

# Downing FOUR VCT plc

Investment Memorandum  
Generalist Share Class

Offer for Subscription

2019/20 & 2020/21 tax years

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## **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the action you should take, you are recommended to seek advice from your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 ("FSMA").

The Company and its Directors, whose names appear on page 6 of this document, accept responsibility for the information contained in this document. To the best knowledge of the Company and its Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application will be made to the UK Listing Authority for all the New Generalist Shares, issued and to be issued in the capital of the Company, to be admitted to the premium segment of the Official List. Application will also be made to the London Stock Exchange for all the New Generalist Shares, issued and to be issued in the capital of the Company, to be admitted to trading on its main market for listed securities. It is expected that Admission will become effective and that dealings on the London Stock Exchange in the New Generalist Shares will commence 10 Business Days following allotment. No application is currently intended to be made for the New Generalist Shares to be admitted to listing or dealt with on any other exchange. The existing Generalist Shares are already admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities.

Your attention is drawn to the risk factors set out on page 3 to 4 of this document. An investment in the Company is only suitable for Investors who are capable of evaluating the risks and merits of such an investment and who have sufficient resources to bear any loss which might arise.

### **Downing FOUR VCT plc**

(Incorporated in England and Wales under the Companies Act 1985  
with registered number 06789187)

### **Top Up Offer for Subscription**

**for the 2019/20 and 2020/21 tax years**

of up to 8,250,723 New Generalist Shares

**Investment Manager and Promoter**

Downing LLP

The subscription list for the Offer will open on 27 February 2020 and may close at any time thereafter but, in any event, not later than 3.00 p.m. on 3 April 2020 in respect of the 2019/20 tax year and 31 January 2021 in respect of the 2020/21 tax year, unless previously extended by the Directors. The terms and conditions of the Top Up Offer are set out on pages 25 to 27 of this document. The Offer is not underwritten. There is no minimum subscription.

This document, which is a financial promotion and not a prospectus, is issued by the Company and has been approved for the purposes of section 21 of FSMA by Downing LLP ("Downing"), which is authorised and regulated by the Financial Conduct Authority, on behalf of the Company.

In connection with the Top Up Offer, Downing LLP ("Downing"), the promoter of the Offer and investment and administration manager to the Company, is acting for the Company and no-one else and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Downing or for providing advice in relation to the Offer (subject to those responsibilities and liabilities arising under FSMA and the regulatory regime established thereunder).

Downing is authorised and regulated in the UK by the Financial Conduct Authority (Firm Reference No. 545025).

## Summary

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### Offer Statistics for the Company

NAV per Generalist Share (as at 30 September 2019)	77.6p
Proceeds of the Offer (assuming Full Subscription, including Management Shares)	£5.6 million
Number of Generalist Shares in issue (following the Offer for Subscription at Full Subscription)	Approximately 64,332,681 (including 12,591,512 Management Shares)

*\* NAV per Generalist Share is calculated by dividing the net assets of the Generalist Share class, by the number of shares in issue less the Management Shares.*

### Financial Calendar

Financial year end	31 March
Final results announcement	July
Annual general meeting	September
Half yearly results announcement	November/December

### Offer costs

Promoter's Fee – Advisor commission payable	5.0%
Promoter's Fee – No Advisor commission payable	3.0%

## Risk Factors

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Investors should consider carefully the following risk factors in addition to the other information presented in this document. If any of the risks described below were to occur, it could have a material effect on the Company's businesses, financial condition or results of operations. The risks and uncertainties described below are not the only ones the Company, the Board or current and prospective Shareholders will face. Additional risks not currently known to the Company or the Board, or that the Company or the Board currently believe are not material, may also adversely affect the Company's businesses, financial condition and results of operations. The value of Shares could decline due to any of these risk factors, and investors could lose part or all of their investment. Investors who are in any doubt about what to do should consult their independent financial adviser. The attention of prospective investors is drawn to the following risks:

### Valuation and sale of Shares

The value of the Shares and the income from them can fluctuate and investors may not get back the amount they invested. In addition, there is no certainty that the market price of the Shares will fully reflect the underlying Net Asset Value or that Shareholders will be able to realise their shareholding or that dividends will be paid. New Generalist Shareholders should be aware that the sale of New Generalist Shares within five years of their subscription will require the repayment of some or all of the 30% VCT income tax relief obtained upon investment. Accordingly, an investment in the Company is not suitable as a short or medium term investment. The past performance of the Company or of other funds managed or advised by Downing, the investment manager to the Company, is not necessarily an indication of the future performance of the Company.

### Six month rule

Shareholders should note that if they have sold, or if they sell, any shares in the Company within 6 months either side of the subscription for the Generalist Shares, then for the purposes of calculating the tax relief on the Generalist Shares the subscribed amount must be reduced by the amount received from the sale.

### Value of underlying assets

The Net Asset Value of the Shares will reflect the values and performance of the underlying assets in the respective portfolios. The value of the investments and income derived from them can rise and fall. Realisation of investments in small unquoted companies can be difficult and may take considerable time.

### VCT Rules and the impact on the portfolio

There may also be constraints imposed on the realisation of investments in order to maintain the VCT status of investee companies which may restrict the Company's ability to obtain maximum value from its investments or to achieve the intended timing of distributions. To be qualifying holdings, VCT funds must be invested in smaller companies with gross assets of not more than £15 million prior to the investment and £16 million post investment. In addition, to be qualifying holdings, VCT funds must be invested in companies which have no more than 250 full time (equivalent) employees and do not receive more than £5 million of investment from state aided risk capital sources in the 12 months ending on the date of the VCT's investment.

### Investment opportunities

There can be no guarantee that suitable investment opportunities will be identified in order to meet the Company's objectives.

### Minority interest

Although the Company may receive conventional venture capital rights in connection with its investments, as a minority investor they may not be in a position fully to protect its interests.

### Nature of smaller companies

Investment in smaller and unquoted companies involves a higher degree of risk than investment in larger companies and those traded on the main market of the London Stock Exchange. To be qualifying holdings, VCT funds must be invested in smaller companies with gross assets of not more than £15 million prior to the investment and £16 million post investment. In addition, to be qualifying holdings, VCT funds must be invested in companies which have fewer than 250 full time (equivalent) employees and do not receive more than £5 million of investment from state aided risk capital sources in the 12 months ending on the date of the VCT's investment. Smaller companies who meet these criteria generally have limited product lines, markets or financial resources and may be more dependent on their management or key individuals than larger companies. Markets for smaller companies' securities may be less regulated and are often less liquid, and this may cause difficulties in valuing and disposing of equity investments in such companies.

