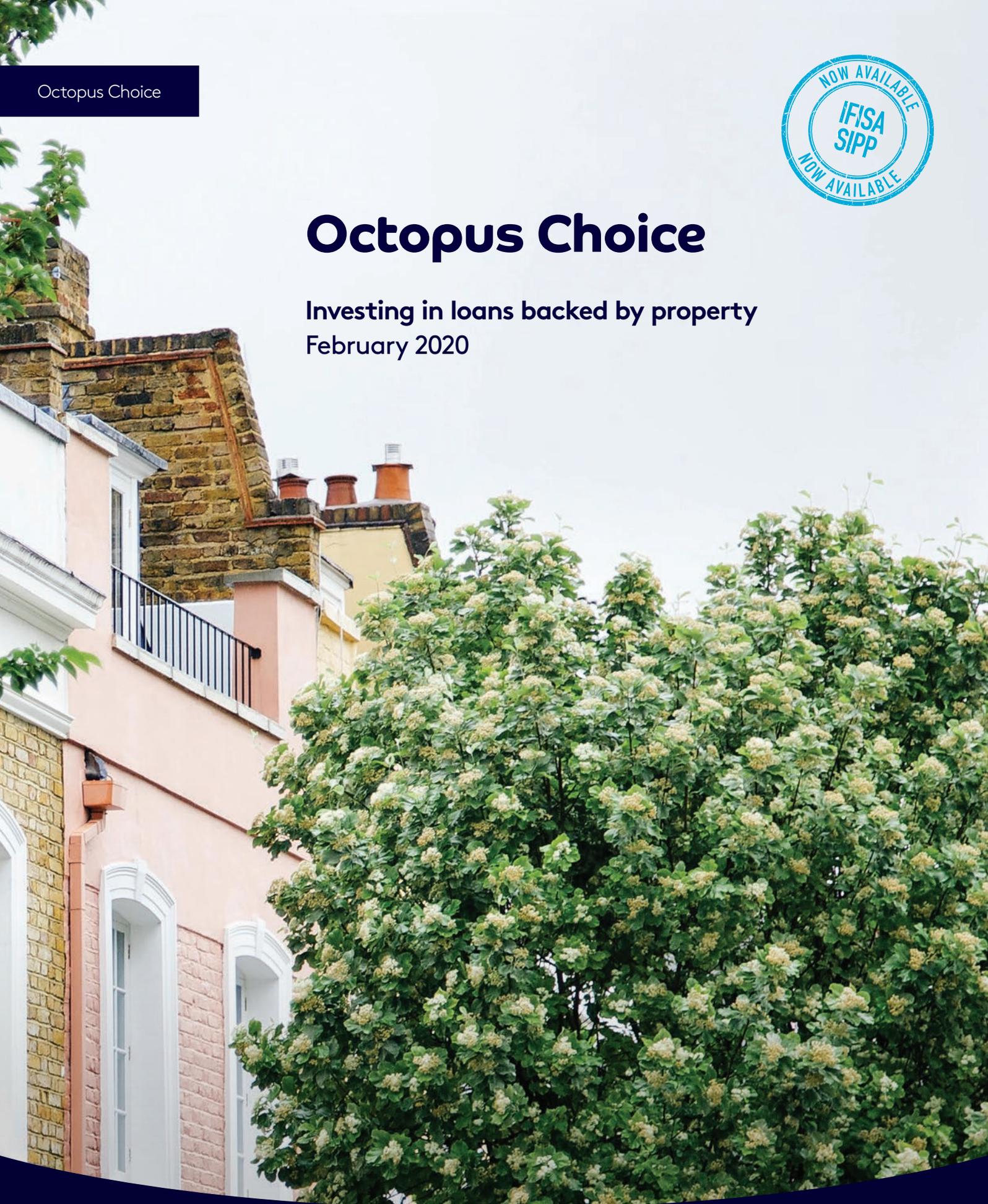


Octopus Choice



Octopus Choice

Investing in loans backed by property
February 2020



octopusinvestments
A brighter way

Key investment risks

Octopus Choice is a peer-to-peer platform which invests your money in loans to borrowers, secured against property. This means the value of your investment and any income from it, can fall as well as rise and you may not get back the full amount you put in.

