to Investors. If an Investee Company fails to obtain EIS Qualifying Company status, or if it is subsequently withdrawn, EIS Relief, Capital Gains Deferral Relief, and CGT Disposal Relief would not be available to Investors or could be withdrawn.

Under the EIS legislation, EIS-qualifying Companies are required to have employed 100% of their net funds (after the deduction of issue costs) within 24 months after the date of issue of Shares, except where the qualifying activity consists of preparing to carry on a trade, in which case the time limit is 24 months after the date of commencing the trade. If an Investee Company fails to employ this level of funds within the required deadlines, the Investee Company would be in breach of the EIS regulations and tax relief may be withdrawn.

Key risks (continued)

A sale of Shares in an Investee Company within the Three Year EIS Period will result in some or all of the income tax and capital gains tax relief available upon subscription for those Shares becoming repayable to HMRC, any capital gains will be subject to CGT and any deferred gain will be brought back into charge. It is possible for Investors to lose their EIS tax reliefs and/ or Capital Gains Deferral relief and/or Business (Property) Relief by taking (or not taking) certain steps.

Investors are advised to take appropriate independent professional advice on the tax aspects of their investment.

Approved status of the Fund

Whilst Mercia aims to deploy the investment within 12 months, there is a risk that the deployment is delayed and the KI Fund Guidelines are not complied with, resulting in a different tax treatment for the Investor.

EIS tax regime change

Investors should be aware that the tax reliefs regime may be changed in the future.

Past performance

The past performance of previous Mercia EIS funds, or related funds, is not a guide to future performance and may not necessarily be repeated. The value of investments and income from them may go down as well as up and Investors may not get back the amount they originally invested in the Fund.

Forward looking statements

Investors should not place reliance on forward-looking statements made by either Mercia or external parties that we may reference. This document includes statements that are (or may be deemed to be) 'forward-looking statements', which can be identified by the use of forward-looking terminology including, but not restricted to the terms 'believes', 'continues', 'expects', 'intends', 'may', 'will', 'would', 'should' or, in each case, their negative or other variations or comparable terminology.

These forward-looking statements include all matters that are not historical facts. Forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements contained in this document, based on past trends or activities, should not be taken as a representation that such trends or activities will continue in the future.

Potential conflicts of interest

Although Mercia has a policy that sets out how conflicts are managed and the circumstances in which conflicts are escalated to an appropriate forum, it is important to note that situations may arise where the interests of the Fund conflict with the interests of other investors, including other funds managed by the Mercia Group. The Fund may invest in companies in which other funds managed by Mercia may invest or may already hold investments.

Decisions made by Mercia may be more beneficial to one fund managed or advised by Mercia than to another.

The Fund may co-invest with third parties or enter into joint ventures or other structures. Such co-investing may give rise to the possibility that a co-investor or partner may at any time have economic or business interests or goals which are inconsistent with those of the Fund, or that such person may take action contrary to the Fund's investment objectives.

The entitlement of the Fund Manager to the performance fee referred to on page 19 of the Information Memorandum, may create an incentive for the Fund Manager to make more speculative investments on behalf of the Fund than it would otherwise make in the absence of such a performance based compensation arrangement. The Fund Manager may enter into fee sharing arrangements with third party marketers, including placement agents, or other advisers who refer Investors to the Fund, and such marketers may have a conflict of interest in advising prospective investors whether to invest in the Fund.

Conflicts of interest may arise in connection with decisions made by the Fund Manager that may be more beneficial for certain Investors than for others. In making such decisions, the Fund Manager intends to consider the investment objectives of the Fund as a whole, not the investment objectives of any individual Investor.

The Fund Manager may provide certain Investors with the opportunity to co-invest in Investments. Potential conflicts may be inherent in, or arise from, the Fund Manager's discretion in providing such opportunities to certain Investors. In addition, once such co-investments are made, the Fund's interests and those of co-investing Investors may subsequently diverge. A summary of copy of the conflicts policy is available on request.

General risks

Prospective investors should not regard the contents of this Information Memorandum as constituting advice relating to legal, taxation or investment matters and should consult their own professional advisers before contemplating any investment or transaction. Each party to whom this document is made available must make its own independent assessment of the Fund after making such investigations and taking such advice as may be deemed necessary. In particular, any estimates, projections or opinions contained in this document involve significant elements of subjective judgement, analysis and assumptions, and each recipient should satisfy themselves in relation to such matters.

The contents of this Information Memorandum references the current laws concerning EIS Relief, Business (Property) Relief, Capital Gains Deferral and Capital Gains Exemption as at the date of this Information Memorandum. These levels and bases of relief may be subject to change. The tax reliefs referred to in this Information Memorandum are those currently available and their value depends on individual circumstances.

All statements of opinion and/or belief contained in this document and all views expressed and all projections, forecasts or statements relating to expectations regarding future events or the possible future performance of the Fund represent the Fund Manager's own assessment and interpretation of information available to it as at the Date of this document. No representation is made or assurance given that such statements, views, projections or forecasts are correct or that the objectives of the Fund will be achieved. Prospective investors must determine for themselves what reliance (if any) they should place on such statements, views, projections or forecasts and no responsibility is accepted by Mercia Fund Management Limited, or the Mercia Group, in respect thereof.

Prospective Investors are strongly advised to conduct their own due diligence including, without limitation, the legal and tax consequences to them of investing in the Fund.

Appendix A

Tax benefits

Knowledge-intensive EIS Fund Reliefs

It is recommended that Investors seek independent advice to ensure they fully understand how any tax advantages may apply to their situation and circumstances. Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. The Fund Manager does not give tax advice and Investors should consult a tax adviser as appropriate to their own personal circumstances.

Knowledge-intensive EIS Fund

As an Approved knowledge-intensive EIS Fund, for income tax relief purposes, all investments will be considered to have taken place on the Closing Date of the Fund, provided that:

- 50% of the capital raised for the Fund is invested within 12 months of the Closing Date
- 90% of the capital raised for the Fund is invested within 24 months of the Closing Date
- Within 24 months, at least 80% of the capital raised is invested into companies that were knowledge-intensive at the time the shares were issued
- HMRC is provided with the information required so that they can provide the manager with EIS5s, following the final investment of the Fund

An Investor may also choose to treat some, or all of their investments as made in the year prior to that in which the Fund closed, meaning an investment into this Fund could be carried back to 2022/23.

The tax reliefs

The summary below is based on current law and gives only a brief outline of the tax reliefs. It does not set out all the rules which must be met by EIS-Qualifying Companies and an Investor. The tax reliefs will only be relevant to Investors who pay UK income tax and/or wish to defer a capital gain.

a: Income Tax Relief

Individuals can obtain up to 30% income tax relief on the amount subscribed for Shares in EIS-qualifying Companies (up to an annual maximum £1.0million for the 2023/2024 tax year, or £2.0million provided that the additional £1.0million is invested into Knowledge Intensive Companies), although relief will be denied for investment into an EIS-Qualifying Company with which the individual is connected. Spouses and civil partners can each separately subscribe up to £1.0million, or £2.0million provided that the additional £1.0million is invested into Knowledge Intensive Companies.