## **Liquidity**

Although the New Generalist Shares will be Listed, it is highly unlikely that a liquid market in the Shares will develop as the initial VCT income tax relief is only available to those subscribing for new shares and there may never be two competitive market makers. It may, therefore, prove difficult for New Generalist Shareholders to sell their Shares. In addition, there is no guarantee that the market price of the Shares will fully reflect their underlying NAV or the ability to buy and sell at that price. It should be noted that shares held in VCTs usually trade at a discount to the VCT's net asset value. If the Company lacks sufficient cash reserves to purchase its own Shares and during prohibited periods when the Company is unable to purchase its own Shares, the market price of Shares may not fully reflect, and will tend to be at a discount to, their underlying NAV. However, the Board intends to buyback Generalist Shares in the Company at a nil discount to NAV, subject to liquidity and cash resources, which should help to reduce the share discount price.

## **VCT legislation**

The information, including tax rules, contained in this document is based on existing legislation. The tax rules or their interpretation in relation to an investment in the Company and/or the rates of tax, or other statutory provisions to which the Company is subject, may change during the life of the Company and such changes could be retrospective.

Whilst it is the intention of the Directors that the Company will be managed so as to continue to qualify as a venture capital trust, there can be no guarantee that this status will be maintained. A failure to meet the qualifying requirements could result in the loss of tax reliefs previously obtained, resulting in adverse tax consequences for investors, including a requirement to repay the income tax relief obtained, and could also cause a Company to lose its exemption from corporation tax on capital gains.

Changes to the VCT Rules in respect of investments made on or after 15 March 2018 have meant that VCTs may only invest in companies which pass a "risk to capital" gateway test requiring the investee company to have long term growth and development objectives and for the investment to carry a significant risk that invested capital will be lost over and above the net return to the Company irrespective of whether the return takes the form of income, capital growth, fees, other payments or anything else. This test inherently increases the risk profile of companies in which the Company can invest compared to the previous VCT Rules and stands in contrast to those in which the Company has historically invested in older share classes, many of which may not have passed this gateway test due to their ownership of significant assets or their enjoyment of secured income streams.

The VCT Rules now prohibit the making of secured loans by VCTs. Any loan capital investments made by the Company in future will therefore be unsecured and will rank behind secured creditors of the investee company in question. As loan capital investments by a VCT are separately restricted by the requirement that at least 70% of any new investments must be in eligible shares, and Investee Companies which meet the above noted "risk to capital" test tend not to be able to provide significant assets against which to secure loans in any case, the Board do not consider that this restriction further materially increases the risk profile of new investments made by the Company.

The Finance (No.2) Act 2015 introduced changes to the VCT Rules which have placed greater restrictions on the range of investments into which the Company can deploy funds. As a result, the Company is required to invest in businesses which are less than seven years old (less than 10 years for 'knowledge intensive' companies) and VCT funds cannot be used to finance acquisitions by investee companies. The penalty for breaching these new rules is the loss of VCT status, so the Company and its investors may face a higher risk of the loss of tax benefits than under the previous rules. Qualifying investee companies are also now subject to a lifetime risk finance investment limit of £12 million (£20 million for 'knowledge intensive' companies), which may restrict the Company's ability to make follow on investments.

The Finance Act 2014 amended the VCT Rules, such that VCT status will be withdrawn if, in respect of shares issued on or after 6 April 2014, a dividend is paid (or other forms of distribution or payments are made to investors) from the capital received by the VCT from that issue within three years of the end of the accounting period in which shares were issued to investors. This may reduce the amount of distributable reserves available to the Company to fund dividends and share buybacks.

Where the European Commission believes that state aid has been provided which is not in accordance with the risk finance guidelines, it may require the UK government to recover that state aid. There is currently no mechanism in place for this, but recovery may be from the investee company, the VCT or the VCT's investors.

## Forward-Looking Statements

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You should not place undue reliance on forward-looking statements. 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 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 or based on past trends or activities, should not be taken as a representation that such trends or activities will continue in the future.

## The Company

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### Directors and advisers

#### Directors (all non-executive)

Sir Aubrey Brocklebank (Chairman)  
Lord Flight (Senior Independent Director)  
Russell Catley  
all of  
St Magnus House,  
3 Lower Thames Street,  
London EC3R 6HD

#### Secretary and Registered Office

Grant Whitehouse  
St Magnus House,  
3 Lower Thames Street,  
London EC3R 6HD

#### Investment Manager and Administrator

Downing LLP  
St Magnus House,  
3 Lower Thames Street,  
London EC3R 6HD

#### Promoter and Receiving Agent

Downing LLP  
St Magnus House,  
3 Lower Thames Street,  
London EC3R 6HD

#### Auditors

BDO LLP  
55 Baker Street  
London W1U 7EU

#### Bankers

Royal Bank of Scotland  
London Victoria Branch  
119/121 Victoria Street  
London SW1E 6RA

Bank of Scotland  
33 Old Broad Street  
London EC2N 1HZ

#### Registrar

Link Asset Services Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

#### VCT Taxation Advisers

Philip Hare & Associates LLP  
Hamilton House  
London EC4Y 0HA

There is no family relationship between any of the Directors, the Company Secretary or any member of Management.

## Part I - The Offer

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### Introduction

VCTs were introduced in 1995 to encourage individuals to invest indirectly in a range of small higher risk UK trading companies. VCTs are investment companies whose shares are listed on the Official List and traded on the London Stock Exchange. To date, over £5 billion has been raised by over 100 VCTs (*source: HM Revenue & Customs*).

The Company, Downing FOUR VCT plc, was created by the merger of four VCTs managed or advised by Downing in July 2015. It is a reasonably large VCT which at that time had net assets of approximately £60 million. The Company's Board has a considerable number of years of experience in private equity and venture capital.

The Company's initial public share offer (DSO Ordinary) raised gross aggregate proceeds of £10.5 million during 2009. Two further share offers (DSO B and DSO D) were undertaken prior to the merger mentioned above in 2015, which brought an additional four share pools into the Company; the DP2011 General, DP2011 Structured, DP2011 Low Carbon and DP67. A further two share offers were launched in December 2016, which created the Generalist Share pool and the Healthcare Share pool.

The DSO Ordinary, DSO B, DP2011 General, DP2011 Structured, DP2011 Low Carbon share pools have, in line with their planned exit strategies, now returned all funds to shareholders and the relevant share classes have been cancelled. The DP67 and DSO D Share pools, also in line with their planned exit strategies, have commenced the process of realising their respective portfolios and returning funds to their shareholders.

As at 30 September 2019, the Company held live investments in 40 entities across four share pools with a total unaudited value of £37.1 million. Total net assets were £55.6 million. At the same date, the Generalist Share Pool held investments in 29 entities at a total value of £26.5 million. The Generalist Share Pool had net assets of £34.1 million.