If borrowers fail to meet the loan repayment terms, the property can be sold, and the proceeds used to repay the loan. As a result, your investment could be adversely affected by a downturn in the property market.

Instant access to your money cannot be guaranteed.

Peer-to-peer investments are not protected by the Financial Services Compensation Scheme (FSCS).

Octopus Choice can also be held in an Innovative Finance ISA (IFISA). The Choice IFISA has a different risk profile to a traditional cash ISA or stocks & shares ISA and will put your capital at risk.

Tax treatment depends on the individual's circumstances and may be subject to change.

We do not offer investment or tax advice. We recommend investors seek professional advice before deciding to invest.

When 'we', 'us' and 'our' are used this refers to the Octopus Co-Lend, the entity which provides Octopus Choice.

Commissioned by Octopus Co-Lend Limited, 33 Holborn, London EC1N 2HT, which is fully authorised and regulated by the Financial Conduct Authority (reference number 722801).

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When Octopus started out in 2000, it believed financial services companies weren't working hard enough for customers – and we wanted to do better.

Since then, that mission hasn't changed. Octopus wants to build products that put people back in control of their finances, and help to make their money work harder. Octopus Choice is designed to do exactly that.

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About Octopus

When we launched Octopus in 2000, we wanted to create an investment company that put its customers first. We started by looking at what didn't work very well, and found ways to do things differently.

Today we have more than **750 employees** and look after **£8.3bn¹**. We work with tens of thousands of clients and we've built market-leading positions in tax-efficient investment, smaller company financing, renewable energy and healthcare. But no matter how big we get, we'll keep doing the simple things well and we'll keep looking after each of our customers, day in, day out.



Our head office is at 33 Holborn, London.

We want what we do to matter, and for the money we invest to make a big difference to people's lives. That's why, for example, we invest in:

- UK smaller companies that create thousands of jobs and generate economic growth.
- Companies that address the needs of older people, by building GP surgeries, retirement villages, care homes and hospitals.
- Renewable energy facilities that are changing the shape of the UK energy market.

We see a strong business case for each of these sectors, whether that's providing for an ageing population in need of lifelong care; or the long-term trend towards renewable energy as a viable alternative to fossil fuels; or investing in dynamic, entrepreneurial companies that have a positive effect on the economy, and the people, around them.

- We currently have £1.6 billion invested in companies listed on the Alternative Investment Market.
- We've helped several start-ups grow to become household names, including Zoopla Property Group, graze.com and Secret Escapes.

Five promises from Octopus

Being different means putting our customers first, every time. Our relationship with our customers is more important than anything else. So, here are five promises we are determined to keep.

1 We'll always remember that it's your money

This means we work for you, so if you want to talk to the fund managers who invest your money, you can. Just call us on **0800 316 2295** or pop in for a visit.

2 We'll never treat you like just another customer

We don't use call centres and we don't have recorded messages telling you "how important your call is". Our Investor Relations Team is frequently praised by our customers for the help and attention they give.

3 We'll always keep trying to improve

Having the courage to do things differently lets us create innovative solutions to the real problems people face.

