

Octopus Ventures EIS Service

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Powering pioneers

April 2023



octopus investments
A brighter way

Key investment risks

For UK investors only

- The Octopus Ventures EIS Service is an investment service that places your money at risk.
- The value of an investment, and any income from it, can fall as well as rise and you may not get back the full amount invested. In particular, the shares of unlisted companies could fall or rise in value more sharply than shares in larger, more established companies. They may also be harder to sell.
- Tax reliefs available on EIS investments depend on individual circumstances. Tax treatment is assumed as per current legislation and interpretation, which may change in the future.
- Tax reliefs also depend on the portfolio companies maintaining their EIS-qualifying status which is not guaranteed.
- Past performance is not a reliable indicator of future results.
- Where we refer to a specific company, this is for illustrative purposes only and is not an investment service recommendation.

It is important that you read and fully understand the key risks before deciding whether this investment is right for you. To help, we have a dedicated section outlining the key risks on **page 28**.

Nothing in this brochure constitutes advice on investments, legal matters, taxation or any other matters. We always recommend you talk to a qualified financial adviser before making any investment decisions.

All data and factual information provided within this document is sourced to Octopus and is correct at 31 March 2023, unless otherwise stated.

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An exciting opportunity to access a portfolio of early-stage companies using technology to change industries, selected by one of Europe's largest venture capital firms.

Find it fast

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About Octopus

On a mission to invest in the people, ideas and industries that will change the world.

We believe that over the next couple of decades, some of the best returns for investors will come from investments in solutions to society's biggest problems. That's why most of the money we manage is invested in companies helping to build a more sustainable planet, revitalise healthcare, or empower people.

Where we came from

We launched Octopus in 2000, to build an investment company that puts customers first. We looked at what didn't work well and found ways to do things differently.

Since then, we've become the largest manager of Venture Capital Trusts¹ and investments that qualify for relief from inheritance tax². And we're still looking for new ways to help people achieve their financial goals.



How we do business

We're proud to be one of the first UK financial services companies to become a certified B Corporation. This means we're meeting high standards of verified social and environmental performance, accountability, and transparency.



Part of the Octopus Group

You may be wondering 'is this the same Octopus as Octopus Energy?'

Octopus Energy is part of the Octopus family and is the UK's only Which? recommended energy supplier for seven years running. You can find out more about all the companies in the Octopus Group at octopusgroup.com.

While we no longer own Octopus Energy, we're proud to be its largest external shareholder.



¹By funds under management, The Association of Investment Companies, August 2024.

²By funds under management, Comprehensive Analysis of Business Relief Offers, Tax Efficient Review, April 2024.

Investments that make a real difference to your financial planning

We provide a range of investments to support the different goals customers have for their money. Whether that's targeting growth, planning for tax, or investing in sectors to drive change. To do this, we look beyond traditional asset classes to provide investors with access to alternative investments in sectors we know inside out, such as venture capital, renewable energy, real estate, healthcare and smaller listed companies.



Venture capital

We're backing the entrepreneurs who we believe are building the businesses of tomorrow.



Renewable energy

We're one of the largest solar investors in Europe.¹ We also invest in landfill gas sites, wind farms and biomass plants.



Small companies

We turn small businesses into big ones, driving the economy and creating jobs.



Healthcare

We help build state-of-the-art care homes and retirement communities.



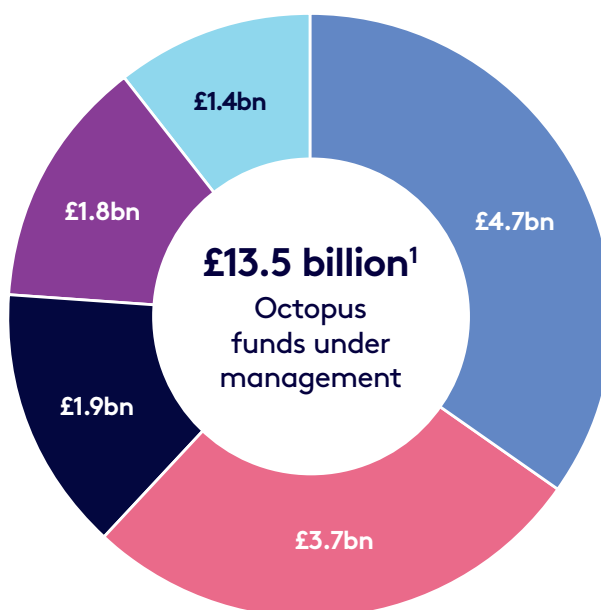
Property

We provide award-winning finance for property investment and development.

¹Octopus as at December 2024. Funds Under Management data includes undrawn commitments, funds under advisory mandates and funds monitored, and is based upon the latest information available at the time of the calculation. The figure includes Octopus Investments, Octopus AIF Management and Octopus Investments Australia.

A trusted fund manager

We look after substantial assets on behalf of tens of thousands of individual investors and large institutions. Today, we manage more than £13.5 billion¹.



- Renewable energy
- Real estate
- Quoted companies
- Ventures
- Other

Need more information?

We've done our best to avoid small print and jargon in this brochure, but we do need to include some detailed information. Your financial adviser should be able to answer any questions you might have, but we're always happy to hear from you too. We can't give financial or tax advice, but we can answer questions about us and our investments. Call us on 0800 316 2295 or email investorsupport@octopusinvestments.com.

What is the Enterprise Investment Scheme (EIS)?

EIS-qualifying investments come with a number of valuable tax reliefs, designed to encourage investment into small businesses with high growth potential.

Investing in early stage, small businesses can be an exciting way to target extraordinary growth. The earlier you invest in a successful business, the more value can flow to you as a shareholder.

Launched in 1994, the Enterprise Investment Scheme (EIS) makes investing in shares in early-stage businesses even more attractive. That's because investing in an early-stage business that is EIS-qualifying gives you the opportunity to claim a number of tax reliefs alongside your investment, including upfront income tax relief, tax-free capital gains, and loss relief on each investment that returns less than you put in.

These tax reliefs make buying shares in EIS-qualifying businesses distinctly different from buying shares in most other businesses. Typically, when you own shares in a business you risk losing up to the full amount you invest, while any gains you make are taxed. By investing in an EIS-qualifying early-stage business, any growth that you achieve should be tax-free and the tax reliefs can provide some relief if an investment doesn't work out (and some of them won't).

So if you're an investor looking to make high-risk investments that give you the potential for high returns, you could consider including EIS-qualifying investments in your overall portfolio.