### Reasons for the Offer

In December 2016 the Company launched the Generalist Share class with an offer for subscription which raised £31.1 million. A further offer launched in November 2018 and raised a further £11.4m. The Company is seeking to raise additional gross proceeds of up to approximately £5.6 million in the Generalist Share pool to take advantage of further investment opportunities that the Manager is seeing and to support existing portfolio companies.

### The Generalist Shares

Generalist Shares were first issued by the Company in February 2017 and are 'evergreen' with a focus on long term returns to shareholders and ongoing tax-free dividends.

Investments and cash attributable to each share pool are kept separately from that of the other share pools and each pool is administered as a separate investment pool.

The holders of New Generalist Shares will have the right to participate (by way of dividends and return of capital) in those assets attributable to the Generalist Shares, but not in those assets attributable to the Other Shares.

No convertible securities, exchangeable securities or securities with warrants will be issued with this Offer.

## Dividends

The Board has a stated objective for the Generalist Share pool of paying an annual tax-free dividend with effect from the year ending 31 March 2021 onwards of at least 4% of the pool’s respective NAV, subject to the availability of sufficient distributable profits, capital resources and compliance with the VCT regulations. There is no guarantee that this objective will be met.

Dividends that are paid during the lifetime of the shares will be subject to the VCT regulations introduced in 2014 which place restrictions on dividends payable by VCTs in the three-year period beginning at the end of the accounting period in which the shares are issued. The level of any dividends will be dependent on the performance of the investments in the Generalist Share pool.

The Directors intend to give consideration to the possible introduction of a dividend reinvestment scheme prior to the expected commencement of dividends by the Generalist Share class. Shareholders will be notified of any plans to introduce such a scheme at that time.

## Taxation Benefits to Investors (see Part IV for further details)

The principal VCT tax reliefs, which are available on a maximum investment of £200,000 per individual in each of the 2019/20 and 2020/21 tax years, are set out below:

- **Income tax relief at 30%** of the amount subscribed provided the VCT shares are held for at least five years and provided the Investor has not sold any shares in the Company six months either side of the issue of the new shares. Relief is restricted to the amount which reduces the Investor’s income tax liability to nil.
- **Tax-free dividends and capital distributions** from a VCT.
- **Capital gains tax exemption** on any gains arising on the disposal of VCT shares.

The table below shows the effect of the initial 30% income tax relief using an assumed investment of £10,000.

Effect of initial 30% income tax relief	
<b>Cost of investment</b>	<b>£</b>
Gross subscription by Investor	10,000
30% VCT income tax relief	(3,000)
<b>Net of tax cost of investment</b>	<b>7,000</b>
<b>Initial value of investment</b>	
Gross subscription by Investor	10,000
Assumed issue costs of 3%	(300)
<b>Initial Net Asset Value (“NAV”)</b>	<b>9,700</b>
<b>Initial “uplift” (£)</b>	<b>+£2,700</b>
<b>Initial “uplift” (%)</b>	<b>+38.6%</b>

The above table shows that, based on an illustrative investment of £10,000 and income tax relief at 30%, an Investor’s net of tax cost of investment is £7,000 and the net assets initially attributable to the investment are £9,700, an “uplift” of £2,700 or +38.6%. The table ignores the effect of Adviser Charges paid or early application discounts received. **Investors should note that they are required to hold the Shares for at least five years in order to retain the full amount of income tax relief and, as such, this initial uplift cannot be immediately realised.**

**This is only a very brief summary of the UK tax position of investors in VCTs, based on the Company's understanding of current law and practice. Further details are set out in Part IV of this document. Prospective Investors are recommended to consult their own appropriate professional advisers as to the taxation consequences of their investing in a VCT. In addition, the availability of tax reliefs depends on the Company maintaining its VCT qualifying status.**

## Investment Policy

The Company's investment policy is as follows:

### **Asset allocation**

It is intended that at least 70% (80% from 1 April 2020) of each share pools' funds are invested in VCT Qualifying Investments within 3 years of the close of the relevant share offer with 30% of new funds raised so invested within 12 months of the end of the accounting period in which they were raised. The remainder of the funds will be held in Non-Qualifying Investments.

For share pools designated as having a "planned exit" strategy, following the fifth anniversary of the last share allotment, the Company will seek realisations of its investments such that funds can be returned to Shareholders.

### **VCT Qualifying Investments**

New VCT Qualifying Investments will normally comprise investments in businesses that are less than 7 years old and require funding to support the growth of the business. Investments may be in a range of sectors which are allowable under the VCT Regulations.

The Company will focus on development and expansion funding for unquoted businesses and will not usually undertake very early stage or start up investments.

Specific share pools may have a generalist focus or may focus on certain sectors according to the strategy of that specific share pool.

VCT Qualifying Investments made in 2015 and earlier were made under previous VCT Regulations and focused on investments in UK businesses that own substantial assets (over which a charge could be taken by the Company) or have predictable revenue streams from financially sound customers.

### **Non-Qualifying Investments**

The funds not employed in VCT Qualifying Investments will be invested in Non Qualifying Investments as allowed by the VCT Regulations. These will typically be cash deposits and investments in quoted securities, investment trusts or OEICs.

Liquidity investments will be made with the aim of producing capital appreciation, rather than income. Therefore, the profit arising from the disposal or maturity of the liquidity investments typically gives rise to capital gains, which are tax-free for the Company and can be distributed tax-free to Shareholders.

Non-Qualifying Investments made prior to 5 April 2016 were typically made in structured products and secured loans.

### **Risk diversification**

The Directors control the overall risk of the Company. Downing ensures that, for each share pool, the Company has exposure to a diversified range of VCT Investments from different sectors and adheres to the holding limit that no investment in a company may represent more than 15% by value of the Company's total investments at the time of investment.

### **Listing Rules**

As a company whose shares have been admitted to the Official List, the Company conducts its business in accordance with the Listing Rules.

### **Venture Capital Trust Regulations**

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the Income Tax Act 2007.

### **Borrowing policy**

It is not the Company's intention to have any borrowings, but it reserves the right to should the need arise. The Company does, however, have the ability to borrow a maximum amount equal to 15% of the aggregate amount paid on any shares issued by the Company (together with any share premium thereon).

## Share Buyback Policy

The Board will seek to ensure that there is liquidity in the Company's Generalist Shares, accordingly, it intends to pursue an active Share buyback policy. Throughout its life, the Company will seek to buy back in the market those Generalist Shares that Shareholders wish to sell, at no discount to the latest published Net Asset Value, subject to applicable regulations, market conditions at the time and the Company having both the necessary funds and distributable reserves available for the purpose. This buyback policy aims to provide liquidity and limit the discount to Net Asset Value at which Shares trade. The making and timing of any share buybacks will remain at the absolute discretion of the Board.