4 We'll keep putting customers first

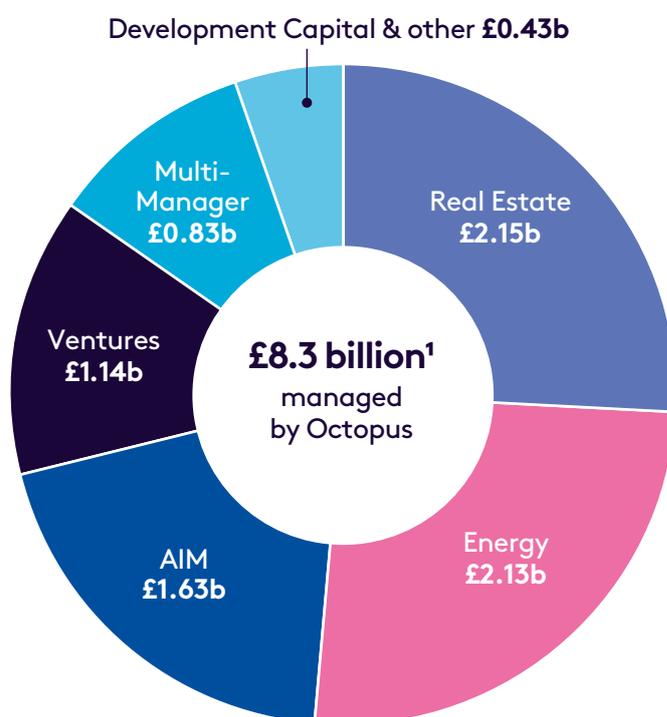
Octopus is not listed on a stock exchange, and is mostly owned by the people who work here. That means we're not accountable to public shareholders demanding short-term profits, so we don't have to cut corners or lower our standards.

5 We'll never let complexity win

The best companies and products make your life simpler, not harder. Why should financial services be any different? Although we have to include some fairly complicated information in this brochure, we've done our best to avoid small print and tried to remove any unhelpful jargon. If we haven't got it right, please let us know.

There's more to Octopus than you might think...

We manage assets on behalf of retail investors, institutions and charities across a range of specialist sectors.



Talk to Octopus to find out more

We can't give you financial or tax advice, but we can answer any questions you have about us, or about this investment. So, if you have any questions after reading this brochure, please give us a call on **0800 316 2295** or visit **octopusinvestments.com**.

¹ Octopus Group, 30 September 2019. The figure shown includes funds under management as well as advisory arrangement.

What is Octopus Choice?

Octopus Choice lets everyday investors do what banks have been doing for years – invest in loans secured against property.

It's the staple of the banking sector. Lending to those who need it in return for regular interest payments.

Until now, investing this way has been the preserve of big institutions and wealthy family offices.

Octopus Choice is changing that. It uses peer-to-peer technology to gather money from lots of different people and invest it in carefully selected loans that are secured against property. That way, everyday investors can also access the attractive returns available to lenders.

So how does it work?

- You decide how much to invest and we'll invest it in a minimum of ten carefully selected loans. While we will always aim to get your money working as quickly as we can, depending on demand this may take some time.
- We build a portfolio of different loans for you. We handle the work of screening borrowers and valuing properties.

- The interest that each borrower pays combines to give you a personal interest rate, which you receive each month.
- The target interest rate is 4% a year, although this will vary according to the specific loans in your portfolio. The actual interest rate you get depends on the rate of individual loans and whether the borrowers repay as expected.

Investing in Octopus Choice puts your capital at risk. The value of an investment, and any income from it, can fall as well as rise. For full risks please see page 12.

Withdrawing your money

There is no minimum investment period and you can request a withdrawal at any time; however there is no guarantee that you will be able to access all of your investment straight away. We recommend that investors consider this investment with a time horizon of 18 months or more.

What is peer-to-peer lending?