b: Capital Gains Tax Deferral

Capital gains tax deferral on unlimited gains invested in qualifying companies, in respect of gains that arise within three years before and 12 months after the date of issue of the shares. To the extent that a UK resident investor (including individuals and certain trustees) subscribes for Shares, they can claim to defer paying tax on all or part of a chargeable gain. The gain may have arisen on the disposal of any asset, or a previously deferred gain may have been brought back into charge. Although there is a limit for income tax relief (see section a) and for the exemption from capital gains tax upon a disposal (see section c), there is no limit on the amount of EIS-qualifying investments which can be used to defer a gain. If the investor dies whilst still holding Shares, the deferred CGT liability is extinguished entirely. Shares in EIS-Qualifying Companies must be issued within one year before and three years after the date of the disposal which gives rise to the gain or the date upon which a previously deferred gain crystallises. The gain is deferred until there is a chargeable event such as a disposal of Shares or an earlier breach of the EIS rules. CGT is chargeable at 10% and 20% from 6 April 2016 for individuals, except on disposals of residential property and carried interest, for which the rates are 18% and 28% (the applicable tax rate depends on the total amount of the individual's taxable income and will be 20% or 28% for an individual liable to higher rates of income tax); 20% for trustees or for personal representatives of someone who has died (except that disposals of residential property and carried interest are taxed at 28%); and 10% for gains qualifying for (pre 6 April 2020) Entrepreneurs' Relief (subject to a maximum lifetime limit of £10.0million), or (post 5 April 2020) Business Asset Disposal Relief ("BADR") (subject to a £1.0million maximum lifetime limit). Deferred gains can come back into charge in the event of a sale, or other disposal (except a gift to a spouse), or

in the event of a company failing. When a previously deferred gain crystallises, the rate of CGT then payable will depend upon the legislation that is in force at that time, and may be greater or lower than the rate that would have applied had Capital Gains Deferral not been claimed. If Capital Gains Deferral is claimed on an Entrepreneurs' Relief qualifying gain that was realised on or after 3 December 2014, Entrepreneurs' Relief (or BADR) will be available when the deferred gain crystallises, up to a maximum of £1.0million.

c: Capital Gains Tax Exemption

Any capital gains realised on a disposal of Shares in an EIS- Qualifying Company after the Three Year EIS Period, and on which EIS relief (see section a) has been given and not withdrawn, will be capital gains tax free. Any capital gains realised on a disposal within the Three Year EIS Period will be subject to CGT at the rate applicable at disposal.

d: Loss Relief against income or gains

Loss relief, which is additive to income tax relief, provides a total tax relief on a failed EIS company of up to 61.5% (for a 45% taxpayer), including the initial 30% income tax relief (subject to any relevant caps). A loss on any qualifying investment in the portfolio, irrespective of the overall performance of the portfolio, can be offset by an investor against their income of the tax year of the loss, or of the previous tax year. Alternatively, they may offset the loss against capital gains (including against the tax liability that arises on the revival of any deferred gain) of the tax year of the loss and future tax years. This relief is available at any time in respect of any loss realised upon a disposal of shares in an EIS-Qualifying Company on which EIS income tax relief (see section a) or CGT Deferral (see section b) has been given and not withdrawn. If the circumstances are such that EIS tax reliefs have been withdrawn, it may still be possible for an investor to claim loss relief, on the amount equal to the economic loss sustained. The Finance Act 2013 introduced a cap on reliefs which may be claimed for income tax purposes. EIS income tax relief is not subject to the cap, nor is loss relief that is set against income on the disposal of shares on which EIS income tax relief has been claimed and retained. However, loss relief that is set against income which has arisen from the disposal of shares where EIS income tax relief has not been claimed or retained, does fall within the cap on reliefs. The cap restricts income tax reliefs in any tax year to either £50,000 or 25% of income, whichever is greater. Losses offset against capital gains are not restricted.

e: Inheritance Tax – Business (Property) Relief

Through the availability of Business (Property) Relief (BPR, also known as BR), there may be 100% inheritance tax exemption on the death of the investor (or on certain lifetime transfers) for each individual investment that has been held for at least two years. There is no upper limit on the amount or value of assets that can be exempt from inheritance tax through Business (Property) Relief.

Claiming tax relief

Once the Fund has been fully deployed, with over 90% of its capital invested, including 80% into Knowledge Intensive Companies, Mercia will apply to HMRC to obtain EIS5 certificates. The EIS5 certificate will allow an investor to claim the tax reliefs, based on the total amounts invested into the underlying portfolio companies. The latest date you can file a claim for EIS relief is five years after 31 January following the tax year to which the claim relates.

Knowledge-intensive Companies

Knowledge-intensive Companies are those that spend a certain proportion of their cost base on research and development or innovation. Additionally, they need to meet either an innovation condition or a skilled employee condition.

Approved Fund Status

The approval of a fund by HM Revenue and Customs is relevant only for the purpose of attracting certain tax advantages provided in Section 251, Income Tax Act 2007. Such approval covers only certain administrative matters. It in no way bears on the commercial viability of the investments to be made; neither does it guarantee the availability, amount or timing of relief from income tax or capital gains tax.

Further information

For further information, please get in touch:

enquiries@merciamco.co.uk | merciamco.co.uk

Please note that this is only a condensed summary of the taxation legislation and should not be construed as constituting advice which a potential Investor should obtain from their own investment or taxation adviser before applying for an investment in the Fund. The value of any tax reliefs will depend on the individual circumstances of Investors. The Fund Manager does not give tax advice and recommends that you consult a tax adviser if you are in any doubt about any of the technical aspects of the EIS legislation.

Appendix B

Glossary of terms

Adviser Fee: A fee charged at the discretion of the Investor, payable to authorised advisers, taken from the Investor's subscription, upon receipt of written instructions from the Investor. This fee is normally paid as soon as possible upon investment, after the cancellation period. The Fund Manager will not pay any commission to advisers or intermediaries.

AIM: The Alternative Investment Market of the London Stock Exchange.

Annual Management Charge: An annual 1.75% charge which is charged to the Investor, which covers the management of the fund. This fee is charged for a maximum of six years.

Applicable Laws: All relevant UK laws, regulations and rules, including those of any government or of the FCA.

Application Form: An application form to invest in the Fund completed by the prospective Investor in the form provided by the Manager.

Associate: Any person or entity which controls (whether directly or indirectly) or is controlled by the Fund Manager. For the purpose of this definition, 'control' shall refer to the ability to exercise significant influence over the operating or financial policies of any person or entity.

BPR: Business (Property) Relief from IHT under Chapter I, Part V of the Inheritance Tax Act 1984.

Business Asset Disposal Relief ("BADR"): Tax relief pursuant to Part V Chapter III of the Taxation of Chargeable Gains Act 1992, (after 6 April 2020) by which material disposals of business assets within an individual's lifetime limit of £1,000,000 qualify for a reduced rate of CGT of 10%.

Capital Gains Deferral: EIS deferral of CGT under Section 150C and Schedule 5B of the Taxation of Chargeable Gains Act 1992.

Capital Gains Exemption: Exemption from CGT on gains realised upon sales of Shares in EIS-qualifying Companies.

CGT: Capital Gains Tax.

Closing Date: 27 March 2024, or such other date as the Fund Manager may determine at its discretion.

Collective Investment Scheme: As defined in the Financial Services and Markets Act 2000.

Custodian: Mainspring Nominees Limited (08255713), or such other or joint administrator and/or custodian as is appointed by the Fund Manager under the

Investors' Agreements from time to time. References to the Custodian also include references to the Nominee, MNL (Mercia) Nominees Limited, which is wholly owned by Mainspring Nominees Limited.

Custody Agreement: The agreement between the Custodian, the Fund Manager and the Investor relating to custody and other services to be provided. A copy of the agreement can be found <https://systems.mainspringfs.com/documents/mercia/custody-agreement/knq>

Custodian and Administration Fee: An annual 0.25% fee charged to the investor, which covers all custodial and administrative duties. To provide clarity, Mainspring Nominees charges the Fund Manager £80 per client per year, alongside dealing commission and other ad hoc fees, which are not directly passed onto the investor, and the 0.25% also covers additional costs for Mercia's administration of the fund.

Date: 17 November 2023

EIS: The Enterprise Investment Scheme, as set out in Part 5 of the Income Tax Act 2007.

EIS-qualifying Company: A company that meets the EIS requirements regarding EIS Relief and Capital Gains Deferral.

EIS Relief: Relief from income tax under EIS.

Entire Agreement: the Investor's Agreement, the Application Form, those parts of the Information Memorandum referred to in the Investor's Agreement and the Custody Agreement.

Entrepreneurs' Relief: Tax relief pursuant to Part V Chapter III of the Taxation of Chargeable Gains Act 1992, (prior to 6 April 2020) by which material disposals of business assets within an individual's lifetime limit of £10,000,000 qualify for a reduced rate of CGT of 10%.

Fees and Expenses: The fees and expenses set out in Schedule 2 to the Investor's Agreement.