Under the current Listing Rules, the price paid for the Shares cannot be more than the higher of: (i) the amount equal to 105% of the average of the middle market quotations for the five Business Days immediately preceding the date on which the Shares are purchased; (ii) the price of the last independent trade; and (iii) the highest then current independent bid on the London Stock Exchange.

## Management

### Downing LLP

The investment and administration manager of the Company is Downing LLP which is authorised and regulated by the Financial Conduct Authority. Downing specialises in structuring, promoting, managing and administering tax efficient products. In 2011 Downing LLP took over the business and employees of Downing Corporate Finance Limited (which was incorporated in 1986). Downing LLP advises or manages VCTs with over £250 million of net assets.

### AIFM

The Company is registered with the FCA as a Small Registered Alternative Investment Fund Manager.

## Co-Investment Policy

The Company's only formal co-investment relationships are with the other Downing VCTs, Downing's IHT services and EIS funds (together the "Funds"). It has been agreed that allocations will be offered to each party in proportion to their respective funds available for investment, subject to: (i) a priority being given to any of the Funds in order to maintain their tax status; (ii) the time horizon of the investment opportunity being compatible with the exit strategy of each Fund; and (iii) the risk/reward profile of the investment opportunity being compatible with the target return for each Fund. In the event of any conflicts between the parties, the issues will be resolved at the discretion of the independent directors, designated members and committees of the relevant Funds.

## Directors

The Company has a Board, comprising three Directors, all of whom are non-executive and independent of Downing. Additionally, none of the Directors are related to Downing or other funds managed by Downing.

**Sir Aubrey Brocklebank (Chairman)** assumed his first role within the VCT industry in 1997, following a career in accountancy, corporate finance and venture capital. Since then he has gone on to become one of the most experienced directors. Sir Aubrey maintains a wide range of business interests and has been a director of six AIM listed companies. He is chairman of Puma VCT 8 plc and a non-executive director of Hargreave Hale AIM VCT 1 plc and Edge Performance VCT plc.

**Lord Flight (Senior Independent Director)** has worked in the financial services industry for over 40 years and co-founded Guinness Flight Global Asset Management. In 1998, upon Guinness Flight's acquisition by Investec, he became joint chairman of Investec Asset Management Limited. He was MP for Arundel and South Downs from 1997 to 2005 and Shadow Chief Secretary to the Treasury between 2000 and 2004. He was appointed to the House of Lords in January 2011. He is chairman of the EIS Association and CIM Investment Management Limited; and is a director of Metro Bank plc, Investec Asset Management Limited and a number of other companies in the financial services sector. He is also a Commissioner of the Guernsey Financial Services Commission.

**Russell Catley** has over 30 years' experience in the financial sector and is currently chief executive of both Catley Lakeman Securities, the UK's leading provider of institutional structured products and its subsidiary asset manager, Atlantic House Fund Management LLP. Its long-standing clients include JP Morgan, HSBC, Credit Suisse, UBS and Royal Bank of Canada. He was previously a Director at Citigroup Global Markets and AXA Investment Managers UK Limited and was on the Board of AXA World Funds (Luxembourg), one of Europe's largest fund companies from 2001 to 2004.

## Charges

### Initial Costs

The initial costs to Investors are made up of the Promoter's Fee plus Adviser Charges (where applicable).

Downing will charge the Company a Promoter's Fee of 5% of the monies subscribed, where it is required to pay commission to an Intermediary (3% where no commission is payable). Out of its Promoter's Fees, Downing will be responsible for paying all the costs of the Offer (excluding trail commission). Adviser Charges are the fees agreed between Intermediaries and Investors for advice and related services.

The number of Generalist Shares issued under the Offer will be determined by the "blended" issue cost. Applicants will have a different issue cost attributable to their application for Offer Shares depending on the level of Promoter's Fee and Adviser Charges agreed with their Intermediary. Further information is set out in Part VII on page 28. The total initial expenses of each Offer (assuming full subscription by Investors in respect of whom intermediary commission is payable) will be a maximum of 5.0% of the gross proceeds and the maximum total net proceeds of the Offer are therefore estimated to be £5.3million.

### Annual management and administration fees

Downing receives annual investment management fee of 2.0% of net assets per annum in respect of the Generalist Shares, 1.5% of the net assets of the DSO D Shares per annum, 1.35% of the net assets of the DP67 Shares per annum and 2.5% per annum in respect of the Healthcare Shares.

In respect of administration fees, Downing is paid a formula-based fee comprising three elements: (i) a basic fee of £40,000; (ii) a fee of 0.1% per annum on funds in excess of £10 million; (iii) £5,000 per additional share pool. Assuming full subscription of £5.6million, the total funds under management will be approximately £61 million resulting in an annual administration fee of around £116,000.

The Annual Running Costs of each share pool (including the Generalist Share pool) are capped at 3.0% (including irrecoverable VAT) of Net Assets in the relevant pool except for the DP67 Share pool which is capped at 2.9% and the Healthcare Share pool which will be capped at 3.5%. Any excess will be paid by Downing or refunded by way of a reduction in its fees. Annual Running Costs include, inter alia, Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders and investment management fees.

Where the fund is invested in other Downing-managed funds, the Manager will arrange for one of the fees to be rebated to the Company to ensure that there is no "double charging".

Downing will receive no carried interest or other performance-related fees, save pursuant to the holding of Management Shares described below.

The Company shall also be responsible for paying 0.25% per annum of the Net Asset Value of those Offer Shares in respect of which adviser commission is payable to Downing for a maximum of five years, from which Downing will pay annual trail commission to those Intermediaries who remain eligible to receive it.

### **Costs payable by investee companies**

Downing will receive arrangement fees (capped at 3% of the sums invested by the Company, with any excess paid to the Company) and monitoring fees (capped at the higher of £10,000 pa or 0.5% pa of the cost of the investment, including any director's fees for sitting on the companies' boards) from investee companies. Costs incurred on abortive investment proposals will be the responsibility of Downing.

### **Performance Incentive**

As is customary in the venture capital industry, members of the management team will be entitled, subject to Shareholder approval, to receive a performance incentive fee in the event that returns to Generalist Shareholders respectively exceed a hurdle. This fee is being set at 20% of dividends paid when total returns are above the Hurdle, with effect from 2021 onwards.

The Performance Incentive in respect of the Generalist Shares will have no impact on holders of shares of other pools.