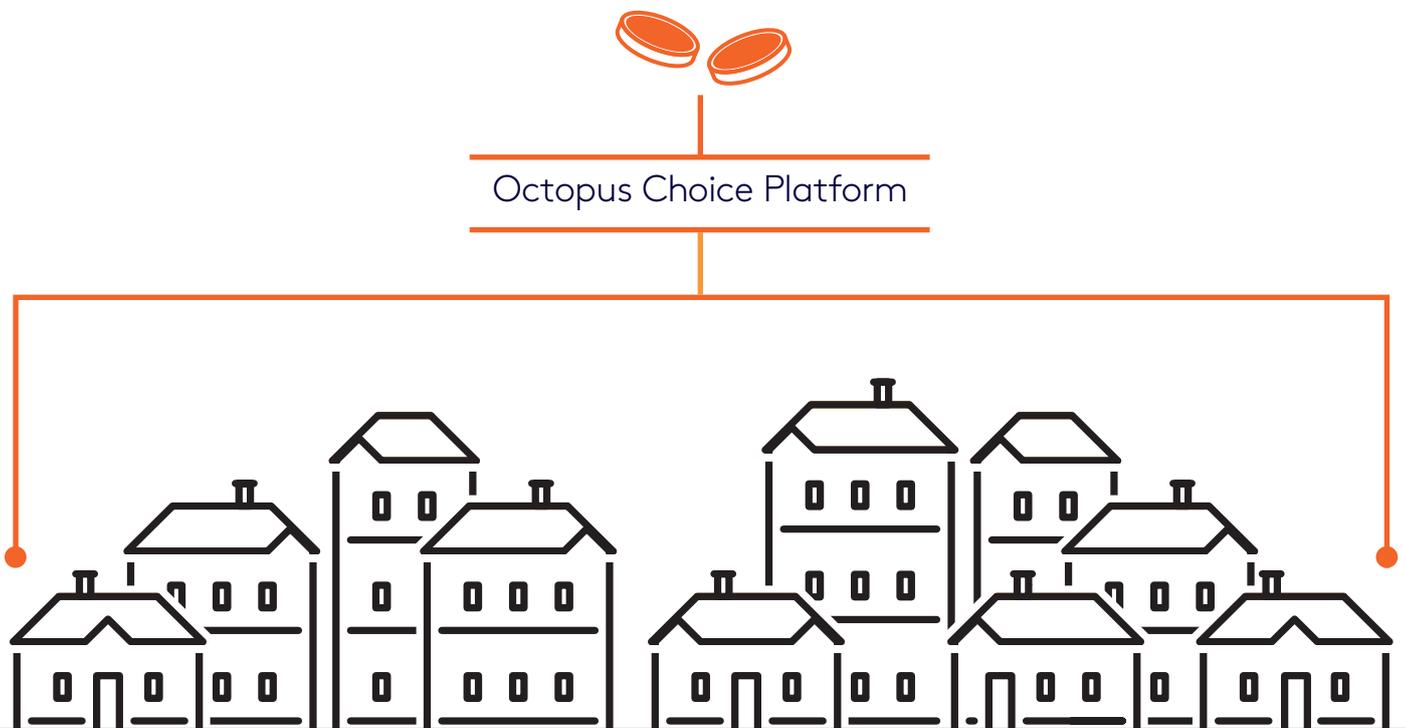
Peer-to-peer lending is lending to individuals or businesses with the aim of earning regular interest. The Financial Conduct Authority (FCA) has regulated firms that conduct peer-to-peer lending since April 2014.

The peer-to-peer market is diverse and covers both secured and unsecured lending.

What is secured lending?

Secured lending is where the borrower pledges an asset, in this instance property, as security for the loan. If the borrower is then unable to repay, the lender can take possession of the asset and sell it. The proceeds can then be used towards repaying the loan.

While secured lending mitigates the risk of a borrower default, it does not guarantee investors will get all of their money back or earn all of their interest.



Each house in the street above represents a single loan with its own interest rate. They're all funded by investor money from Octopus Choice and combine to give an investor a personal rate.

Weighing up your investments in Choice

Octopus Choice aims to help investors get a regular income, by investing their money in a portfolio of loans secured against property. Let's take a closer look.

Key benefits

A target rate of 4%

A variable rate of around 4% per year (gross of tax). Interest is paid monthly, and you can choose whether to have it automatically re-invested, or paid into your bank account.

Interest earned on money held in an Octopus Choice General account is taxable income, but may be tax-free under the personal savings allowance. Read more about the accounts we offer on [page 14](#).

Secured lending

All loans are secured against property, which can be sold if the borrower defaults.