Why EIS exists

The Government offers EIS tax reliefs to encourage investment into early-stage businesses with high growth potential. They do this because smaller businesses that mature into successful, established companies create jobs and stimulate valuable economic growth in the UK.

Since EIS was launched, more than 52,000 qualifying early-stage businesses have benefitted from £27 billion of investment.¹ In 2020-2021 alone, £1.7 billion was raised by companies that qualify for EIS.²

The positive effect this investment has had on the UK economy is impressive. High growth small businesses (HGSBs), which include the types of companies into which the EIS is designed to invest, have contributed tens of billions of pounds to the UK economy.³

By making an EIS-qualifying investment, you not only have the potential to grow your own wealth, but to support future UK economic and employment growth too.

For full details on the tax reliefs that apply to EIS-qualifying investments, see page 16. Remember, your capital is at risk, so make sure you read page 28 for the risks involved in this type of investment.

¹EISA, 13 March 2023.

²National Statistics, Enterprise Investment Scheme statistics, HMRC, 5 May 2022.

³BEIS, Business Population Estimates, 2022, headline statistics.



Octopus Ventures EIS Service

The EIS investment service from Octopus is supported by our world class investment teams.

We created the Octopus Ventures EIS Service to give investors the opportunity to invest in early-stage businesses with high growth potential, handpicked and managed by our expert investment teams.

We believe that there are three stages to achieving capital growth from investments in early-stage businesses, which the Octopus Ventures EIS Service is well placed to provide:

- 1. Access to investment opportunities that have the potential to achieve high growth.**
- 2. Effective nurturing and support of a business as it matures.**
- 3. The ability to manage a successful exit.**

For someone who chooses to invest independent of a provider, each of these stages would pose a challenge.

Access to high growth investment opportunities

The UK has many brilliant entrepreneurs with game-changing ideas, and there are a range of funding options available to those seeking to build and grow their business. For those seeking venture capital funding, many often choose to work with a larger, more experienced venture capital investor. Through over 20 years of investing in smaller companies, we have established a reputation that means many talented entrepreneurs approach us with their ideas when they are looking for a first investment into their business. We also have access to an exciting range of follow-on investment opportunities in smaller companies seeking additional funding for further expansion.

Nurturing the business

Entrepreneurs tend to prefer investment from experienced investors because those investors can help nurture the business to its full potential. We provide practical support to the businesses we invest in, in areas like business strategy, hiring talent and advice on how to enter new markets. This type of support increases the likelihood that the business will grow, and that your investment will deliver a positive return.

Securing a successful exit

To realise the value of a successful investment in an early-stage company, you need to be able to find a buyer for your shares and negotiate the best price you can for them. While some companies grow to a point where they choose to list on a stock exchange, many do not go down that route. So, how do you sell?

In many cases, it will involve selling to a larger business in a related industry, like when we sold our stakes in dog-food maker Tails.com to Nestlé Purina PetCare, SwiftKey to Microsoft, Evi Technologies to Amazon, and Depop to Etsy. Or it might mean selling to another investment firm looking to back the now more mature business, as we did with our stake in Graze.com that we sold to Carlyle, and with part of our stake in Secret Escapes that we sold to Old Mutual.

We drive successful exits, as we have the network to find buyers and the skills required to negotiate the best price possible for your shares.

How the Service works

We will typically invest your money in around ten to fifteen handpicked early-stage businesses. These businesses may be from different industries and sectors, providing you with a range of companies with high growth potential. The amount invested into each company in your portfolio may vary.

We hope that some of the businesses in your portfolio will grow to be several times larger, and will therefore significantly increase the value of your overall investment. We select companies we believe have the potential to deliver ten times the amount invested at the initial funding stage. We also target significant multiples for follow-on investments at later investment rounds. However, we fully expect that not all investments in the portfolio will work out as planned, and these will represent a loss in the portfolio.

Investing your money

In order to take advantage of certain investments for your portfolio, we may need to wait until we have sufficient funds sourced from a number of investors. We will then start investing the funds and it will typically take between six and twelve months for us to invest all your money. This is to allow time for us to scrutinise potential deals in early-stage companies, and get your money invested into the best opportunities we can.

Once we have accepted your application and received your money, it will not typically be possible for us to return any uninvested cash at your request. In exceptional circumstances, we may be able to accommodate such a request entirely at our discretion, though fees may be payable, as set out in more detail in this brochure and the terms and conditions.

Returning value to you

Funds will be returned to you following the sale of any company in your portfolio. As these are long-term investments, you should expect to hold your shares for five to ten years, possibly longer. This will give each business the chance to fulfill its growth potential, and for us to arrange an exit.

EIS-qualifying investments

When shares in an EIS-qualifying company are sold, the proceeds will be free from capital gains tax subject to the EIS conditions being met by that company. You can claim loss relief on each company that fails regardless of how your portfolio has performed overall. The tax reliefs that investors in EIS-qualifying companies have available to them are designed to encourage investment into what is known to be a high-risk sector. For more details on EIS tax reliefs see **page 16**.

We are aligned with you

We will defer our annual management charge (AMC) on each of your holdings until a company is sold. We will only take our AMC if a company has delivered a positive return and only from the proceeds in excess of your investment in that company. That way, you know that we are directly incentivised to invest your money into the best opportunities we can find for you.

It is essential to understand that investing in small companies seeking high growth is high risk. Some of the shares we buy for you will end up being worth less than you pay for them. In some cases they could end up being worth zero. For more details on risks, please see page 28.

Key benefits

High growth opportunity

We are only looking to back those companies that are capable of being the 'next big thing' in their space, with the potential to achieve significant returns.

We have a strong track record of identifying and growing companies from the start of their journey to household name status, e.g. Depop, Zoopla, ManyPets and Skin & Me.

Strong pipeline of companies

We have an established reputation for backing and building great businesses, which gives us access to a diverse and exciting range of early-stage businesses seeking investment from us.

Driving maximum growth

We do everything we can to maximise the potential of every business we invest in.

As one of Europe's largest venture capital firms, we use our experience to offer strategic advice, expertise and practical support to founders and management teams. We are able to help companies enter new markets and achieve global ambitions too, through our network of offices around the globe.

Valuable tax reliefs

EIS investments qualify for the following tax reliefs:

- 30% upfront income tax relief on the amount invested.
- Tax-free capital growth.
- Loss relief against income tax or capital gains tax on a company-by-company basis, irrespective of the performance of your portfolio overall.

See **page 16** for a summary of all EIS tax reliefs.

We are aligned with you

We only take our AMC when we have sold a company in your portfolio for more than the amount invested in it, and only from the growth achieved. So, we are incentivised only to invest in those companies that we think can succeed.