FCA: The Financial Conduct Authority.

FCA Rules: The rules contained in the FCA's Handbook of Rules and Guidance.

FSMA: The Financial Services and Markets Act 2000.

Fund (KI EIS Fund): Mercia Knowledge-intensive EIS Fund 2023/24.

Fund Manager or Manager: Mercia Fund Management Limited, or such other fund manager as may be appointed under the terms of the Investor's Agreement.

HMRC: HM Revenue & Customs.

IHT: Inheritance Tax.

Information Memorandum (“IM”, “Memorandum”): This Information Memorandum issued in relation to the Fund.

Intermediary: A person/company who arranges the investment for the Investor.

Initial Fee: Set-up fee deducted from the Investor’s Subscription.

Investee Company: A company in which an investment is made by the Fund.

Investment: An investment made through the Fund.

Investment Objectives: The investment objective for the Fund as set out on page 37 of the Information Memorandum.

Investment Restrictions: The investment restrictions for the Fund as set out on pages 37-38 of the Information Memorandum.

Investor: An individual who completes an Application Form in the form associated with this Information Memorandum which is accepted by the Fund Manager and then invests into the Fund.

Investor Centre: The online portal provided to Investors facilitating access to investment information, as further described at page 18.

Investor’s Agreement: An Investor’s Agreement to be entered into by each Investor, in the terms set out in Appendix C at the back of this Information Memorandum.

IPEV Guidelines: The International Private Equity and Venture Capital Valuation (“IPEV”) Guidelines.

ITA: Income Tax Act 2007.

KI Fund Guidelines: The guidelines provided by HMRC regarding the requirements for a Knowledge-intensive Approved Fund.

Knowledge-intensive Approved Fund: An Approved EIS Fund by HMRC.

Knowledge-intensive Company: As defined in ITA 2007, section 252, Knowledge-intensive Companies are those that spend a certain proportion of their cost base on research and development or innovation, and either meet the skilled employees condition, or innovation condition, as set out in the Knowledge-intensive EIS regulations.

Knowledge-intensive EIS-qualifying Shares: shares issued in Knowledge-intensive EIS-Qualifying Companies.

Loss Relief: Relief from income tax or CGT on losses arising from disposals, or deemed disposals, of Shares.

Maximum Fund Size: The maximum aggregate amount of Subscriptions by Investors determined by the Fund Manager.

Mercia/the Mercia Group: The group of companies which comprises of Mercia Asset Management PLC (“AIM”; “MERC”) and its fund management companies.

Mercia Fund Management Limited: Mercia Fund Management Limited, the manager of this Fund, which is a company incorporated in England and Wales with the company number 6973399 and which is an authorised firm regulated by the FCA under Firm Reference Number 524856.

Minimum Fund Size: The minimum aggregate amount of Subscriptions by Investors determined by the Fund Manager.

Net Investment: The total amount invested into the Investments within the Portfolio.

Nominee: MNL (Mercia) Nominees Limited (13201769), or such other nominee as the Manager may appoint from time to time.

Opening Date: 17 November 2023, or such other date as the Fund Manager may determine at its discretion.

Performance Fee: A 20% fee charged by the Fund Manager on returns over the Investor’s Net Investment.

Portfolio: The monies an Investor subscribes to the Fund, plus all Investments made by that Fund which are allocated to an Investor and registered in the name of the Nominee on their behalf, and which are subscribed out of such monies, plus all income and capital profits arising thereon and so that, where an Investor subscribes more than once in the Fund:

- a All subscriptions made within a single Subscription Period shall be regarded as part of the same portfolio
- b Subscriptions which are made within different Subscription Periods, shall be regarded as separate Portfolios of that Investor within the relevant Fund.

Proceeds: Any cash returned to the Fund on behalf of the Investor from a company sale, dividend receipt, liquidation or winding up event, or any other corporate action or restructure.

Relevant Shares: Shares in which the Fund has invested if and for so long as neither a claim for EIS tax relief made in accordance with Chapter 5, part 5 of the ITA has been disallowed nor an assessment has been made pursuant to Section 235 of ITA withdrawing or refusing relief by reason of the company in which the shares are held ceasing to be a Qualifying Company.

Services: The services provided under the Investor’s Agreement.

Shares: Ordinary equity shares in an Investee Company subscribed for by the Funds on behalf of Investors.

Subscription: A subscription to the Fund pursuant to the Application Form.

Subscription Period: The periods which fall between the Opening Date and the Closing Date and (ii) between any two Closing Dates.

Tax Advantages: The various tax advantages, including but not limited to EIS relief, arising from subscriptions for shares in EIS-qualifying Companies.

Three Year EIS Period: The period beginning on the date on which the Shares in an EIS-qualifying Company are issued and ending three years after that date, or three years after the commencement of the Investee Company’s trade, whichever is later.

Appendix C

Investor's Agreement

The following Investor's Agreement covers investments made into the Mercia Knowledge-intensive EIS Fund 2023/24.

1 Definitions, construction and interpretation

- 1.1 In this Investor's Agreement the definitions contained in the Glossary in Appendix B shall apply.
- 1.2 Words and expressions defined in the FCA Rules which are not otherwise defined in this Investor's Agreement shall, unless the context otherwise requires, have the same meaning in this Investor's Agreement.
- 1.3 Any reference to a statute, statutory instrument or to rules or regulations shall be references to such statute, statutory instrument or rules and regulations as from time to time amended, re-enacted or replaced and to any codification, consolidation, re-enactment or substitution thereof as from time to time in force.
- 1.4 References to the singular only shall include the plural and vice versa and words denoting one gender also include any other gender.
- 1.5 Unless otherwise indicated, references to Clauses shall be to Clauses in this Investor's Agreement.
- 1.6 Headings to Clauses are for convenience only and shall not affect the interpretation of this Investor's Agreement.
- 1.7 The Entire Agreement sets out the terms upon which the Fund Manager agrees to manage and/or administer the Fund. Upon acceptance of an Application Form (signed either physically or electronically), the Entire Agreement will constitute the whole of the binding agreement between each Investor and the Fund Manager in respect of the Fund.
- 1.8 This agreement shall be binding on, and enure to the benefit of, the Investor and their respective personal representatives and successors and references to an Investor shall include the Investor's personal representatives and successors.
- 1.9 For the avoidance of any doubt, electronic signature of this Agreement (whatever form the electronic signature takes) is conclusive of the Investor's intention to be bound by this agreement as if signed by manuscript signature.

2 Investing in the Fund

- 2.1 The Entire Agreement comes into force on the date on which an Investor is notified in writing by the Custodian that their Application Form is accepted into the Fund.

- 2.2 The Entire Agreement enables the Investor to invest in the Fund.

- 2.3 The Investor hereby appoints the Fund Manager, on the terms set out in this Investor's Agreement, to manage their Portfolio(s) as one of a series of similar Portfolios which together constitute the Fund. The Fund Manager agrees to accept its appointment and obligations on the terms set out in this Investor's Agreement.

- 2.4 The Fund Manager has selected the Custodian to act as the administrator of the Fund and the administrator and Custodian of the assets within the Fund, in particular, to provide all safe custody and nominee services in connection with the Fund on the terms of the Custody Agreement entered into between the Fund Manager and the Custodian and the client and the Custodian. The Custodian has agreed to accept such appointment.

- 2.5 The Fund Manager is authorised and regulated by the Financial Conduct Authority for the conduct of UK business under FRN 524856.

- 2.6 The Custodian is authorised and regulated by the Financial Conduct Authority for the conduct of UK business under FRN 591814.

- 2.7 If an application set out in an Application Form is not accepted, the Fund Manager and/or Custodian will promptly notify the Investor and return any Subscription monies with respect to such Application Form from the Investor.

- 2.8 The objective of the Fund is to invest in shares in companies that qualify for EIS Relief. The specific details of the Fund and the investment strategy are set out in the Information Memorandum.

- 2.9 In managing the Fund, the Fund Manager will at all times have regard to the investment strategy and use reasonable endeavours to ensure that it invests only in Knowledge-intensive EIS-qualifying Shares on behalf of the Investors. However, the Fund Manager is unable to guarantee that such securities are or will remain qualifying for EIS Relief. Whether Investors are entitled to EIS Relief will depend on their individual circumstances and may be subject to change in future.