First Loss

The first 5% of every Octopus Choice loan is covered by First Loss, which is made up of Octopus and an institutional investor. You'll get your money back before First Loss, and you'll earn your interest first too. Read more on [page 10](#).

Lending track record

All loans are carefully selected by Octopus Real Estate. They've lent over £4.5 billion in property loans since 2009 – and lost less than 0.02%. But remember, past performance is not a reliable indicator of future results.

Key risks

Your money is at risk

Octopus Choice puts your capital at risk. The value of your investment, and any income from it, can fall or rise and you may not get back the full amount you invest.

When you invest with Octopus Choice, your money is lent to borrowers. Returning your money and your interest relies on these borrowers repaying. We can't guarantee that you'll get all your money back or earn all your interest.

Your investment is not protected by the FSCS

Peer-to-Peer lending is not covered by the Financial Services Compensation Scheme (FSCS).

Instant access isn't guaranteed

Withdrawing may mean selling your investment to other investors, Octopus buying them back or waiting for the loan to be repaid. So we can't guarantee instant access to your invested capital.

Property market exposure

All loans made through Octopus Choice are secured against property. If a property needs to be sold, the amount recovered could be affected by a downturn in the property market.

Who sources the loans you invest in?

All Octopus Choice loans are sourced by the award-winning lending team, Octopus Real Estate.

Founded in 2009, Octopus Real Estate has lent over £4.5 billion across more than 3,600 loans, and lost less than 0.02%. The loans that we make available for investment through Octopus Choice have a few things in common:

1 All loans are secured

We think secured lending is less risky than unsecured lending. Why? Because if a borrower defaults on their loan, the asset can be sold and used towards paying the debt.

All loans available through Octopus Choice are secured against a property with first charge. This is important, because a lender with first charge on a property has first call on any funds available from the sale of the property.

2 All loans are conservative

The maximum loan-to-value ratio (LTV) is 76%. This means that, if a borrower were to fail to repay their loan, the property we have taken as security would have to fall in value by 29% before any investor capital would be lost. This 29% includes the first 5% covered by First Loss. Our average loan to value across the Octopus Choice loanbook is 64% (as at 31 December 2019).

3 Loans are typically short term

The average loan term as at September 2019 is 4 years and 11 months. While some loans do carry a term of up to 25 years, they have an initial grace period of two to five years at a lower interest rate. After that, they shift onto a much higher interest rate for the remainder of the term. This encourages borrowers to refinance, at which point they can repay the loan they got from Octopus Real Estate.

An award-winning lending team...



A thorough underwriting process

Investing in property-backed loans puts your capital at risk. That's why it's important every loan goes through a strict underwriting process.

The borrower

The borrowers are typically property professionals in need of short-term loans. They are creditworthy borrowers who have come to the property team in Octopus Real Estate because they need a level of speed, flexibility and certainty that traditional lenders often can't provide.

They may use the money for a variety of reasons, for example:

- To add to or start building a buy-to-let portfolio.
- To diversify their funding away from one bank.
- To renovate a property, after which they will sell or refinance.

The property

Octopus Real Estate instruct a valuer to visit each property and assess its value, followed by a visit from an asset manager. They look at the condition and location of the property, as well as how much rental income the property could generate.

The credit team maintains a panel of qualified valuers with local knowledge and experience, which they review annually.

A potential borrower will undergo know your customer (KYC), anti-money laundering (AML) and credit reference checks.

Octopus Real Estate also undertake a background search on the borrower and review their overall financial position. The borrower's solicitor will also need to certify that they are who they say they are.

When a borrower is a company, Octopus Real Estate will undertake further due diligence to understand the structure of the company and to make sure all documentation is correct.

The loan and exit

Octopus Real Estate structure each loan to ensure the borrower can service it with rental income from the property. This is assessed by an independent valuer, who will also look at the strength of the tenant and term of the lease, market sentiment and performance of the sector.