Key risks

Your capital is at risk

We invest in early-stage trading companies. The companies we invest in and your investment could fall in value, potentially to nil. You may not get back the full amount you invested.

Tax rules could change in the future

This brochure is based on current tax legislation and interpretation. Tax rules could change in the future.

The value of tax relief will depend on your personal circumstances.

Companies could cease to qualify for EIS

A number of EIS tax reliefs depend on the portfolio companies maintaining their EIS-qualifying status for at least three years.

Due to the nature of this investment, it is possible that a company and your investment itself might cease to be EIS-qualifying. EIS relief previously granted could be repayable to HMRC.

Your investment is illiquid

We will be investing into the shares of early-stage companies at the start of their journey. We expect your investment in each company to last for at least five years. Shares in unquoted companies cannot easily be sold. This limited liquidity may make it difficult for you to action a transfer and/or withdraw from an investment before a company exit is achieved.

The investment could be volatile

Smaller companies are considered high-risk investments. The individual companies in your portfolio will not be listed on a stock exchange and their value can fall or rise much more sharply than shares in larger, more established companies. This means the value of your overall portfolio may also fall or rise more sharply than investments in more stable or established assets.

For more details about the risks involved with this type of investment, see page 28.

Supporting all children to better health

Sector: Health

Funding stage: Seed / seed plus

Little Journey is a child-focused app, aiming to help children and parents overcome their fear of hospitals, medical procedures or clinical trials.



Why Octopus can help you make the most of the EIS opportunity

We have the reputation, relationships and expertise necessary to find the best early-stage businesses and help them grow.

Octopus has been investing in UK smaller companies for more than two decades, and is one of Europe's largest venture capital firms.¹ We have invested over £2 billion in early-stage companies and we have a strong reputation amongst UK entrepreneurs for being an excellent investment partner for those wishing to grow. And we are well connected within the ecosystem of innovation, entrepreneurs and start-ups. This benefits investors in the Octopus Ventures EIS Service in two ways.

Firstly, it helps us get you access to the best investment opportunities. We are often approached by successful entrepreneurs we have backed previously to invest in their next business. We have successfully taken advantage of several such opportunities and delivered further returns for investors as a result.

Secondly, we know what it takes for an early-stage business to grow. Twenty years ago, Octopus was an idea being developed in the front room of one of our founders. Today we manage more than £12.8 billion on behalf of investors. The ups and downs along the way have taught us a few things, and give us a unique perspective among EIS investment managers into what it actually takes to turn an idea into a high growth business worth hundreds of millions of pounds.

Expertise from one of the largest venture capital firms in Europe

As an investor in the Octopus Ventures EIS Service, you benefit from our deep specialist expertise in smaller company investing, including that of Octopus Ventures, the investment team that manages Octopus Titan VCT – the UK's largest VCT.²

Octopus Ventures is now a team of over 90. Octopus continues to increase its resource commitment to manage the ventures products by expanding the investment team, as well as adding further portfolio, legal and operational support. We also have an external network of experienced entrepreneurs who regularly share their advice and expertise with the founders we work with. All this expertise provides practical support to the companies we back, helping them grow, find the right people to hire, expand overseas and be introduced to valuable contacts.

This firepower allows us to scrutinise more potential deals, and in greater detail than most EIS managers could attempt. As our investment team is divided into five key areas of focus, this allows us to build and maintain specialist skills and expertise, to better support companies in the best and most appropriate way within each sector.

This also helps attract the best entrepreneurs, who tend to have a preference for investors who specialise in their sector. It also means that when the time comes to sell the shares held on your behalf, we have the contacts to find a buyer and the experience to negotiate the best possible exit.

¹2021 Annual Interactive Global League Tables, PitchBook, 4 March 2022.

²Association of Investment Companies, January 2022.

Practical support to help businesses grow

Investing in early-stage businesses with the potential for high growth is about much more than providing finance. It is also about providing practical support to maximise the chances of success, because growing any business to its full potential involves overcoming many and varied challenges.

Octopus provides practical support to the businesses we back in several ways. We work with them to recruit key talent because, more than anything else, it's the people working in the business who will determine whether it succeeds or fails. We also provide access to our extensive network of contacts, and host workshops on practical topics like operating internationally. We sit on company boards and contribute to their strategy, helping them develop responses to challenges.

Because world-changing ideas are often global ideas, we have offices based in London and New York, and a network that spans from San Francisco to China. This worldwide presence has enabled us to support investee companies as they've expanded internationally. We have also been able to successfully exit investments to buyers outside the UK.

Our areas of investment

We back pioneering entrepreneurs who are changing the world, focusing predominantly on five key areas: health, fintech, deep tech, consumer, and business-to-business software.

Health: looks to back pioneers who are transforming the health industry from digital therapeutics through to biotechnology.

Fintech: looks to back businesses that push us towards a future of safe and efficient transactions that occur faster than the speed of thought.

Deep tech: looks to focus on the tools and technologies that will power the next industrial revolution. These include quantum computing, robotics and drones, sensory human augmentation and 3D printing.

Consumer: looks to back the innovators who influence the way we live, work, travel, play, rest and recuperate.

Business-to-business software: looks to invest in companies driving digitalisation and automation across traditional and nascent industries.

This focus helps attract the best entrepreneurs, who tend to have a preference for investors who specialise in their sector. It also allows us to find the best opportunities in each area more efficiently while continuing to build specialist skills and expertise.

Ufonia is achieving significant traction with the NHS

Sector: Health

Funding stage: Seed

Ufonia uses Artificial Intelligence (AI) to develop automated clinical-grade conversations, capable of replacing routine medical appointments, and integrating into health systems. This aims to increase patient engagement and free up more time for medical staff to focus on patients that need the most attention.



Ufonia

Our investment process

Starting from a huge selection of exciting investment opportunities, we follow a rigorous process when choosing investments.

Engage



1. We interact with thousands of companies.

In a typical year, we receive thousands of business plans from companies looking for funding, but we only engage with the very best candidates. We also proactively source investment opportunities through our extensive network of partners and venture capital experts, through the wider entrepreneurial community and by attending major global conferences and events.

Filter



2. We make sure that only the best pass the test.

Our investment teams review each potential opportunity and meet over 300 different companies a year, undertaking early-stage due diligence and research in order to identify the opportunities with the most growth potential. When we believe one meets our high bar and our investment committee approves, we look to agree terms for investment with the business.