- 2.10 Investors submitting an Application Form (or authorising an Intermediary to do so on their behalf), constitutes a confirmation that Investors irrevocably agree to the Fund Manager's selection of the Custodian, in accordance with the Custody Agreement. The Custody Agreement forms part of the Entire Agreement.

- 2.11 Investors submitting an Application Form (or authorising an Intermediary to do so on their behalf) and the Fund Manager accepting such application, constitutes a confirmation that Investors appoint the Fund Manager to manage the Fund on the terms of this Investor's Agreement.

2.12 The Fund Manager may, at its sole discretion accept or reject Application Forms for any reason.

3. Subscriptions

3.1 The Investor:

- a Must make a Subscription of not less than £10,000, unless otherwise agreed with the Fund Manager
- b May make further Subscriptions up to and including the Closing Date.

3.2 The Investor may make a withdrawal from the Fund, or terminate this Agreement, pursuant to Clause 17 below.

4. Investment objectives and restrictions

4.1 In performing the Services, the Fund Manager shall have regard to and shall comply with the Investment Objectives and the Investment Restrictions.

4.2 In performing the Services, the Fund Manager shall at all times have regard to:

- a The need for the Investments to attract the Tax Advantages
- b All Applicable Laws.

4.3 In the event of a gradual realisation of Investments prior to termination of the EIS Fund under Clause 17.1, the cash proceeds of realised Investments will be held as cash on behalf of the investor. Fees will be deducted from such proceeds in accordance with clause 11.7 and residual proceeds may be withdrawn upon the Investor's instruction.

5. Cancellation rights

5.1 The Investor has the right to cancel their Subscription within 14 days of the date of the Custodian's acceptance letter, which is sent on behalf of the Fund Manager. To do so the Investor must notify the Fund Manager in writing at the address set out in "Further Information and Contacts".

5.2 If the Investor exercises the cancellation rights, the Fund Manager will arrange for the Custodian to refund any monies paid by the Investor less any charges the Fund Manager has already incurred for any service undertaken in accordance with the terms of the Investor's Agreement.

5.3 The Fund Manager will arrange for the return of any such monies as described in Clause 5.2 as soon as possible but in any event not more than 30 days following cancellation. The Investor will not be entitled to interest on such monies.

5.4 Any sums paid by an Investor for the purposes of paying an Intermediary may be retained by the Intermediary unless it has agreed otherwise with the Investor. It is the responsibility of Investors and their Intermediaries to agree their own cancellation arrangements and the Fund Manager is not responsible for the recovery of such fees on behalf of Investors.

5.5 If the Investor does not exercise this right to cancel within the requisite time period, the Investor will still be entitled to exercise the right under Clause 17 below to terminate this Agreement which is a separate right.

5.6 The right to cancel does not give the Investor the right to cancel/terminate/reverse any particular investment transaction executed for the account of the Investor's portfolio before cancellation takes effect.

6. Client and regulatory categorisation

6.1 The contractual scheme set up under this Investor's Agreement in order to acquire shares in the Investee Companies and comprising the Fund will constitute an alternative investment fund for the purposes of the Alternative Investment Fund Managers Directive. The Fund does not constitute an unregulated collective investment scheme under the Financial Services and Markets Act 2000.

6.2 The Investor confirms for the purposes of the FCA Rules the Fund as a whole will be deemed to be client of the Fund Manager. The Fund Manager shall treat the Fund as a whole as a professional client for the purposes of the FCA rules.

The Fund Manager will act in the interests of the Fund as a whole and individual investors shall constitute underlying investors in the Fund.

6.3 In respect of services provided by the Custodian for investors in the Fund, such investors will be categorised as "retail customers". The Investor has the right to request a different categorisation, but in doing so there may be changes to the level of client protection received.

7. Management of the Fund and services

7.1 The Fund Manager will manage the Fund and will exercise all necessary powers in order to manage the Fund and acquire assets for the Fund which the Fund Manager reasonably believes to be Knowledge-intensive EIS-qualifying Shares.

7.2 The Investor agrees that the Fund Manager will manage the Fund at its sole discretion and without prior reference to Investors or Intermediaries. The Fund Manager will comply with the specific Investment Objectives and Investment Restrictions set out in the Information Memorandum. As Manager of the Fund, the Fund Manager will buy and/or sell one or more assets and otherwise act as it thinks appropriate in relation to the management of the Fund, but subject always to the provisions of this Investor's Agreement.

7.3 The Fund Manager will have complete discretionary powers in relation to the selection of, or exercising rights relating to, Investments of the Fund on the terms set out in this Investor's Agreement.

7.4 If the Minimum Fund Size, as set at the total discretion of the Fund Manager, of the EIS Fund is not reached by the Closing Date, the Fund Manager reserves the right to make no Investments and to return the Subscriptions, without interest, to Investors in respect of that fund for which the Minimum Fund Size has not been reached.

Appendix C

Investor's Agreement (continued)

7.5 A copy of the Fund Manager's Order Execution Policy is provided at Clause 10 of this Agreement. Investors should ensure they are familiar with this before completing the Application Form.

7.6 Where an Investor is advised on the suitability of investing in the Fund by an Intermediary, the Intermediary shall, to the exclusion of the Fund Manager and the Custodian, be responsible for assessing the suitability of the Fund for that Investor in the light of the Investors' individual personal circumstances.

7.7 The Fund Manager shall not borrow money on behalf of Investors, nor lend securities or enter into stock lending or similar transactions.

7.8 Any tax benefits referred to in the Information Memorandum are dependent on an Investor's own circumstances. Investors should take specific tax and financial advice based on their personal circumstances. No such advice is provided by the Fund Manager.

7.9 The Investor hereby authorises the Fund Manager to act on its behalf and in the name of the Investor to negotiate, agree and do all such acts, transactions, agreements and deeds as the Fund Manager may deem necessary or desirable for the purposes of making, managing and realising Investments and managing cash funds and Investments on behalf of the Investor and this authority shall be irrevocable and shall survive, and shall not be affected by, the subsequent death, disability, incapacity, incompetence, termination, bankruptcy, insolvency or dissolution of the Investor. This authority (subject to Clause 10.11) will terminate upon the complete withdrawal of the Investor from the Fund.

7.10 The Fund Manager shall not, however, except as expressly provided in this Agreement or unless otherwise authorised, have any authority to act on behalf of, or as the agent of the Investor.

8. Custody

8.1 The Fund Manager has selected the Custodian and Nominee to provide safe custody, nominee and administration services in respect of Investors' Shares, as acknowledged and agreed to by Investors as part of this agreement.

8.2 The Custodian shall deal with Investors' money and Shares in accordance with the client money and assets rules and guidance set out in the FCA Handbook as applicable and current from time to time, as detailed in the Custody Agreement.

8.3 Assets held on behalf of the Fund, including investment certificates, will be registered in the name of the Nominee to be held on trust by the Nominee for the Investor, who will remain the beneficial owners of the assets.

8.4 The Fund Manager and the Custodian will, in accordance with the Applicable Laws in force from time to time, keep records to show that each Investor is the beneficial owner of the relevant assets.

8.5 Investors acknowledge and agree that the Custodian is not obliged to seek or accept any instruction or direction directly from Investors in respect of any instructions given by the Fund Manager and in relation to the exercise of their rights in respect of the Investments.

8.6 The Investors shall pay or reimburse the Custodian from time to time for any transfer taxes payable upon transfers, exchanges or deliveries of securities made under the Custody Agreement.

8.7 The Investor authorises the Custodian to deduct from any cash received or credited to the Investor's account, any amount of taxes or levies required by any revenue or governmental authority for whatever reason in respect of the Investor's accounts.

8.8 The Fund Manager shall have discretion to instruct the Custodian to exercise the voting and other rights attaching to the Investments comprising the Fund save that the Fund Manager shall in no event so instruct the Custodian in respect of any controlling interest in any Investee Company.