For the Hurdle to be met, the Generalist Shares must have a Total Return (based on audited year end results) in excess of £1 for the year ended 31 March 2020. For subsequent years, the Total Return hurdle increases by 3p per annum such that for the year ended 31 March 2021 the Total Return hurdle will be £1.03, for the year ended 31 March 2022 the hurdle will be £1.06, for the year ended 31 March 2023 the hurdle will be £1.09 etc.

The Company proposes to give effect to the performance incentive through management shares ("**Management Shares**") in the Company. When the precise number of shares to be issued to investors under the Offer is known, it is intended that 20% of such number of shares be issued to certain employees/partners of management at a lower price of 0.1p per share and immediately thereafter transferred to a nominee company, Downing Nominees Limited (the "**Nominee**"). Accordingly, if the Offer is fully subscribed it is intended that 1,400,000 Generalist Shares will be issued to Management at 0.1p per share and transferred to the Nominee to hold on behalf of Management. The issue of the Management Shares is conditional upon Shareholder approval that will be sought at the next AGM.

Whilst these Management Shares will rank *pari passu* with the other issued shares, the Nominee will agree with the Company that, so long as the Management Shares are in issue, it will (a) neither exercise any voting rights attaching to the shares, nor transfer or dispose of any of the shares, and (b) waive any of their entitlement to distributions payable on the shares unless, and to the extent that, the performance hurdle is met. The effect of this arrangement will be to allow the individuals concerned to receive dividends on the shares of 20% of the aggregate dividends payable; this dividend will represent their performance incentive payment. The Nominee will also agree that, should the management agreement be terminated, the Management Shares will be sold at the Company's direction.

Accordingly, if the Hurdle is not met, any distributions otherwise payable in respect of the relevant financial year on the Management Shares will be waived by the Nominee. If the Hurdle is met, the Nominee as holder of the Management Shares will receive any distributions as normal in respect of their holding of 20% of the Generalist and/or Healthcare Shares in issue. In effect, Management will receive a performance incentive fee of 20% of the aggregate dividend paid after the Hurdle is met. If the payment of the full dividend on the Management Shares would result in the Hurdle no longer being met, the Nominee as holder of the Management Shares will waive dividends to the extent to ensure that the Hurdle continues to be met.

For example, the Total Return per share might stand at 109.5p as at 31 March 2023, at which time the Hurdle will be 109.0p. Based on 64 million shares in issue, if a dividend of £3.2 million (5p per share) is declared in respect of the year ended 31 March 2023, Management would normally be entitled to dividends equivalent to £640,000 (equivalent to 1p per share in issue). However, as this would result in the Hurdle not being met, the management team will waive 50% of their dividend, which will result in net dividends of £320,000 (equivalent to 0.5p per share in issue) being paid on the Management Shares. The Hurdle for the following year end 31 March 2024 will then stand at 112.0p.

## Other Information

### Taxation and HM Revenue & Customs approval

The Directors intend to conduct the affairs of the Company so it continues to satisfy the conditions for approval as a VCT and that such approval will be maintained. HM Revenue & Customs has granted the Company provisional approval under the ITA. The Company intends to continue complying with the ITA and has retained Philip Hare & Associates LLP to advise it on VCT taxation matters.

### The Offer and maximum subscription

Assuming Full Subscription, maximum net proceeds (after the costs of the Offer) of £5.3 million will be raised under the Offer. The maximum amount payable by the Company in respect of the costs of the Offer will be 5% (assuming a commission is payable on all applications). In the event that applications are received in excess of the full subscription, the Directors reserve the right to use their absolute discretion in the allocation of successful applications. Applicants are encouraged to submit their Application Form early in order to be confident that their applications will be successful.

The minimum investment per Applicant is £5,000 (or such lower amount at the Board's discretion). The maximum investment, on which tax reliefs in VCTs are available, is £200,000 per Applicant in each of the 2019/20 and 2020/21 tax years. Spouses can each invest up to £200,000 in each tax year. The subscription list for the Offer will open at 9:00 a.m. on 27 February 2020 and may close at any time thereafter, but in any event, not later than 3.00 p.m. on 3 April 2020 in respect of the 2019/20 tax year and 31 January 2021 in respect of the 2020/21 tax year unless fully subscribed earlier or previously extended by the Directors.

The Offer is not underwritten.

Generalist Shares will be allotted and issued in respect of valid applications on dates on which the Directors decide, but at least quarterly. Application will be made to the UK Listing Authority on behalf of the Company for the Admission of all of the New Generalist Shares. It is anticipated that dealings in the first allotment of New Generalist Shares will commence within 20 Business Days of allotment. Dealings may begin before notification of allotments is made. Revocation of the Offer cannot occur after dealings in the Generalist Shares have commenced.

No notification will be made to successful applicants prior to despatch of definitive share certificates. Prior to despatch of definitive share certificates (where applicable), transfers (if any) will be certified against the register. No temporary documents of title will be issued.

The result of the Offer will be announced through a regulatory information service provider authorised by the FCA.

### Availability of this document

Copies of this document are available free of charge, from Downing LLP and Downing's Website as shown below.

**Downing LLP**  
St Magnus House  
3 Lower Thames Street  
London EC3R 6HD

**telephone:** 020 7416 7780  
**download:** [www.downing.co.uk](http://www.downing.co.uk)  
**email:** [customer@downing.co.uk](mailto:customer@downing.co.uk)

## Operation of the Company and Board Practices

### (a) Board of Directors

The Company complies with the provisions of the UK Corporate Governance Code, with the exception of the following, for the reasons set out below:

- (i) new Directors do not receive a full, formal and tailored induction on joining the Board and such matters are addressed on an individual basis as they arise. In addition, as the Company does not have any major shareholders, shareholders are not given an opportunity to meet any new non-executive directors at specific meetings other than at the Annual General Meetings;
- (ii) the Board consider that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the UK Corporate Governance Code;
- (iii) as the Company has no staff, other than Directors, there are no procedures in place relating to whistleblowing;
- (iv) due to the size of the Board, there are no formal performance evaluations of the Board, their committees, the individual Directors or the Chairman. Specific performance issues are dealt with as they arise; and
- (v) the Directors do not have fixed term renewable service contracts as recommended in the UK Corporate Governance Code. Instead they have letters of appointment, further details of which are set out in paragraph 6(c) of Part VIII of this document.

The Board comprises three members, all of whom are non-executive directors and considered to be independent of Downing.

The Board meets regularly throughout the year (normally at least quarterly) and all necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively including, but not limited to, monitoring and managing the performance of key service providers including Downing. Additionally, special meetings take place or other arrangements are made when Board decisions are required in advance of regular meetings. The Board is responsible for controlling the Company. The Board is responsible for the determination and calculation of the Company's Net Asset Value, which will be undertaken in accordance with the Company's accounting policies and published on an appropriate regulatory information service provider (including in the announcement of annual and half yearly results of the Company). The Board does not envisage any circumstances in which such calculations would be suspended but, were this to occur, such suspension would be communicated to shareholders in a similar manner.