Analyse



3. Give each selected opportunity a full and proper health-check.

Following a first-stage investment committee approval, each company is subject to a more thorough and detailed due diligence, which may include financial, commercial, technology, legal and other investigations as necessary.

Invest



4. We take your money really seriously.

Once we're satisfied that the due diligence and the legal process is complete, the investment committee reviews the investment again for final approval. The governance, formality and scrutiny of our investment committee on the activity of all our investment teams throughout the investment process is really important to us. It ensures that we remain consistent and continue to meet the promises we made to our investors.

Develop



5. We invest more than just money.

We work closely with each company during its growth journey to maximise its chances of success. We offer access to our expertise, operating consultants, our extensive network, strategy workshops, sales and marketing advice and help with finding new talent. We may also sit on the boards of the investee companies and we will track progress with regular management reports and financial information.

Exit



6. We're good at knowing when to sell.

Knowing when to sell is a hugely important skill and exit opportunities are actively monitored throughout the lifetime of each investment. Any potential exit strategy will be submitted to the investment committee for final approval, where we seek to achieve the best outcome for investors.

EIS tax reliefs

Investing in early-stage companies is high risk. The tax reliefs provide some compensation for the additional risks involved.

Income tax relief

You can claim income tax relief to the value of 30% of your EIS investment, up to a maximum investment of £1 million in each tax year.

Relief is available in the tax year we invest in each company, which might not be in the same year we receive your money. You can choose to carry back income tax relief to the previous tax year. This means you can claim income tax relief on up to £2 million (i.e. £1 million in the current tax year and £1 million carried back to the previous tax year).

The shares in each company must be held, and must remain EIS-qualifying for at least three years in order to retain the income tax relief you claim. While we expect these to be long-term investments, we cannot guarantee this. For example, there may be an attractive offer to buy a company in your portfolio before the minimum holding period has ended. Or a company may need to be restructured to maximise its chances of success. While we expect such cases to be unusual, you will need to pay back the relief you claimed in respect of that company if it ceases to meet qualifying conditions or is sold within the minimum holding period.

Tax-free growth

We will invest into companies that have the potential for significant growth. A valuable benefit of EIS relief is that all growth is free from capital gains tax.

So, if the value of a company in your portfolio increases, you won't have to pay any tax on the profit you make when that company is sold, no matter how much it has grown by. This relief is available provided you have held the shares for at least three years and the company still qualifies for EIS when sold. You also must have claimed income tax relief in respect of the company.

Loss relief

As we are making investments into early-stage companies, we expect that some companies will not be successful. If a company is sold at a loss or its value falls to zero, you can claim loss relief on the amount invested in that company (reduced by income tax relief claimed). You can choose to set this loss against income tax in the current or previous tax year (with relief at up to 45% for additional rate taxpayers) or against gains (current or future). And importantly, this loss relief is available no matter how well other companies in your portfolio are performing, or your portfolio overall.

Capital gains deferral

A gain made on the sale of an asset (e.g. another share portfolio or a second home) can be deferred by investing it in an EIS-qualifying company. The gain will remain deferred for the lifetime of the EIS investment. When shares are sold, the deferred gain will be liable for capital gains tax again, even if they are sold at a loss. If the shares are held at death, the deferred gain is eliminated. The gain must have been realised within a year after, or three years before the purchase of EIS shares.

Inheritance tax relief

Shares in EIS-qualifying companies qualify for Business Relief. This means they can be left to beneficiaries free from inheritance tax, provided they have been held for two years or more at time of death.

We go into more detail about how to claim reliefs on page 34. Tax reliefs also depend on personal circumstances. Please see page 28 for details on risks.



More than \$80 trillion of embedded insurance in the next decade¹

Sector: Consumer

Funding stage: Seed

Neat enables merchants to provide insurance to customers at highly competitive rates - for example travel insurance as part of booking a holiday.

neat

¹Aperture, Embedded Insurance 2.0, 2022.

A worked example

The best way to understand how to use the tax reliefs available through an investment in the Octopus Ventures EIS Service is to look at an example.

Sarah, 55, is a high earner who wants to invest in early-stage businesses that have the potential to achieve significant returns. She likes to know that she is supporting exciting, growing businesses. She also sees this as part of her portfolio that helps to complement her other long-term investments. She understands that it will take time to achieve the returns she wants and she's also willing to take high risk with these particular investments.

Sarah's financial adviser suggests that she consider the Octopus Ventures EIS Service, which could provide her with access to some of the best early-stage opportunities.

Her financial adviser discusses the risks of investing in early-stage businesses. Sarah is comfortable with how the investments work and understands that these investments are high risk and, that while the Fund targets investments with high returns, the failure rate for early-stage companies is high. The adviser outlines that Sarah can reduce her income tax bill, as she can get 30% income tax relief – which she should see as an incentive to take some of the risk associated with investing in early-stage businesses.

Sarah decides to invest £100,000 in the Octopus Ventures EIS Service. After the initial fee and dealing fee have been paid, the amount Sarah invests into EIS companies via the Fund is £97,030. Over the next twelve months, Sarah's money is invested in different proportions across ten early-stage companies operating in a range of sectors. She claims 30% income tax relief on each company, totalling £29,109, which she offsets against her income tax bill.

Over the next eight years, the companies perform very differently. Two companies are very successful and achieve ten times the initial investment; two achieve three times the initial investment; two return the initial amount invested; and the capital invested is lost in the final four. Sarah benefits from capital gains free growth on the sale of the shares that have grown in value and claims relief against income tax for the companies that she lost money on. She also pays no AMC or performance fee to Octopus on the six companies that did not return more than the amount invested.

The example on the following page illustrates a similar performance scenario, simplified by assuming that the Fund is invested equally and across just five companies. Again, for simplicity, we have assumed that all companies are sold in year eight and that growth occurs evenly throughout the investment period to deliver the multiples on investment shown at the top of the table.

In this example, Sarah's investment gain is £96,174, and she claims a total of £41,510 in income tax relief and loss relief.



Sarah wants to invest in early-stage businesses that have the potential to achieve significant returns and is comfortable that these are high-risk investments.