8.9 The Custodian will hold assets in the name of their Nominee, which is an omnibus account. Individual customer entitlements are not identifiable by separate certificate or other physical document of title or external electronic record. In the event of a default of the Custodian, those for whom it holds securities may share in any shortfall pro rata. The Fund Manager and/ or Custodian may deliver or accept delivery of certificates on behalf of the Nominee, and any certificates the Fund Manager receives will be immediately forwarded onto the Custodian. The Nominee holds the Investments pursuant to a trust under which the interests of customers are created or extinguished when a customer makes acquisitions or disposals in accordance with this Agreement. Pursuant to section 250(1) and section 257HE Income Tax Act 2007 shares subscribed for, issued to, held by or disposed of for an individual by a nominee are treated for the purposes of the EIS as subscribed for, issued to, held by or disposed of by the individual Investor.

The Custodian shall maintain at all times a record sufficient to show the beneficial interest of the Investor in the whole number of Shares allocated to their Portfolio and the cash within their Portfolio.

8.10 Investments or title documents may not be lent to a third party and nor may there be any borrowing against the security of the Investments or such title documents.

8.11 An Investment may be realised by the Fund Manager in order to discharge an obligation of the Investor under this Agreement, for example in relation to payment of fees, costs and expenses.

8.12 The voting rights attached to any Investment shall be exercised by the Fund Manager and/or Custodian by the instruction of the Fund Manager.

8.13 The Custodian will, in the case of variations in the share capital, receipts of a notice of conversion or proposal to wind up, amalgamate or takeover a company in which an Investment is held for the Investor:

- a A bonus or capitalisation issue will be automatically credited to an Investor's holding
- b Otherwise (where appropriate) the Fund Manager will be sent a summary of the proposal and the required action to be taken (if any)
- c If, on a rights issue, no instruction is received from the Fund Manager, the Nominee will allow the rights to lapse. Lapsed proceeds will be credited to the Investor. However, if nil paid rights in a secondary market are acquired for the Investor, such rights will be taken up, unless the Fund Manager provides contrary instructions
- d All offers will be accepted upon going unconditional whether or not any instructions have been received
- e Entitlement to Shares will be to the nearest whole Share rounded up or down at the discretion of the Fund Manager, any balancing fractional entitlement may be held by the Nominee for the Fund Manager.

8.14 The Custodian will hold Investors' uninvested cash in a client money trust status bank account pending investment. The Custodian will pay interest on money held in its client money bank account at 2% below the Royal Bank of Scotland interest rate, with a floor at 0%. If the bank interest being charged is negative, this will appear as a charge on the Investor's account.

8.15 Any cash balance held by the Custodian for Investors in the Fund will be classed as Client Money and accordingly deposited in a client bank account with an authorised banking institution, together with cash balances belonging to other Mercia funds. Such account will be established and acknowledged by the banking institution as a client bank account. These deposits may be held either in instant access accounts or in unbreakable term deposits of up to 95 days, the use of these unbreakable term deposits may lead to the delay in the return of your funds in the event of either the insolvency of the banking institution or the Custodian. Neither the Custodian nor the Fund Manager shall have any liability whatsoever or howsoever arising if any such banking institution should be or become insolvent or otherwise unable to repay monies belonging to the Investor which have been so deposited. The Fund Manager and/or the Custodian may debit or credit the account for all sums payable by or to the Investor (including dividends receivable in cash and fees and other amounts payable by the Investor) and make adjustments:

a In respect of sums received by the Investor otherwise than as a result of credits properly made to the account initiated by the Fund Manager and/or the Custodian under the Investor's Agreement

b To effect settlement in respect of Investments.

8.16 The Fund Manager and/or Custodian may, subject to the FCA Rules pay away to charity any unclaimed cash of the Investor if there has been no movement in the balance in the bank account in a period of six years (notwithstanding any payments or receipts of charges, interest or similar items) and the Fund Manager and/or Custodian has taken reasonable steps to contact the Investor and to return the balance, in accordance with the FCA rules and likewise in the case of unclaimed stock this may be liquidated and the proceeds paid away to charity after twelve years subject to the Fund Manager and/or Custodian having taken reasonable steps to contact the Investor and to return the stock, in accordance with the FCA rules.

8.17 The Fund Manager may arrange for client money to be held in escrow in a solicitor's client money account if required under the terms of a specific transaction. Neither the Custodian nor the Fund Manager shall have any liability whatsoever or howsoever arising if any such banking institution should be or become insolvent or otherwise unable to repay monies belonging to the Investor which have been so deposited.

9. Reports and information

9.1 Investors will receive half yearly statements produced by the Custodian, in respect of their Portfolio for the periods ending on or around 31 March and 30 September. Investors may request to receive reports more frequently or request ad hoc reports or valuation information, and the Fund Manager shall provide these (at their discretion) to the extent reasonably practicable to do so. The half yearly reports will also show income and interest credited to the Investor's portfolio, fees charged and transactions made within the period. Investments will be valued in accordance with appropriate IPEVC Guidelines from time to time prevailing.

9.2 The Fund Manager will value investments in line with IPEV Guidelines.

9.3 Details of dividends which are received in respect of the Investments will be provided in respect of each tax year ending 5 April and appropriate statements sent to the Investor within sections 1105(1), (2) and (3) of the Corporation Tax Act 2010.

9.4 The Fund Manager shall supply such further information which is in its respective possession or under its control as the Investor may reasonably request as soon as reasonably practicable after receipt of such request and duplicates of any valuation statement will be provided upon request.

9.5 Any contract notes, statements, reports or information so provided by the Fund Manager and/or Custodian to the Investor will state the basis of any valuations of Investments provided.

Appendix C

Investor's Agreement (continued)

10. Terms applicable to dealing including Order Execution Policy

10.1 The Fund Manager will treat decisions to deal in investments for the Fund as "orders" to execute transactions in investments. In effecting transactions for the Fund, the Fund Manager will act in accordance with the FCA Rules and applicable laws and rules of relevant exchanges.

10.2 The Fund Manager will comply with the FCA's conduct of business Rules which requires the Fund Manager to take all reasonable steps to obtain, when making investments, the best possible result for the Fund Investor, taking into account the execution factors: price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to making an Investment.

10.3 The Fund Manager acknowledges that price will generally merit a high relative importance when obtaining the best possible result but will also take into account the following criteria for determining the relative importance of these execution factors:

- The characteristics and investment objectives of the Fund and financial instruments that are the subject of the transaction
- The characteristics of the rules of the EIS and the characteristics of the normal commercial practice of the counterparties with which, and the markets in which, the Investee Companies will do business
- Where relevant, the characteristics of any execution venues to which the order may be directed

10.4 In addition, the provision by counterparties of guarantees of minimum contractual levels may be more important than price in obtaining the best possible execution result in the context of achieving the Investment Objective.

10.5 For the Fund, the best possible result will always be determined in terms of the "Total Consideration", representing:

- The price of the financial instrument
- The costs related to the execution, which will include any expenses incurred by the Investors, which are directly related to the execution of the order. This can include, where relevant:
 - Execution venue fees
 - Clearing and settlement fees
 - Any other fees paid to third parties involved in the execution of the order

10.6 Obtaining the best result in terms of Total Consideration will be prioritised over the other execution factors listed above. The other execution factors will only be given precedence over the immediate price and cost consideration where they are influential in delivering the best possible result in terms of the Total Consideration payable.

10.7 The Fund Manager will not generally use third party execution venues and will deal directly with buyers, sellers and issuers of securities as it does not anticipate the existence of alternative trading venues in portfolio investments. The Fund Manager will accordingly generally trade outside of a regulated market or a multilateral trading facility.

10.8 The Fund Manager will monitor execution and compliance with its Order Execution Policy on an on-going basis and will at least once a year make a formal assessment of its dealing policies and notify Investors of any changes.

10.9 Transactions for the Investor may be aggregated with those for other Investors and may be aggregated with other customers of the Fund Manager, and of its employees and Associates and their employees. Investments made pursuant to such transactions will be allocated on a fair and reasonable basis and endeavours will be made to ensure that the aggregation will work to the advantage of each of the Investors, but the Investor should be aware that the effect of aggregation may work on some occasions to an Investor's disadvantage.