The Board delegates specific responsibilities to the committees described below.

### (b) Audit Committee

All directors sit on the audit committee which is chaired by Lord Flight. The audit committee meets not less than once a year. The Company's auditors and the senior executives of Downing may attend and speak at audit committee meetings.

A summary of the terms of reference of the audit committee is as follows: the committee has responsibility for, among other things, the planning and reviewing of the Company's annual and half yearly reports and the supervision of its auditors in the review of such financial statements. The audit committee focuses particularly on the Company's compliance with legal requirements, accounting standards, financial and regulatory reporting requirements, the Listing Rules and the Prospectus Rules and ensuring that effective systems for internal financial control and for reporting non-financial operating data are maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and half yearly financial reports remain with the Board.

### (c) Remuneration Committee

All directors sit on the remuneration committee, which meets as and when required, and is chaired by Sir Aubrey Brocklebank.

A summary of the terms of reference of the remuneration committee is as follows: this committee has responsibility for determining the Company's policy on the remuneration of the Directors, and the committee refers to standard industry practice as well as comparative remuneration levels and structures prevalent in companies of a similar profile and size, and in similar industry sectors to the Company, taking account of any special circumstances that may be relevant in terms of the Directors' responsibilities and duties. The maximum Directors' remuneration will also be determined by reference to the Company's Articles and/or ordinary resolutions of Shareholders from time to time.

**(d) Nomination Committee**

All Directors sit on the nomination committee, which meets as and when required, and is chaired by Lord Flight. The committee has responsibility for considering the size, structure and composition of the Board, the retirement and appointment of Directors, and will make appropriate recommendations to the Board in relation to these matters.

As at the date of this document, the Company currently complies with the UK Corporate Governance Code in all respects other than those mentioned above.

## Part II – Generalist Shares

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### Introduction

The Generalist Share pool seeks to invest in a broad range of businesses which are eligible for investment under the latest VCT regulations. This will typically be young developing unquoted businesses.

### Strategy and Approach

The Generalist Share pool invests in businesses that are less than seven years old and are seeking funds to finance their growth. Historically, some of these businesses owned substantial assets such as pubs, wedding venues or datacentres where the Company could take a charge over the assets and thus benefit from some downside protection. New investments made by the Generalist Share pool, however, will generally be in businesses which are not asset-backed and the investments will not include any secured debt element. These new investments will therefore be higher risk but potentially offer greater rewards. The allocations of newly raised funds to particular qualifying investments will be determined by Downing's dealflow during the period when funds are being invested.

Funds not invested in qualifying investments will be invested in OEICs, Investment Trusts and other securities in line with the investment policy. Whenever the Company invests in another fund managed by Downing, it will only do so on the basis that Downing agrees to waive all of the management fees charged to the other fund in respect of that investment in order to prevent double recovery and ensure fair treatment of investors. Any conflicts of interest that may arise in this regard shall be dealt with under Downing's co-investment policy set out on page 10 and will be managed by the independent boards of the respective funds or, in the case of an OEIC, by the ACD operating within the framework of the UCITS regulations.

### Generalist Pool Management fees

An annual management fee of 2.0% of net assets per annum will be charged by Downing to the Generalist Share pool. An administration fee and monitoring fees will also be charged as set out on pages 11 and 12.

A performance incentive will be payable to Downing in the event that a performance hurdle is met. The hurdle will be set at a Total Return of at least £1 per share for the year ended 31 March 2020 and increasing by 3p per annum thereafter. If the Hurdle is met, the Performance Incentive will be a sum equivalent to 20% of the total dividends paid in respect of the relevant financial year on the Generalist Shares.

## Part III – Taxation

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### VCTs: Summary of the applicable legislation in respect of Investors

#### 1. Taxation of a VCT

VCTs are exempt from corporation tax on chargeable gains. There is no restriction on the distribution of realised capital gains by a VCT, subject to the requirements of company law. The Company will be subject to corporation tax on its income (excluding dividends received from UK companies) after deduction of attributable expenses.

#### 2. Tax reliefs for individual investors

Individuals who subscribe for Offer Shares must be aged 18 or over to qualify for the tax reliefs outlined below.

##### *Relief from income tax*

An investor subscribing up to £200,000 in the 2019/20 tax year for eligible shares in a VCT will be entitled to claim income tax relief, at the rate of 30%, although this relief will be withdrawn if either the shares are sold within five years or the investor takes out a loan which would not have been made, or would not have been made on the same terms, save for the acquisition of such shares. Relief is restricted to the amount which reduces the investor's income tax liability to nil. If an investor has sold, or if they sell, any shares in the Company within six months either side of the subscription for the Offer Shares, then for the purposes of calculating income tax relief on the Offer Shares the subscribed amount must be reduced by the amount received from the sale.

##### *Dividend relief*

An investor who subscribes for or acquires eligible shares in a VCT (up to a maximum of £200,000 in the 2019/20 tax year) will not be liable for UK income tax on dividends paid by the VCT. The income received by the VCT will usually constitute either interest (on which the VCT may be subject to tax) or a dividend from a UK company (on which the VCT would not be subject to tax). The VCT's income, reduced by the payment of tax (if applicable), can then be distributed tax-free to investors who benefit from this dividend relief. There is no withholding tax on dividends paid by a UK company and, consequently, the Company does not assume responsibility for the withholding of tax at source.

##### *Capital gains tax relief*

A disposal by an individual investor of his/her shares in a VCT will neither give rise to a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. This relief is also limited to disposals of shares acquired within the £200,000 limit described above.

##### *Loss of tax reliefs*

- (i) If a company which has been granted approval or provisional approval as a VCT subsequently fails to comply with the conditions for approval, VCT status may be withdrawn or treated as never having been given. The exemptions from corporation tax on capital gains will not apply to any gain realised after VCT status is lost (and on any gain realised by the VCT if approval is deemed never to have been given).
- (ii) For investors, the withdrawal of VCT status may (depending upon the timing of such withdrawal) result in:
  - repayment of the 30% income tax relief on subscription for new VCT shares;
  - income tax becoming payable on subsequent payments of dividends by the company; and
  - a liability to tax on capital gains being suffered in the normal way on the disposal of shares in the company, except that any part of the gain attributable to the period for which the VCT was approved would remain exempt.
- (iii) The consequences for investors in a company which never obtains full unconditional approval as a VCT are as follows:
  - repayment of the 30% income tax relief on subscriptions for new VCT shares and interest on overdue tax may arise;
  - income tax becoming payable on all payments of dividends by the company; and
  - any gain arising on a disposal of the shares would be liable to capital gains tax and losses on the shares would be allowable losses for capital gains tax purposes.