	Total	Performance of a fund comprising five EIS companies				
		10x	3x	1x	0x (loses all value)	0x (loses all value)
Amount invested	£100,000					
Octopus initial fee (2%)	(£2,000)					
Dealing fee (1%)	(£970)	(£194)	(£194)	(£194)	(£194)	(£194)
Amount invested in EIS companies	£97,030	£19,406	£19,406	£19,406	£19,406	£19,406
Proceeds from sales	£271,684	£194,060	£58,218	£19,406	–	–
AMC (2%+VAT) accrued for 8 years	(£21,561)	(£14,739)	(£6,822)	–	–	–
Performance fee ¹ (20%+VAT)	(£51,232)	(£41,917)	(£9,315)	–	–	–
Dealing fee (1%)	(£2,717)	(£1,941)	(£582)	(£194)	–	–
Gain or (loss) on each EIS company		£115,863	£21,899	(£388)	(£19,600)	(£19,600)
Gain or (loss) on investment	£96,174					

EIS tax reliefs on Sarah's investment

All growth of the companies in Sarah's portfolio is free from capital gains tax. Had they not been EIS-qualifying, she would have owed a total of £42,111 at a rate of 20%.

Income tax relief (30%)	£29,110	£5,822	£5,822	£5,822	£5,822	£5,822
Loss relief against income tax (45% if claimed by an additional rate tax payer)	£12,400	–	–	–	£6,200	£6,200
Total tax reliefs	£41,510	£5,822	£5,822	£5,822	£12,022	£12,022

Investing in EIS-qualifying companies is high risk and capital is at risk.

¹Performance fee is calculated based on the difference between the proceeds from sales and the amount invested into each company.

This illustrative example should be used for reference only to show the impact of fees and charges on, and the potential tax treatment of, an investment in the service. There is no target for this service, so this illustration is based on our experience of investing in smaller companies, and an investment in the service may return more or less than this example. The example shows the impact of charges paid to Octopus but it does not include any charges paid to an adviser.

In an illustrative scenario where, of five EIS companies, two return the initial amount invested and three lose all value, the loss on investment would amount to £61,576, returning £38,424 of the initial amount invested. Income tax and loss reliefs could total £47,710 (if claimed by an additional rate tax payer).

What makes a great early-stage business?

The UK is a talent pool of forward-thinking entrepreneurs with bold new business ideas.

So how do we zero in on those early-stage businesses that have what it takes to deliver on their potential? It requires experience, skill and expertise to find the best opportunities. We have five critical criteria that any business seeking investment from us has to meet before we'll consider investing in it.

Talented entrepreneurs and management team

We want to see vision and belief at the top of the company. We need to see that there's a deep-seated passion for the idea, knowledge of the relevant industry and an appreciation of how big the opportunity is. We like a management team that can be adaptable while keeping everyone focused on the overriding goal.

The world re-imagined – meet the game changers

Welcome to the future. We look for those ideas that can turn an established industry upside-down, find brand new solutions to everyday problems or create something that didn't exist before. In our experience, this kind of disruption is what it takes to build a large, valuable business.

An enormous market opportunity

We look for those companies that could grow to be much, much bigger than they are today. The potential market for what they do needs to be huge – national, international, global – to give them plenty of room for future growth. This could include businesses that have already brought their product or service to market successfully, have won and retained customers and are growing their customer base.

Competitive edge

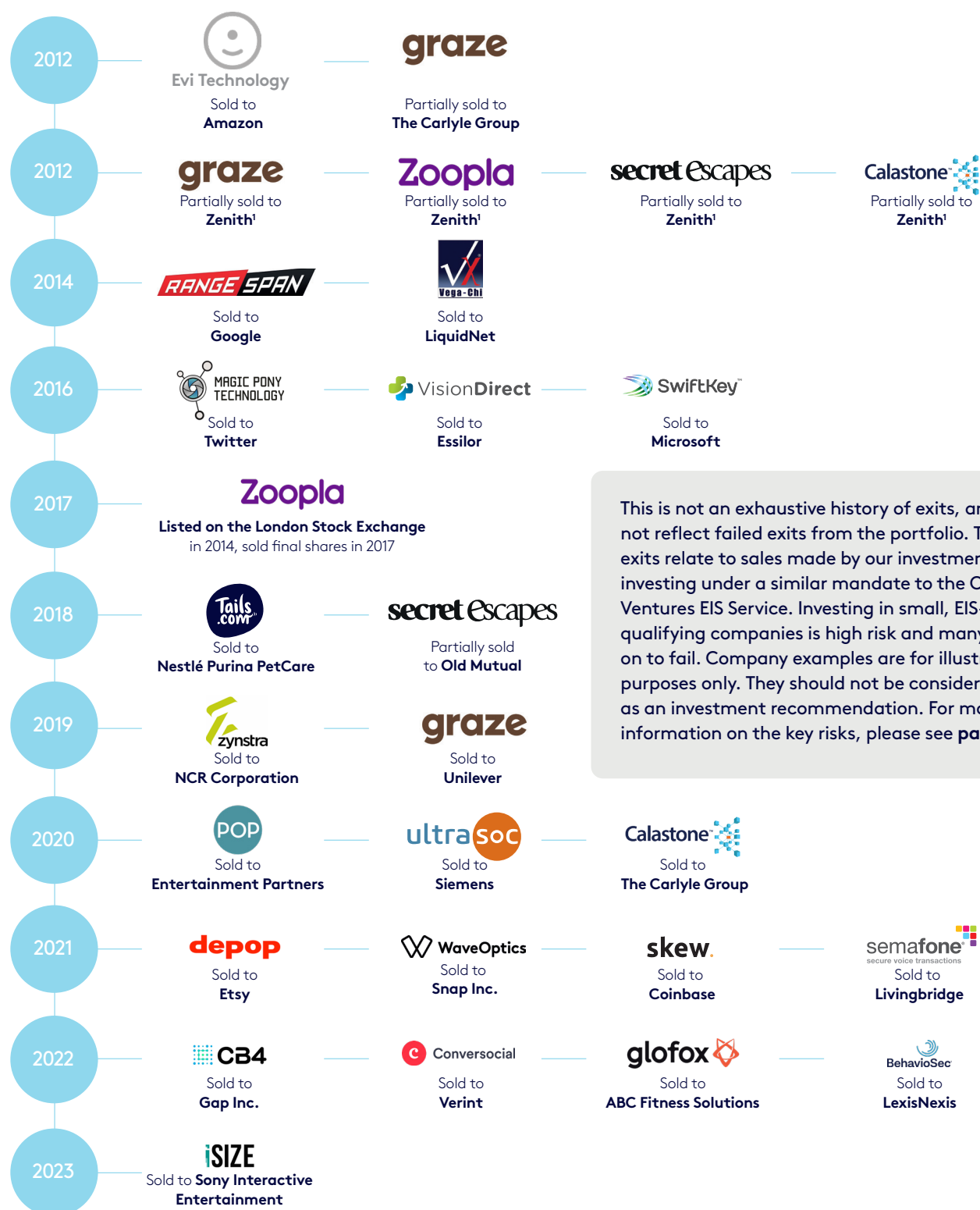
Strong credentials and a clearly defined business model are one thing, but what really sets a great company apart from its lookalikes is a competitive edge. Proprietary technology, industry-leading innovation, genuinely original ideas or creating totally new and viable markets are all big ticks.