Octopus Real Estate lend at conservative loan to values. This creates more headroom should the property fall in value and needs to be sold.

Finally, Octopus Real Estate will review the borrower's proposal of how they will repay the loan when it is due to redeem.



Putting your returns first

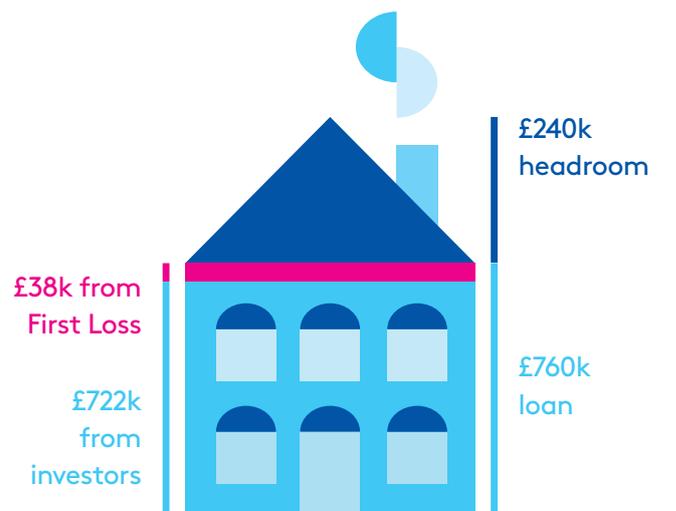
First Loss works in your favour if a loan in your portfolio doesn't meet its target return. However, it doesn't guarantee the performance of your investment.

Octopus initially funds every loan in full before selling them on in smaller chunks to Octopus Choice investors.

The First Loss builds a buffer into every loan.

So how does it work?

- The first 5% of every loan is funded by First Loss. This is made up of Octopus and an institutional investor.
- In each loan, you get your initial investment back before First Loss.
- You'll also earn your interest ahead of First Loss.



Example: for a £760k loan secured against a £1m house, the property would have to fall below £722k in value (27.8%) before any capital would be lost (leaving aside legal costs).

What happens if the loan needs to be recovered?

If the borrower is unable to make the repayments on their loan, the property may be repossessed. After paying legal fees, all the proceeds are returned in the following order:

- 1) As much of your initial investment as possible.
- 2) Then as much of the First Loss investment as possible.
- 3) As much of your owed interest as possible.
- 4) Finally, First Loss will receive any interest owed.
- 5) The management fee will not be taken until you get back all the money you're owed.

However, it's important to note that you won't be able to access the money that's tied up in a loan until the process has finished – and that could take considerable time. Remember, too, that there's no guarantee you'll get all of your money back or earn all your interest.

How charging works

We don't charge you directly to invest in Octopus Choice. Instead, we take a spread on the interest rate earned on loans.

Aside from any fees you agree with your financial adviser, the sum of money you invest is exactly the sum that will be invested into loans.

We take a portion of the interest rate earned from the loans on the Octopus Choice platform.

First Loss also receives a higher rate of interest to compensate for the higher risk taken (remember, this would be lost first, and can only earn interest once you've earned all of yours).

To source the loans available on the platform, borrowers are also charged a monthly fee of up to 0.35%.

We might also earn additional fees. For example, if a borrower repays early, or wishes to extend their loan.

So how does it work?

The easiest way to see how charges work in Octopus Choice is with a worked example. Let's look at a fully funded £1 million loan where the borrower is charged a headline rate of 6.99%.

Owner	Percentage ownership	Loan amount	Annual interest	Effective interest rate	Share of headline rate
First Loss	5%	£50,000	£5,000	10% (First Loss return)	0.5%
Peers (Octopus Choice investors)	95%	£950,000	£38,000	4.00% (investor return)	3.8%
Platform (Octopus Choice)	0%	—	£26,900	2.69% (Octopus spread)	2.69%
		£1,000,000	£69,900		6.99%

This is an illustration. The percentage ownership, loan amount and rate will vary from loan to loan. The maximum effective interest rate that the Platform (Octopus Choice) and First Loss can earn on a loan is 4.2% and 30%, respectively.