10.10 Where transactions for the Investor are aggregated with those for another Investor, the number of Shares in an Investee Company held as an Investment for the Investor shall, as nearly as possible, be in the proportion which the Investor's Subscription bears to the total Subscriptions by all Investors holding the same fund. Variations may be allowed to prevent Investors having fractions of Shares. Entitlement to Shares may be rounded up or down to the nearest whole share at the discretion of the Fund Manager and any balancing fractional entitlement may be held by the Nominee for the Fund Manager. If one or more of the Investors in the EIS Fund is an accountant, lawyer or other professional person who is subject to professional rules preventing them from making an investment in a particular EIS-qualifying Company ("Connected Investor"), then the Investor must notify the Fund Manager prior to the Investment. The Connected Investor will not be allocated any Shares and at the discretion of the Fund Manager the cash value of such Shares may be returned to such Investor, such that the number of Shares so allocated to other Investors in the Fund would not be increased. The Fund Manager may make use of soft-commission arrangements in respect of deals undertaken for the Fund as may be disclosed to the Investor from time to time.

10.11 The Fund Manager will act in good faith and with due diligence in its choice and use of counterparties but, subject to this obligation, shall have no responsibility for the performance by any counterparty of its obligations in respect of transactions effected under this Investor's Agreement.

10.12 Any option which the Fund Manager has to subscribe for shares in any EIS-qualifying Company or SEIS-qualifying Company in which the Fund has invested shall not be capable of assignment except by an employee of the Fund Manager within three years from the date on which the Investment is made.

11. Fees and expenses

11.1 The Fund Manager shall receive fees for their Services, and reimbursements of its costs and expenses, as set out in the Information Memorandum Schedule 2 to this Agreement. The Fund Manager shall otherwise be responsible for meeting all fees of the Custodian and the Nominee, aside from those that may occur in accordance with clause 8.8.

11.2 The Fund Manager will charge fees to Investors (including the Initial Fee, the Annual Management Charge, the Custodian and Administration Fee and Performance Fee), as set out in more detail in the Information Memorandum.

11.3 Where the Annual Management Charge and Custodian and Administration Fee, if applicable, are due to be deducted from Investors' uninvested monies; in circumstances where there are insufficient monies available to meet the fees and charges, the Fund Manager will allow these to roll up interest free to be deducted on a later occasion when sufficient monies may be available to cover such fees and charges, whether such monies are derived from dividends, investment liquidity events, additional investments made by investors, or otherwise.

11.4 Any annual charges which are invoiced but not paid on the agreed timescale, will accrue interest on a daily basis at a rate equivalent of 4% p.a. above the base rate, as defined by the Bank of England.

11.5 The Fund Manager will bear any legal, accounting and other fees incurred by the Fund in connection with potential Investments which do not proceed to completion and may retain for its own benefit any arrangement fees and directors' or monitoring fees which it receives in connection with Investments and any fees for services relating to fund raising and corporate advisory services, accounts, company secretary, legal advice and assistance in maintaining EIS status.

11.6 The Performance Fee will be paid in cash and will only be due to the Fund Manager on investment liquidity events as they occur, otherwise any balance will be due in cash, shares or other instruments upon termination of the Fund. The Fund Manager shall be entitled to assign the benefit of this Performance Fee to an Associate or any other person it may choose.

11.7 In the event of a gradual realisation of Investments prior to termination of the Investor's Portfolio under Clause 17, the cash proceeds of realised Investments will be held as cash on behalf of the Investor. The Annual Management Charges and the Custodian and Administration Fees for years four, five and six will be held on account until payment is due, and any residual proceeds may be withdrawn upon instruction.

11.8 Where applicable, fees as agreed between the Investor and his intermediary in relation to investment in the Fund shall be set out in the relevant Application Form. The Investors authorise the Fund Manager to make such payment on their behalf.

12. Management and administration obligations

12.1 The Fund Manager shall devote such time and attention and have all necessary competent personnel and equipment as may be required to enable it to provide its respective Services properly and efficiently, and in compliance with the FCA Rules.

12.2 Except as disclosed in the Information Memorandum and as otherwise provided in this Investor's Agreement (for example on early termination), the Fund Manager shall not take any action which may prejudice the tax position of the Investor insofar as it is aware of the relevant circumstances, and in particular which prejudice obtaining the Tax Advantages for the Fund Investments.

13. Obligations of the Investor

13.1 The Portfolios to be established by this Investor's Agreement are set up on the basis of the declaration made by the Investor in their Application Form(s) which includes the following statements by the Investor in relation to their Subscription:

- a The fact as to whether or not the Investor wishes to seek EIS Relief
- b That they agree to notify the Fund Manager if any Investment is in any company with which the Investor is connected within Section 163 and Sections 166 to 171 of the Income Tax Act 2007 (EIS)
- c That they agree to notify the Fund Manager if, within three years of the date of issue of Shares by an EIS-qualifying Company, the Investor becomes connected with the company or receives value from such company
- d That they will provide the Fund Manager with their National Insurance number
- e That they acknowledge they have read the contents of the Information Memorandum and Appendices and agree to the contents therein including but not limited to their consent to the Order Execution Policy
- f That they fall within one of the categories of persons to whom the Information Memorandum may be distributed as set out in the Important Notice at the outset of the Information Memorandum and that they acknowledge and understand the risks of making an investment into the Fund as set out in the Information Memorandum.

13.2 The Investor confirms that the information stated in the Application Form in these (and all other) respects is true and accurate as at the date of the Application Form.

13.3 The Investor must immediately inform the Fund Manager in writing of any change of tax status, other material change in circumstance and any change in the information provided in the Application Form to which Clause 13.1 above refers.

13.4 In addition, the Investor must provide the Fund Manager with any information which it reasonably requests for the purposes of managing the Investments of the Investor pursuant to the terms of this Agreement.

Appendix C

Investor's Agreement (continued)

14. Delegation, variation and assignment

14.1 The Fund Manager (and the Custodian where reasonable and as may be agreed with the Fund Manager) may employ Associates or competent (and if relevant appropriately regulated) third parties such as agents and subcontractors, to perform any administrative, custodial or ancillary services to assist the Fund Manager (and Custodian where applicable) in performing its Services, in which case the Fund Manager and/ or Custodian will act in good faith and with due diligence in the selection, use and monitoring of agents. Any such employment of agents shall not affect the liability of the Fund Manager under the terms of this Agreement, nor the Custodian's liability under the Custody Agreement.

14.2 The Fund Manager will give Investors written notice of any such delegation which involves the exercise of its discretionary investment management powers and will not, without the written consent of Investors, delegate the whole or substantially the whole of such powers to a third party.

14.3 The Fund Manager may from time to time change or amend the terms of the relationship with the Custodian, including replacement thereof and negotiate such terms on an arm's length basis in good faith.

14.4 The Fund Manager may amend these terms and conditions in this Investor's Agreement by giving the Investor not less than 10 business days' written notice if it is of an administrative nature and would not cause any prejudice to the Investor.

14.5 The Fund Manager may also amend these terms by giving the Investor written notice with immediate effect if such is necessary in order to comply with HMRC requirements, in order to maintain the EIS Relief or in order to comply with the FCA Rules, or other applicable legal or regulatory requirements.

14.6 The Fund Manager may also amend the terms of the Investor's Agreement by giving the Investor not less than 10 business days' written notice to reflect changes to market practice, to its administrative processes and procedures, computer or database systems, client requirements or any other changes associated with managing the Fund.

14.7 Investors will be given at least 10 business days' written notice in respect of any changes to these terms referred to above, unless the specific circumstances require a shorter or longer period (including, without limitation, where required to do so under the legislation and regulations).

14.8 The Fund Manager may assign this Agreement to any appropriate authorised and regulated person, such assignment being effective upon written notice to the Investor. This Investor's Agreement is personal to the Investor and the Investor may not assign it.