Tech-enabled and hardwired for growth

We look for companies that are well set up to get their product or service to as many customers as they can, as quickly and efficiently as possible. These companies are often built on solid technology solutions that can scale up quickly at a minimal additional cost.

Past successes

It's not just about backing the right businesses. It's also crucial we are able to sell your stake in an investment at the best possible opportunity. Here are a few of the most successful exits from the investment teams managing the Octopus Ventures EIS Service.



This is not an exhaustive history of exits, and does not reflect failed exits from the portfolio. These exits relate to sales made by our investment teams investing under a similar mandate to the Octopus Ventures EIS Service. Investing in small, EIS-qualifying companies is high risk and many will go on to fail. Company examples are for illustrative purposes only. They should not be considered as an investment recommendation. For more information on the key risks, please see [page 28](#).

¹ Zenith is an Octopus-managed fund.

Success stories in the making

The investment teams managing the Octopus Ventures EIS Service have made investments in some revolutionary early-stage businesses, which are already changing the way we shop, live and work.

Sector: Health
Funding stage: Series A+

Biofidelity.

Biofidelity's mission is to provide access to precise cancer diagnostics for all patients. They've developed a unique blood-based diagnostic test for the earliest possible detection of cancer and genetic mutations, including melanoma, liver, kidney and breast cancer.

They can detect these DNA abnormalities, even when the concentration of the cancer or mutant DNA is too low to be picked up by existing diagnostic methods.

Why we like it

A polymerase chain reaction (PCR) test isn't sensitive enough to detect the low level of floating cancer DNA among the background of other DNA in the blood.

This leaves a gap that Biofidelity fills. Biofidelity's three-hour rapid test is low cost, has higher sensitivity and can be run on standard PCR machines, common in all hospitals. It could allow the earliest possible detection of cancer, up to 18 months earlier than methods currently used, and enable real-time monitoring post diagnosis.

This should reduce the cost of treatment, improve patient outcomes and significantly help to reduce the burden on healthcare systems.

Sector: Consumer
Stage: Seed

HURR

HURR is powering the fashion rental movement by providing a peer-to-peer rental platform, enabling brands and retailers to introduce clothing rental into their business as a managed service on the HURR marketplace. HURR has a zero-inventory model. Brands and retailers provide the stock while HURR handles the complex, less glamorous bit – returns, washing, dry cleaning, repairing, reshipping and customer support.

The fashion industry is responsible for 10% of carbon emissions and fashion executives cite sustainability as the single biggest challenge and opportunity for the industry.¹

HURR provides a solution for retailers and brands that highlights the strategic importance of rental and, in time, will significantly reduce the amount of apparel being manufactured. Victoria Prew, Founder and CEO of HURR, has a vision of a more sustainable future, which is inspirational and aligns deeply with our purpose as investors.

¹Can fashion ever be sustainable, BBC, 11 March 2020.

These companies are for illustrative purposes only. They are examples of EIS-qualifying companies into which our investment team has facilitated an investment. They should not be considered an investment recommendation.

Sector: Fintech
Stage: Series B



Cobee is an employee benefits platform that simplifies the management of lifestyle and statutory features such as meal vouchers, health insurance, educational courses and childcare.

The software provides companies with a web-based allocation and management platform, and employees with a highly customisable app that optimises their flexible benefits.

In a world where companies are fighting for a very limited talent pool to hire the best people, non-cash benefits are becoming increasingly important. This is particularly the case in countries where employers provide daily benefits such as travel, meal vouchers and nurseries.

The two co-founders, Borja Aranguren and Nacho Travesí, are extremely impressive. Borja worked at one of Spain's fastest growing start-ups, OnTruck, before founding Cobee so he's been on this journey before. Nacho led enterprise sales at a previous scale-up in France so he also had that fast growth experience.

Sector: Deep tech
Funding stage: Seed



Phlux has developed a new form of infrared sensor, offering ten times better sensitivity than the existing solutions on the market, which can be made by common mass-manufacturing methods.

The company is a spin-out from Sheffield University, with two professors as technical co-founders and a lead co-founder, Dr Ben White, who we're really excited about. His growth rate and attitude towards bringing technology from the lab to market is really inspiring and he is able to translate the technology into a very marketable story.

Phlux is leading on innovation in this sector within Europe, reducing dependency on the US or China whilst meeting the demands of a truly global market. In-field testing is already being carried out in two different sectors: autonomous vehicles and temperature sensing. This is not only generating definitive market proof points but also pre-order product sales. The market opportunities in a broad range of different verticals is huge and we are already seeing tremendous growth, but what it could lead to in five years' time is super exciting.



Since EIS was launched, more than 52,000 early-stage businesses have benefitted from £27 billion of investment.¹ In 2020-2021 alone, £1.7 billion was raised by companies that qualify for EIS.²

¹EISA, 13 March 2023.

²National Statistics, Enterprise Investment Scheme statistics, HMRC, 5 May 2022.

Your investment journey

This section illustrates what you should expect from the Octopus Ventures EIS Service and your investments throughout their lifecycle.



Responsible investment and the Octopus Ventures EIS Service

Through the Octopus Ventures EIS Service, we back mission-led founders looking to tackle big global problems and build a brighter future.

ESG integration

ESG issues are considered within the investment process to mitigate risk and improve the risk return of investments. This approach utilises the Sustainability Accounting Standards Board (SASB) Materiality Map; an interactive tool used to identify and compare ESG disclosure across industries and sectors. This helps the investment team identify and mitigate material risk exposure. Octopus Ventures will not invest in companies that fall under the standard, recognised ethical exclusion list (fossil fuels, gambling, arms).

We include any issues in our investment committee process. This means, for example, that if a company does not have appropriate employment policies in place, we will ensure this is completed before we invest.

Responsibility

We practise responsible stewardship, typically taking a seat on the board of the companies that we back, ensuring that we drive industry best practice and pay close attention to how the companies we support are behaving as they scale.

We are in regular contact with portfolio companies to better understand how they are managing their impact on people and the planet. This helps them to become not only more responsible but ultimately more successful businesses. We look to share best practice from the community and guidance to support progression on responsible business practices within our portfolio.