Understanding the risks

As with any investment, Octopus Choice has certain risks, which are important to understand and be comfortable with. These include...

Your money is at risk

Octopus Choice puts your capital at risk. It's not a cash savings account. The Octopus Choice IFISA is an Innovative Finance ISA (IFISA), and has a different risk profile to traditional ISAs.

We can't guarantee that you'll get all your money back or earn all your interest.

When you invest with Octopus Choice your money is lent to borrowers. Returning your money and your interest relies on these borrowers repaying.

Your investment is not FSCS protected

It's important to know that your peer-to-peer investment with Octopus Choice is not covered by the Financial Services Compensation Scheme (FSCS).

We can't guarantee instant access

Though we'll always try our best to give you access to your money as quickly as possible, we can't guarantee instant access.

Since Octopus Choice invests in secured loans, its ability to give you access to your money before loans are fully repaid means your part of a loan must be purchased by someone else.

If possible, Octopus will buy your loans to speed up your withdrawal, but that can't be guaranteed.

If a borrower is unable to repay you'll be unable to withdraw your investment in the loan until that borrower is again up to date with their payments or the funds have otherwise been recovered.

We recommend that investors consider this investment with a time horizon of 18 months or more.

Your investment could be affected by market conditions

Your money is only invested into loans secured against property. This means that when the borrowers don't meet the repayments terms for their loan, the property can be sold and the proceeds used to fund the repayment. As a result, your investment could be adversely affected by a downturn in the property market.

Tax rules may change

Tax treatment depends on individual circumstances and may change in the future.

There are conflicts of interest

Octopus does make similar types of secured loans available for investment by other customers, through different products.

First Loss, which consists of Octopus and an institutional investor, also lends alongside you, and earns a higher rate of interest on loan investments. Our allocations policy aims to ensure that all potential conflicts are appropriately managed.

Before choosing to invest, please make sure you have read and fully understand the Octopus Choice terms and conditions. These can be found on the website at octopuschoice.com/terms.

A strong performance record

Since Octopus Choice was launched in 2016, the product has delivered solid returns to thousands of investors. Let's take a closer look.



£250.0m

assets under management



£18.2m

interest paid to date



£477.0m

lent to borrowers to date



691

loans funded

Investment performance to date

(12-month discrete periods)

Year to December 31	2017	2018	2019
Amount invested	£96.1m	£153.1m	£120.8m
Average interest rate	4.30%	4.13%	4.08%
Amount of interest paid	£2.5m	£6.2m	£9.3m
Amount withdrawn	£17.2m	£51.7m	£88.0m

The average interest rate is calculated as the average interest rate of all loans on the platform, during the period, weighted by the loan value.

Lending statistics

(12-month discrete periods)

Year to December 31	2017	2018	2019
Number of loans on the platform	259	460	539
Number of loans in debt collection	0	5	18
Amount of interest lost	£0	£0	£6,903
Amount of capital lost	£0	£0	£0

Octopus Choice launched in March 2016, so no further discrete 12-month performance data is available.

Past performance is not a reliable indicator of future results.

How to invest

There are three ways to invest in Octopus Choice. Through a general account, an IFISA or selected SIPP providers.

General account

Our general Octopus Choice account. This account offers no tax benefits since it is unwrapped.

Innovative Finance ISA account

You can target tax-free interest on Octopus Choice investments by using your annual ISA allowance, or by transferring existing ISAs.

Your money will be invested into exactly the same loans and number of loans as it would if you were to invest through a general account.

Remember, the Octopus Choice IFISA has a higher risk profile than most traditional ISA investments. See **page 12** to learn more.

Invest through a SIPP

Octopus Choice is available through a number of SIPP providers. To learn more, get in touch on **0800 294 6848**.