15. Conflicts of interest

15.1 The Fund Manager has implemented a conflicts of interest policy (Conflicts Policy), a summary of which is set out below and which is available on request (and may be updated at the Fund Manager's discretion from time to time). The Conflicts Policy sets out the steps the Fund Manager has taken to identify and prevent or manage conflicts of interest that may arise in the course of the Fund Manager providing any service including those caused by the receipt of inducements from third parties or by the firm's own remuneration and other incentive structures. In particular, the Fund Manager has considered and documented the circumstances in which a conflict may arise as between:

- a The Fund Manager, including its managers, employees and any person directly or indirectly linked to the Fund Manager by control; and a fund managed by the Fund Manager or the investors in that Fund
- b A fund or the investors in that fund, and another fund or the investors in that fund
- c A fund or the investors in that fund and another client of the Fund Manager
- d One client of the Fund Manager and another client of the Fund Manager.

15.2 The Conflicts Policy sets out how identified conflicts are managed. The Conflicts Policy includes details of any conflicts which the Fund Manager could not effectively manage in the event that they arose, and in which circumstances the Fund Manager would not be in a position to provide its services to the Fund. The Conflicts Policy sets out in which circumstances conflicts will be disclosed.

15.3 Investors agree that the Fund Manager or any Associate may effect transactions in which the Fund Manager or an Associate has directly or indirectly a material interest or relationship of any description with another party which involves or may involve a potential conflict with the Fund Manager's duty to the Fund. The Fund Manager shall ensure that such transactions are affected on terms that are not less favourable to the Fund than if the conflict or potential conflict of interest had not existed. Subject to the terms of the Fund Manager's Conflicts Policy and subject to any contrary obligation under the FCA Rules, neither the Fund Manager nor any of its Associates shall be required to account to Investors for any profit, commission or remuneration made or received from or by reason of such transactions.

15.4 The Conflicts Policy provides that the Fund Manager will maintain a record of any actual or potential conflicts and how such conflicts are managed and will report to the governing body of the Fund Manager in relation to conflicts identification, management and monitoring.

15.5 The following contains examples of the types of conflicts that might arise and where the Fund Manager will manage and may need to disclose the conflict:

- a The Fund Manager or an Associate may receive remuneration or other benefits by reason of acting in corporate finance or similar transactions involving companies whose securities are held for the Investor
- b The Fund Manager or an Associate may provide investment services for other customers
- c Any of the Fund Manager's directors, members, partners, employees or Associates, or those of an Associate, is or may become a director of, holds or deals in securities of, or is otherwise interested in any company whose securities are held or dealt in on behalf of the Investor
- d The Fund Manager may be a party to a transaction in securities issued by an Associate or the customer of an Associate
- e The Fund Manager may be party to a transaction in relation to an Investment in respect of which it or an Associate may benefit from a commission or fee payable otherwise than by the Investor and/ or an Associate may also be remunerated by the counterparty to any such transaction
- f The Fund Manager may deal on behalf of the Investor with an Associate
- g The Fund Manager may act as agent for the Investor in relation to the transaction in which it is also acting as agent for the account of other customers and Associates
- h The Fund Manager may have regard, in exercising its management discretion, to the relative performance of other funds under its management
- i The Fund Manager may affect transactions involving placings and/or new issues with an Associate who may be acting as principal or receiving agent's commission. The Fund Manager or an Associate may retain any agent's commission or discount or other benefit (including directors' fees) that accrues to them
- j The Fund Manager may effect a transaction in the securities of a company for which the Fund Manager or an Associate has underwritten, managed or arranged an issue within the period of 12 months before the date of the transaction; or in securities in respect of which the Fund Manager or an Associate, or a director or employee of the Fund Manager or an Associate, is contemporaneously trading or has traded on its own account.

16. Liability

16.1 The Fund Manager will act in good faith and with due diligence in its dealings with the Fund. The Fund Manager accepts responsibility for loss to an Investor only to the extent that such loss is due to the Fund Manager's negligence, wilful default or fraud.

16.2 The Fund Manager will accept no liability for any loss caused by the Custodian, including that due to their negligence, wilful default or fraud.

16.3 Investors agree to indemnify and keep indemnified the Fund Manager against all losses, damages, claims, actions, liabilities, demands, costs and expenses arising from:

- a Any breach of any of the Investor's obligations, duties or representations which the Investor may be deemed to have given under the Entire Agreement
- b Any untrue, inaccurate or incomplete information being provided by an Investor.

16.4 The Fund Manager shall not be liable for any loss to the Investor arising from any investment decision made in accordance with the Investment Objectives and the Investment Restrictions or for other action in accordance with this Investor's Agreement, except to the extent that such loss is directly due to the negligence or wilful default or fraud of the Fund Manager or any of its employees.

16.5 The Fund Manager accepts no responsibility for loss of tax benefits that an Investor may suffer as a result of any transactions that the Fund Manager carries out in connection with the Investor's portfolio, save as provided for in the above clauses.

16.6 The Fund Manager shall not be liable for any defaults of any counterparty, agent, banker, nominee or other person or entity which holds money, investments or documents of title for the Fund, other than such party which is an Associate.

16.7 In the event of any failure, interruption or delay in the performance of the Fund Manager's obligations resulting from acts, events or circumstances not reasonably within its control including but not limited to acts or regulations of any governmental or supranational bodies or authorities and breakdown, failure or malfunction of any telecommunications or computer service or systems, the Investor acknowledges that the Fund Manager shall not be liable or have any responsibility of any kind to any loss or damage thereby incurred or suffered by the Investor.

16.8 The Fund Manager shall not be liable for any loss or damage of any direct or indirect nature caused by:

- a Changes in revenue law or practice as determined by HMRC from time to time
- b Any other changes in the legislation and regulations since the date of the Entire Agreement.

Investors acknowledge that any assurance given by HMRC in respect of a Company does not guarantee the availability, timing or amount of income tax or capital gains tax relief.

16.9 The Fund Manager gives no representations or warranties as to the performance of the Fund. Investments are high risk investments, being non-Readily Realisable Investments. There is a restricted market for such Investments, and it may therefore be difficult to sell the Investments or to obtain reliable information about their value. Investors should consider the suitability of investment in the Fund carefully and note the risk warnings set out in the Information Memorandum.

Appendix C

Investor's Agreement (continued)

16.10 The liability of the Fund Manager to an Investor under this Investor's Agreement whether in contract, tort (including negligence), breach of its statutory duty, or otherwise, arising under or in connection with this Investor's Agreement shall be limited to remuneration received by the Fund Manager in connection with that Investor's Subscription. Nothing in this Clause 16 shall exclude any relevant duty or liability owed to the Investor under the FCA Rules.

17. Termination and withdrawal rights

17.1 The Fund Manager reserves the discretion as to the timing, however, anticipates investments made by the Fund to have been realised within seven years from the relevant Closing Date. On termination of the Fund, the Fund Manager shall endeavour to procure that all Shares in the Investor's Portfolio will be sold or realised by way of a liquidation of the Investee Companies or otherwise howsoever, provided always that the Fund Manager shall not be required to sell or realise any Shares where the Fund Manager, in its discretion, believes that the price at which such Shares may be sold or realised at that time does not fairly represent the value of such Shares. The Fund Manager will pay, or cause to be paid to, the Investor the Proceeds of such sale or realisation as soon as reasonably practicable after such sale or realisation takes place. Any cash within the Investor's Portfolio will be paid to the Investor.

17.2 The Investor is entitled to withdraw their investments to the extent that any withdrawal is made in full. However, in that event, the Manager is required by HMRC's K1 Fund Guidelines to sell all of the shares held by the Investor. If a withdrawal instruction is received, the Manager will arrange to sell the underlying Investments held on behalf of the Investor. A withdrawal made within the Three-Year EIS Period will trigger a claw back of tax reliefs. As the shares are not readily realisable, it may not be possible to facilitate an early withdrawal. The Fund Manager will have a lien on all assets being withdrawn or distributed from the Fund in relation solely to the settlement of liabilities owed by an Investor to the Fund Manager. The balance of any sale proceeds will then be passed to the Investor. This Entire Agreement shall terminate upon the completion of the withdrawal from the Fund of all Shares and cash which the Investor is entitled to receive under this Clause 17.2.