Sustainability

The Octopus Ventures EIS Service invests in companies that we believe help shape our future across health, fintech, deep tech, business-to-business software and consumer sectors. This includes the next generation of healthcare solutions, which seek to tackle areas within health that have been overlooked and help transform people's lives. It also invests in financial technology that can bring independence to a much broader group of people, and companies looking to combat climate change. Some of the investments we currently hold in the portfolio are:

- **HURR** – developed a peer-to-peer clothing rental platform that is helping to reduce carbon emissions during the rental process and making renting and storing clothes more sustainable.
- **Ufonia** – Using artificial intelligence to develop automated clinical-grade conversations, capable of replacing routing medical appointments and integrating into health systems.
- **iSIZE** – developing technology to reduce the environmental impact of video streaming caused by the data and energy consumption that it requires.

**1 in 8 people in the
UK are living with
persistent tinnitus.¹**

Sector: Health

Funding stage: Seed

Oto has developed an app that provides access to affordable, digital cognitive behavioural therapy to help reduce the effects of tinnitus.

The logo for 'oto' is displayed in a bold, lowercase, sans-serif font. It is positioned within a white rectangular box that has rounded corners. The background of the entire slide is a photograph of a woman with dark, curly hair, smiling broadly and looking upwards, with a blurred green background of trees.

¹The number of people living with tinnitus in the UK higher than previously thought, The British Society of Audiology, 29 March 2019.

Understanding the key risks

We want to make sure you understand the key risks associated with this investment before making a decision.

Your capital is at risk and you may lose money

This is a high-risk investment in early-stage companies, so the value of the companies we invest in and the value of your investment could fall in value, potentially to nil. You may not get back the full amount you invested.

Investments in smaller companies can be volatile

The Octopus Ventures EIS Service allows you to invest in smaller, unquoted companies that are not listed on a stock exchange. Investments in these types of smaller companies can fall or rise in value much more sharply than shares in larger, more established companies. They also have a higher rate of failure. The value of your portfolio therefore depends on the performance of the companies and other market factors outside our control.

EIS-qualifying status may be lost

There is no guarantee that any of the companies we invest in will maintain their EIS-qualifying status. If a company loses its qualifying status, tax advantages on your investment in that company will be withdrawn from that point.

Additionally, if a company loses its status within three years of investment, you will be asked to repay any upfront income tax relief that you have already claimed in respect of that company (and any gains that you deferred into the shares of that company will come back into charge).

Due to the nature of the companies we are investing in, we cannot guarantee that an investment will remain EIS-qualifying, or that shares in a company will not be sold within the three-year minimum holding period.

Your shares may be difficult to sell

As you're investing into the shares of unlisted early-stage companies, there isn't an active market in the way there is for listed companies' shares. Your investment will be returned to you in the form of the proceeds of sale in stages, as and when we secure an exit from each company for all investors in that company. We do not expect that we will be able to sell your shares if you need to withdraw from an investment before an exit.

Tax rules can change

The EIS tax reliefs, rates of tax, and tax allowances described in this brochure are based on current legislation, interpretation based on case law, and HMRC practice. We can't guarantee that tax rules won't change in the future. The value of tax reliefs also depends on your own personal circumstances.

This is a long-term investment

While the minimum holding period required for EIS tax relief is three years from the date of investment into each company, you should be prepared to hold your shares in each company for at least five years, and potentially up to ten years or more.

Please note there can be no assurance that the Service will meet its investment objectives or that suitable investment opportunities will be identified.

Past performance is no guide to the future

The past performance of our investment teams and any funds they manage is not a reliable indicator of future results. Nor should you rely on any forecasts made about future returns.

Unquoted companies are not valued as frequently as listed companies

The companies we invest in are unlisted, and unlike listed companies, they are not valued daily. Your quarterly valuation will always show the most up-to-date valuation available for each of the companies you are invested in.

Non-sterling transactions

From time to time, we'll invest in companies that are not based in the UK (although they will have a UK permanent establishment in order to qualify for EIS), or invest with another investor that may not be based in the UK. We might make those investments in other currencies if they're more relevant to the business or transaction. In order to seek a favourable rate, we may convert an amount of cash in your portfolio into a foreign currency before we buy the shares. Proceeds from the sale of an overseas company might also be received in a foreign currency before being converted into sterling. As a result, you might be exposed to exchange gains or losses.



Conflicts of interest

Conflicts could arise between our interests and yours, so it's important that you understand what these conflicts are, and why they exist.

Conflicts of interest arise when the interests of one group of investors could be at odds (or present a conflict) with the interests of another group or with the interests of Octopus Investments. Conflicts of interest are sometimes unavoidable; however we make sure that the interests of our customers are always looked after. In the first instance, we look to prevent them, but if we can't, we'll take action to manage or mitigate any effects. For more information on some of the main conflicts, please see below, and refer to the Octopus Conflicts of Interest policy, which is available in the document library at octopusinvestments.com.

Investing alongside other Octopus funds

Investments into EIS companies may be made alongside an investment from one of our VCTs such as Octopus Titan VCT. Through this co-investment, investors using the Octopus Ventures EIS Service can have access to investment opportunities that may not have been possible without being part of the larger deal with other Octopus funds.

Timing of investment

We typically expect to invest your portfolio within 6–12 months of moving funds to deployment phase, but as this is an investment in venture opportunities, we cannot guarantee the timing. Our allocation policy determines which opportunities will be allocated to investors and how. This will typically be done on a case-by-case basis, with portfolio companies allocated to the relevant fundraising group in order of final Investment Committee approval. However, in some instances we may choose to allocate certain companies to one group of investors ahead of another. This is most likely to be relevant to “Knowledge Intensive Companies” (those that expect to create most of their value from intellectual property), which may sometimes be allocated in priority to our Octopus Ventures Knowledge Intensive EIS Fund.

The role of Octopus employees

We often place an Octopus employee on the Board of the companies we invest in. This means we are able to closely monitor the investment we've made on behalf of investors using the Octopus Ventures EIS Service. However, this also means that, as company directors, those employees have obligations to all shareholders of the company, and not just Octopus investors.

Managing conflicts

We have agreed policies and processes to make sure that conflicts of interests between different investor groups are managed fairly. We have a number of controls in place to manage any conflicts of interest where we cannot prevent them.

These include:

- Our Investment Committee makes sure investment decisions are in the best interests of investors, including how potential conflicts of interest are managed when they cannot be avoided as well as being responsible for the allocation policy.
- Where there are conflicts of interest, these are reviewed by the Octopus Conflicts Committee, which is responsible for ensuring conflicts are handled appropriately, and is independent of our investment teams and the Octopus Ventures EIS Service.