As with the IFISA your money will be invested into exactly the same loans and number of loans as it would if you were to invest through a general account.

Important information

- The Octopus Choice IFISA is not a flexible ISA. Withdrawals will be treated in exactly the same way as with regular accounts, but they will still count towards your ISA allowance. For example, if you invest your full ISA allowance, then later choose to withdraw the same amount, you won't be able to add any additional funds to your account for the remainder of the tax year.
- In the unlikely event that Octopus Co-Lend falls into insolvency, loans would continue to be managed by Octopus, as part of the company wind down process, and may be transferred to a third party that is an authorised ISA manager. As such your loan agreements would remain enforceable and any money in your Octopus Choice IFISA account would maintain its IFISA status.

Your investment journey

Setting up your initial investment

1 Getting started

After you've talked through your options with your financial adviser, and agreed that Octopus Choice is suitable, they can help you set up your initial investment.

Your adviser can send your application to us online. You will get an email outlining the investment, including any charges you have agreed with your adviser. This email will ask you to agree terms and fund your account.

We will also invite you to create an account so you can keep up to date with your portfolio and the interest you earn.

2 Not online? Not a problem

Don't worry if you don't have an email address. You can still set up an investment with Octopus Choice by completing and returning a paper application form. Your financial adviser can help you with this.

3 Funding your account

The quickest and easiest way to fund your account is by bank transfer. When you set up your account, you'll receive a unique reference and our bank details so you can do this. Alternatively, you can fund your account by cheque. Please allow seven working days for cheques to clear.

Setting up a new Innovative Finance ISA (IFISA)

Once you've set up your initial Octopus Choice account, your adviser will be able to use the same process opposite to help you set up a new ISA investment.

Transferring an existing IFISA

As well as investing your annual ISA allowance in an Octopus Choice IFISA, you can also transfer funds from any ISAs you hold.

1 Complete a form online

Your adviser can help you fill out the necessary details of your ISA transfer, including the amount you want to move and the provider with which it's currently invested.

2 Send to your existing adviser

Your adviser can send the signed and completed form to your existing ISA provider to process the transfer.

3 We'll take it from there

Within a couple of weeks, your provider should have transferred the amount you asked them to. When we receive the funds, we'll process the investment for you.

Setting up your investment through a SIPP

You can access Octopus choice through several SIPP providers. To find out more please give us a call on **0800 294 6848**.



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After you've invested

It's easy to keep an eye on your portfolio and watch your interest build up.

Viewing your portfolio

You can log in to your account at any time to see your portfolio. You can see your current interest rate, all interest earned and details about each individual loan.

It's there that you can also keep up to date with any late loans.

Managing your interest options

Interest earned through Octopus Choice is paid monthly. You can choose whether to have it automatically re-invested, so that you benefit from compound interest, or paid out directly to your bank account.

Please note that, as with all withdrawals, interest will need to be paid into the same bank account that was used to fund the initial investment.

Invest regularly

You can choose to top up your investment automatically each month.

Withdrawing your money

Octopus Choice has no fixed term. You can ask to withdraw at any time with no charge or penalty.

We recommend that investors consider this investment with a time horizon of 18 months or more.

Because giving you access to your money means selling your investment to new investors:

- We can't guarantee that you'll get your money instantly.
- We can't return money in loan parts where the borrower has defaulted. Investors have to wait until we've resolved this with the borrower.



Giving us feedback

Outstanding customer service is at the heart of everything we do. But that doesn't mean we get it right every time. If you're not happy with the service we give you, we'll listen to your complaint and confirm it in writing, as well as outlining how we plan to resolve it.

Our complaints procedures follow the rules set out by the Financial Conduct Authority, responsible for regulating investment companies like Octopus, and the Financial Ombudsman Service, which has been set up to resolve disputes between consumers and companies.

If you want to make a complaint, email complaints@octopusinvestments.com, call **0800 316 2295** or write to us at: **Octopus Investments Limited, 33 Holborn, London EC1N 2HT.**



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