17.3 If:

- a The Fund Manager gives to the Investor not less than three months' written notice of its intention to terminate its role as Fund Manager under this Agreement

- b The Fund Manager ceases to be appropriately authorised by the FCA or becomes insolvent, the Fund Manager shall endeavour to make arrangements to transfer the Investments to another fund manager in which case that fund manager shall assume the role of the Fund Manager under this Agreement, failing which the Agreement shall terminate forthwith and, subject to Clause 18, the Investments held for the account of the Investor shall be transferred into the Investor's name or as the Investor may otherwise direct.

17.4 Provided that neither Clause 17.2 nor 17.3 applies, this Agreement shall terminate upon the payment to the Investor of all sums due to the Investor in accordance with Clause 17.1.

18. Consequences of termination

18.1 On termination of this Agreement pursuant to Clause 17, the Fund Manager will use reasonable endeavours to complete all transactions in progress at termination expeditiously on the basis set out in this Investor's Agreement.

18.2 Termination will not affect accrued rights, existing commitments or any contractual provision intended to survive termination and will be without penalty or other additional payments save that the Investor will pay fees, expenses and costs properly incurred by the Fund Manager (including a fair amount in compensation for accrued performance incentive up to and including the date of termination) and where the Fund Manager has sought to obtain a performance incentive through a subscription for Shares in Investee Companies then the Fund Manager shall hold such proportion of those Shares which is in excess of a fair amount in trust for any new manager or the Investor and shall execute such transfers of those Shares and do all such acts and transactions.

18.3 On termination, the Fund Manager may retain and/or realise such Investments as may be required to settle transactions already initiated and to pay the Investor's outstanding liabilities, including fees, costs and expenses payable under this Investor's Agreement to a fair amount determined pursuant to Clause 18.2 in compensation for accrued performance incentive.

19. Data protection and confidential information

19.1 The Custodian shall be the Controller and the Processor of the Investor's Personal Data. Clause 30 (Data Protection) of the Custody Agreement shall govern the use of the Investor's Personal Data.

19.2 If the Fund Manager holds the Investor's Personal Data for any reason, the data will be held in accordance with the Fund Manager's privacy policy which can be found at: www.mercia.co.uk/privacy-policy/ Specifically where we hold your data as an Investor, we hold such data as described here: www.mercia.co.uk/privacy-policy/individual-investor/

20. Complaints and compensation

20.1 If the Investor has a complaint regarding the Services, they may raise the complaint with their independent financial adviser or directly with the Fund Manager by writing to the Compliance Officer at the address shown in the Information Memorandum, or by contacting the Fund Manager by email or telephone.

20.2 Complaints relating to the Custodian should be notified to the Custodian by post or email (copied to the Fund Manager), and marked for the attention of the Compliance Officer.

20.3 The Fund Manager and the Custodian both maintain complaints policies. Investors may request a copy of the Fund Manager's or the Custodian's complaints-handling policy at any time.

20.4 Complaints relating to the Fund Manager or the Custodian will be dealt with in accordance with the FCA rules including as to acknowledgement, keeping the Investor informed and providing a final written response. Any complaints that the Fund Manager or the Custodian are unable to resolve with the Investor, may be referred to the Financial Ombudsman Service ("FOS"). The FOS is an independent service set up to resolve disputes between customers and businesses providing financial services.

The FOS can be contacted at Exchange Tower, Harbour Exchange, London, E14 9SR and further information may be found at: www.financial-ombudsman.org.uk

20.5 The Investor may be entitled to compensation from the Financial Services Compensation Scheme ("FSCS") if the Fund Manager or the Custodian has been declared 'in default' and cannot resolve any successful claim made against it by the Investor. The Investor may be entitled to compensation from the FSCS in the event that the bank holding their subscription monies becomes insolvent (the maximum claim being £85,000). The maximum claim if the Fund Manager or Custodian is declared in default and cannot meet a claim against it is £85,000 per eligible Investor. Further information about compensation arrangements is available on request from the Fund Manager, or directly from the FSCS at: www.fscs.org.uk

21. Notices, instructions and communications

21.1 The Fund Manager will communicate with the Investor in English. All of the Fund Manager's documentation and any other information that the Investor receives from the Fund Manager will be in English.

21.2 Notices of instructions to the Fund Manager should be in writing and signed by the Investor, except as otherwise specifically indicated. Instructions sent by email from an account notified by the Investor to the Fund Manager and Custodian as the Investor's email address, will be accepted.

21.3 The Fund Manager may rely and act on any instruction or communication which purports to have been given by persons authorised to give instructions by the Investor under the Application Form or subsequently notified by the Investor from time to time and, unless that relevant party receives written notice to the contrary, whether or not the authority of such person shall have been terminated.

21.4 All communications to the Investor shall be sent (whether postal or electronic) to the latest address notified by the Investor to the Fund Manager or the Custodian and shall be deemed received by the Investor on the second day after posting or on the day after dispatch in the case of electronic communication. All communications by the Investor shall be made in writing or (save as otherwise provided) shall be made by telephone to the Fund Manager or the Custodian, in which case conversations may be recorded for the avoidance of any subsequent doubt. Communications sent by the Investor will be deemed received only if actually received by the Fund Manager or the Custodian. Neither the Fund Manager nor the Custodian will be liable for any delay or failure of delivery (for whatever reason) of any communication sent to the Investor.

22. Governing Law, Interpretation and rights of third parties

22.1 This Investor's Agreement and all matters relating thereto shall be governed by and construed in accordance with English Law and the parties submit to the exclusive jurisdiction of the English Courts.

22.2 A person who is not a party to this Investor's Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of such third party which exists or is available apart from that Act.

22.3 If any term, condition or provision of this Investor's Agreement shall be held to be invalid, unlawful or unenforceable to any extent, such term, condition or provision shall not affect the validity, legality or enforceability of the remainder of this Investor's Agreement.

Schedule 1:

Investment Objectives

1. To offer investors the opportunity to invest in EISqualifying Companies seeking expansion, development and early stage capital which will not typically be traded on the Official List of the London Stock Exchange.
2. To generate capital gains and provide Investors with the Tax Advantages associated with EIS Investments.

Investment Restrictions

1. In carrying out its duties hereunder in respect of the Fund, regard shall be had, and all reasonable steps taken, by the Fund Manager to comply with such policies or restrictions as are required in order to attract EIS Relief as may be prescribed by HMRC from time to time.

Appendix C

Investor's Agreement (continued)

2. In particular, but without prejudice to the generality of the above statements, the restrictions for the Fund are as follows:
 - a. Investments will only be made after the Closing Date
 - b. Investments shall be in securities of companies the Fund Manager reasonably believes are Knowledge-intensive EIS Qualifying Companies under the existing EIS guidelines
 - c. No more than 30 per cent of the Subscription of the Investor will be invested in any one Investee Company

Further information and contacts

For more information about the Fund, or to speak to a member of the Investor Relations Team, please contact:

0330 223 1430

enquiries@merciamanagement.co.uk

[Merciamanagement.co.uk/eis](https://www.merciamanagement.co.uk/eis)

Follow us on LinkedIn and Twitter to keep up with the latest news and insights from Mercia:

[@Merciamanagement_PLC](https://www.linkedin.com/company/merciamanagement)

Directory

Fund Manager

Mercia Fund Management Limited
Forward House,
17 High Street,
Henley-in-Arden, B95 5AA

Custodian

Mainspring Nominees Limited
6th Floor,
125 London Wall,
London, EC2Y 5AS

Nominee

MNL (Mercia) Nominees Limited
6th Floor,
125 London Wall,
London, EC2Y 5AS

Tax Advice

Philip Hare & Associates LLP
6 Snow Hill,
London, EC1A 2AY

Legal Advice

Bates Wells
10 Queen Street Place,
London, EC4R 1BE

Regulatory Advice

Adempi Associates LLP
71-75 Shelton Street,
London, WC2H 9JQ



[mercia.co.uk](https://www.mercia.co.uk)