When could conflicts of interest be harmful to investors?

An example of this could be when investments are sold, they may be held by a number of different investor groups across Octopus, so investors may be restricted in the timing of an exit and their interests may not be fully aligned.

Fees and charges

We have aligned our interests with yours so you don't pay our ongoing charges unless your investment grows.

Annual management charges (AMC)

Our AMC will accrue on a daily basis as soon as investment into a company is made. It will accrue on the value of each company separately and will be collected when the company is sold. Most importantly, we'll only deduct the accrued charge if your shares are sold for more than the amount we invested into that company. Our AMC is therefore at risk from day one and we are incentivised to select companies that we think have a strong potential to succeed. For those that don't return at least as much as the initial investment amount, we will not get paid any AMC at all.

Performance fee

We are also incentivised to maximise the value of each successful company in your portfolio through a 'performance fee'. We will take a performance fee of 20% of the difference between the proceeds of sale and the amount invested in the company (before AMC has been collected). This is due to us when each company is sold.

If a company in your portfolio is sold for more than the amount invested, our AMC and performance fee cannot exceed the profits on sale.

As these investments are illiquid, we do not expect that you will be able to sell your shares if you need to withdraw from an investment before an exit. If you choose to terminate the service or withdraw some or all of your investment before exits have been found, our AMC and performance fee will be payable at that point. The AMC and performance fee due will continue to accrue on each qualifying investment until they can be sold.

Where investments are made in non-sterling transactions, the performance fee will be calculated in the relevant currency and then converted to sterling (+VAT).

Adviser charges

We can facilitate a one-off adviser charge. In addition, if you agree to pay ongoing charges to your financial adviser, we'll set aside a proportion of your initial investment to pay this, covering five years of adviser fees. We will pay these charges to your adviser on a quarterly basis. After the amount set aside has run out, we will no longer pay your adviser on your behalf from this investment. You should be aware that this will reduce the amount available to invest into EIS-qualifying companies.

A more detailed breakdown of the fees and charges can be found on the next page.

Please note, initial and dealing fees are also applicable and are shown on the next page.

Three ways to access the Octopus Ventures EIS Service

If you apply through an adviser

Octopus initial charge:	2%
Annual management charge (deferred and contingent):	2%+ VAT per annum
Dealing fee (for the purchase and sale of shares):	1%
Performance fee:	20%+ VAT
Initial charge to your adviser:	Agreed with your adviser
Ongoing fee to your adviser:	Agreed with your adviser up to 5 years

If you apply through an intermediary who doesn't give you advice (execution-only)

Octopus initial charge (with up to 2% payable to your intermediary):	4%
Annual management charge (deferred and contingent):	2%+ VAT per annum
Dealing fee (for the purchase and sale of shares):	1%
Performance fee:	20%+ VAT

If you apply directly

Octopus initial charge:	4%
Annual management charge (deferred and contingent):	2%+ VAT per annum
Dealing fee (for the purchase and sale of shares):	1%
Performance fee:	20%+ VAT

Our initial fee, dealing fee and adviser charges, will reduce the amount available to invest into EIS-qualifying companies.

We encourage our investors to seek financial advice when making investment decisions. We therefore charge investors who have not taken advice an ongoing fee and a higher initial fee. If you apply directly or through an intermediary, you'll need to complete a suitability questionnaire. Please contact us on **0800 316 2295** for a copy of this.

How to apply

If you have a financial adviser

They can help you to complete your application online. If your adviser has any questions, they can call us on **0800 316 2067** or visit octopusinvestments.com.

If you are applying via an intermediary

We recommend that you speak to the intermediary in the first instance. If you like, you can call our investor support team on **0800 316 2295**.

If you are applying directly

If you have any questions, you can call our investor support team on **0800 316 2295**.

Please remember that we can't offer investment or tax advice, but we'll be happy to talk you through the application process and help you with anything else we can.

You can find the terms and conditions and application form on our website at octopusinvestments.com.

Please note that the minimum investment amount is **£25,000**.

Financial Services Compensation Scheme

Octopus Investments and the Fund Manager participate in the Financial Services Compensation Scheme (FSCS). The FSCS is the compensation fund of last resort for customers of financial services organisations. If an organisation goes out of business, investors can make a claim to the FSCS for losses up to £85,000 resulting from the organisation's bad investment advice, negligence or mis-selling. It is important to understand that the FSCS does not protect against, or compensate for, losses from poor performance, such as when shares in a company have reduced in value.



Check with us what protection the Financial Services Compensation Scheme offers you
www.fscs.org.uk

After you apply

Your online account

We will invite you to set up your account in our online portal, where we will provide you with everything you need for your investment. This will include your valuations, EIS 3 certificates and information on companies in your portfolio.

Claiming EIS tax reliefs

The timing of EIS tax reliefs are dependent on when investments into the EIS-qualifying companies are made (not when your application is processed).

Income tax relief

You will need an EIS 3 certificate in order to claim 30% income tax relief. You will be issued with one EIS 3 certificate for each company in your portfolio. We expect certificates to be issued up to 12 weeks after each investment. Please note that timing of certificates cannot be guaranteed.

On occasion, we may invest into an EIS company that has not yet started to trade. Where this is the case, we will not be able to apply for an EIS 3 certificate until the company has been trading for at least four months.

Once you have a certificate, relief can be claimed in your tax return or by speaking with HMRC to amend your PAYE code (if applicable).

Capital gains tax-free growth

Where the shares have been held for three years and remained EIS-qualifying, any growth in value will be free from capital gains tax. This does not need to be claimed on your self-assessment tax return, however you may need to include a note in your tax returns providing details of any sale of shares.

Loss relief

Where shares have been sold at a loss or have fallen to zero, loss relief can be claimed against your income tax or capital gains tax liabilities. This can be claimed via your tax return.

Capital gains deferral relief

You will need EIS 3 certificates in order to defer gains that occurred up to 12 months after, or three years before, your investment into each EIS company. This can be claimed via your self-assessment tax return.

Inheritance tax

Where shares are retained at death, they should be free of inheritance tax, provided they have been held for at least two years at that time. The claim can be made on the IHT form valuing the estate on death.

Adding to your investment

You can add to your investment at any time. Each additional investment must be at least £25,000. The funds will be used to invest in the shares of additional EIS-qualifying companies. You should expect it to take us up to 12 months to invest additional investments.

Tax reliefs are subject to qualifying criteria and personal circumstances. We go into more detail about EIS tax reliefs on [page 16](#) and about the risks of an EIS investment on [page 28](#).

Giving us feedback and how to make a complaint

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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