The Offer Shares are eligible VCT shares for the purposes of this section.

### 3. Consequences of an investor dying or a transfer of shares between spouses

(i) *Initial income tax*

If an investor dies at any time after making an investment in a VCT, the transfer of shares on death is not treated as a disposal and, therefore, the initial income tax relief is not withdrawn. However, the shares will become part of the deceased's estate for inheritance tax purposes.

(ii) *Tax implications for the beneficiary*

Provided a number of conditions are met, the beneficiary of any VCT shares will be entitled to tax-free dividends and will not pay capital gains tax on any disposal but will not be entitled to any initial income tax relief.

(iii) *Transfer of shares between spouses*

Transfers of shares in a VCT between spouses is not deemed to be a disposal and, therefore, all tax reliefs will be retained.

### 4. General

(i) *Investors who are not resident in the UK*

Non-resident investors, or investors who may become non-resident, should seek their own professional advice as to the consequences of making an investment in the Company, because they may be subject to tax in other jurisdictions.

(ii) *Stamp duty and stamp duty reserve tax*

No stamp duty or (unless shares in a VCT are issued to a nominee for a clearing system or a provider of depository receipts) stamp duty reserve tax will be payable on the issue of VCT shares. The transfer on the sale of shares would normally be subject to ad valorem stamp duty or (if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer within four months) stamp duty reserve tax generally, in each case at the rate of 50p for every £100 or part of £100 of the consideration paid where the total consideration exceeds £1,000 or if it forms part of a series of transactions where the total consideration exceeds £1,000. Such duties would be payable by a person who purchases such shares from the original subscriber.

(iii) *Purchases in the market after listing*

Any subsequent purchaser of existing VCT shares, as opposed to a subscriber for new VCT shares, will not qualify for income tax relief on investment but may benefit from dividend relief and from capital gains tax relief on the disposal of his/her VCT shares.

(iv) *The VCT Regulations 2004*

Under the VCT Regulations, monies raised by any further issue of shares by an existing VCT must be applied by that VCT for qualifying purposes. If any of the money raised (except for amounts which HM Revenue & Customs agrees are insignificant in the context of the whole issued ordinary share capital of the VCT) is used by the VCT to purchase its own shares then the funds may be deemed to not have been used for a qualifying purpose.

**The above is only a summary of the tax position of individual investors in VCTs and is based on the Company's understanding of current law and practice. Investors are recommended to consult a professional adviser as to the taxation consequences of their investing in a VCT. All tax reliefs referred to in this document are UK tax reliefs and are dependent on the Company maintaining its VCT qualifying status.**

#### VCT approval

To obtain VCT status a company must be approved by HM Revenue & Customs as a VCT. HM Revenue & Customs has granted the Company approval under Section 274 ITA as a VCT and the Company intends to continue complying with the requirements of such section.

For a VCT to obtain full unconditional approval, the conditions summarised below must be satisfied in relation to the accounting period of the company which is current when the application for approval is made, or in any event must be satisfied by no later than the beginning of the VCT's next accounting period and must continue to be satisfied throughout the life of the VCT:

- (i) the VCT's income must have been derived wholly or mainly from shares and securities (in the case of securities issued by a company, meaning loans with a five-year or greater maturity period);
- (ii) no holding in a company (other than a VCT or a company which would, if its shares were listed, qualify as a VCT) by the VCT may represent more than 15% by value of the VCT's total investments at the time of investment; and
- (iii) the VCT must not have retained more than 15% of the income derived from shares or securities in any accounting period; and
- (iv) the VCT must not make an investment into a company which causes that company to have received more than £5 million of state aided risk finance in a rolling 12 month period (£10 million for a 'knowledge intensive company'), or more than £12 million in total (£20 million for a 'knowledge intensive' company); and
- (v) no investment can be made by the VCT in a company whose first commercial sale was more than seven years prior to the date of investment, except where previous State aid Risk Finance was received by the company within seven years (ten years for a 'knowledge intensive' company) or where a turnover test is satisfied and the investment is used to enter a new product or geographical market;
- (vi) no funds received from an investment by the VCT into a company can be used to acquire another existing business or trade; and
- (vii) the VCT must not make any investments other than qualifying investments or certain non-qualifying investment specified in section 274 Income Tax Act 2007.

The VCT must not be a close company. Its ordinary share capital must be quoted on any regulated market in the EU or European Economic Area.

The VCT must not in respect of any share capital created on or after 6 April 2014, and any reserves created from the cancellation thereof, make any payment or distribution out of such share capital and reserves to shareholders within three years from the end of the accounting period in which that share capital was created.

The following conditions also have to be satisfied by no later than the beginning of the VCT's accounting period which commences no later than three years after provisional approval takes effect and must continue to be satisfied throughout the life of the VCT:

- (i) at least 70% (80% from 1 April 2020) by value of its investments is represented by shares or securities comprising qualifying investments; and
- (ii) For funds raised on or after 6 April 2011, at least 70% by value of its qualifying investments are represented by "eligible shares" which are ordinary shares which carry no present or future preferential rights to a return or capital on a winding up or any redemption rights, but may have certain preferential rights to dividends.

Furthermore, for accounting periods commencing on or after 6 April 2018, VCTs will be required to invest 30% of funds raised in that accounting period in qualifying investments within 12 months from the end of the at accounting period.

Disposals of qualifying holdings, which have been so qualifying throughout the six months prior to disposal, are disregarded for the purposes of the 70% (80% from 1 April 2020) test for a period of 12 months.

"Qualifying investments" comprise shares or securities (including loans with a five year or greater maturity period but excluding guaranteed loans and securities) issued by unquoted trading companies which exist wholly or mainly for the purpose of carrying on one or more qualifying trades and which meet a principles based 'risk to capital' gateway test. This test requires the company to have genuine plans to grow and develop in the long term and that there be a significant risk that the capital invested could be lost as to an amount greater than the net investment return. The trade must be carried on by, or be intended to be carried on by, the investee company or a 90% held qualifying subsidiary (directly held or in the third tier within the group) at the time of the issue of the shares or securities to the VCT and at all times thereafter. The Qualifying Company must have a permanent establishment in the UK.

A company intending to carry on a qualifying trade must begin to trade within two years of the issue of shares or securities to the VCT and continue it thereafter. The definition of a qualifying trade excludes certain activities, including dealing in property, shares, securities, commodities or futures. It also excludes banking, insurance, receiving royalties or licence fees in certain circumstances, leasing, the provision of legal and accounting services, farming and market gardening, forestry and timber production, property development and operating or managing hotels, guest houses, nursing and residential care homes, coal production, steel production, ship building or the generation of electricity. The funds raised by the investment must be used for the purposes of the qualifying trade within certain time limits.

A qualifying investment can be made in a company which is a parent company of a trading group where the activities of the group, taken as a whole, consist of carrying on one or more qualifying trades. The subsidiary carrying on the qualifying trade in question must be at least 90% owned by the parent company. The investee company's gross assets, or those of the group if it is a parent company, must not exceed £15 million immediately prior to the investment and £16 million thereafter. Neither the VCT nor any other company may control the investee company. At least 10% of the VCT's total investment in the investee company must be in "eligible shares" as defined above. Qualifying Companies or groups must have fewer than 250 employees (500 for a "knowledge intensive" company). Companies are permitted to receive a maximum of £5 million from investments made under the European Commission's Risk Finance Guidelines in the 12 months ending on the date of the VCT's investment, and a total maximum of £12 million of such investment (£10 million and £20 million respectively for a "knowledge intensive company"). The company's first commercial sale must be no more than seven years before the date of the VCT's investment (ten years for a "knowledge intensive company"), except where previous State Aided risk finance investment was received by the company in that seven or ten year period, or where a turnover test is satisfied and the money is used to enter a new product or geographic market. There is also a disqualifying purpose test designed to exclude companies set up for the purpose of accessing the tax reliefs. There is an exclusion on the use of VCT funds for the acquisition of a trade, business, or of shares in another company.

Companies whose shares are traded on AIM, are PLUS quoted or PLUS traded are treated as unquoted companies for the purposes of calculating qualifying investments. Shares in an unquoted company which subsequently become listed may still be regarded as a qualifying investment for a further five years following listing, provided all other conditions are met.

VCTs may only use the non-qualifying portion of their portfolio to make a limited range of investments for the purposes of liquidity management, specifically in listed shares, shares or units in alternative investments funds and UCITS (each of which must be redeemable on seven days' notice by the investor) and short term cash deposits.

The Company will notify through a Regulatory Information Service provider any action that Downing will take in the event of a breach of any of the conditions to remaining a VCT.

## Part IV – Financial Information on the Generalist Share Pool

The unaudited NAV of the Generalist Ordinary Shares at 30 September 2019 was 77.6p per share. No dividends have been declared in respect of the Generalist Shares to date.

The following table of unaudited information is a summary of the main investments of the Generalist Shares Pool Company as at 30 September 2019.

### Generalist Share Pool portfolio as at 30 September 2019

	Cost	Valuation	% of
	£'000	£'000	portfolio
<b>Venture Capital investments</b>			
Lignia Wood Company Limited	1,444	1,533	4.5%
Rated People Limited	1,282	1,282	3.8%
E-Fundamentals (Group) Limited	1,167	1,167	3.4%
Rego Technologies Limited	1,077	1,077	3.2%
Firefly Learning Limited	1,047	1,047	3.1%
Imagen Limited	1,000	1,000	2.9%
Xupes Limited	933	933	2.7%
Maverick Pubs Limited	1,000	850	2.5%
Limitless Technology Limited	756	802	2.4%
Hackajob Limited	784	784	2.3%
BridgeU Limited	811	727	2.1%
Live Better With Limited	1,211	642	1.9%
Virtual Class Limited	803	544	1.6%
JRNI Limited	525	525	1.5%
Exonar Limited	500	500	1.5%
Channel Mum Limited	500	500	1.5%
Hummingbird Technologies Limited	500	500	1.5%
Cambridge Touch Technologies Limited	459	459	1.3%
Fenkle Street LLP*	301	423	1.2%
ADC Biotechnology Limited	550	421	1.2%
Empiribox Limited	1,278	400	1.2%
Arecor Limited	300	300	0.9%
Streethub Limited (t/a Trouva)	300	300	0.9%
Masters of Pie Limited	167	167	0.5%
Destiny Pharma plc†	500	121	0.4%
Glownet Limited	741	73	0.2%
Ormsborough Limited	900	-	0.0%
London City Shopping Centre Limited*	30	-	0.0%
	<b>20,866</b>	<b>17,077</b>	<b>50.2%</b>
<b>Liquidity investments</b>			
MI Downing Monthly Income Fund*	3,950	3,597	10.5%
MI Downing UK Micro-Cap Growth Fund*	4,025	3,021	8.8%
Downing Strategic Micro-Cap Investment Trust plc*^	4,269	2,809	8.2%
	<b>12,244</b>	<b>9,427</b>	<b>27.5%</b>
<b>Total</b>	<b>33,110</b>	<b>26,504</b>	<b>77.7%</b>
Cash at bank and in hand		7,594	22.3%
Total investments		<b>34,098</b>	<b>100.0%</b>

\* non-qualifying investment

^ listed and traded on the Main Market of the London Stock Exchange

† traded on the AIM market

NB. In addition to the unrealised investment gains and losses shown in the table above, the share pool has also borne running costs and benefited from investment income since launch of the share pool.

### Summary of portfolio investments

The task of investing the Generalist Share pool investments commenced in March 2017. By 30 September 2019 the share pool had made 26 VCT Qualifying Investments and five Non-Qualifying Investments in Downing managed funds. (Management fees in respect of the other Downing-managed funds are reimbursed to the Company to avoid “double-charging”).

A brief summary of the ten largest investments by value at 30 September 2019 is as follows:

#### VCT Qualifying Investments

**Lignia Wood Company Limited** is a producer of sustainable modified wood based in Barry, Wales. The company is helping tackle issues relating to lack of supply of legal and sustainable hardwoods. It is doing this by modifying the properties of sustainably sourced, plantation-grown softwoods under the brand name LIGNIA®. LIGNIA is produced by impregnating wood with resin which, once cured, has an appearance resembling a tropical hardwood that has a better appearance, durability, stability and fire resistance than many high value hardwoods such as oak and teak.

**Rated People Limited** is an online home services marketplace that aims to connect homeowners with high quality local tradespeople. The company offers access to more than 50,000 tradespeople, representing over 30 trades, and covering the whole of the UK.

**E-Fundamentals (Group) Limited** has developed a proprietary SaaS analytics platform that helps brands to replicate the successes of traditional retail sales through online shopping channels.

**Rego Technologies Limited (formerly Volo Commerce)**, trading as Upp Technologies Limited, is a SaaS-based E-commerce enabling software provider. Using Artificial Intelligence, Upp delivers a platform that understands online retail, taking the legwork out of optimising brand listings with better results.

**Firefly Learning Limited** is an online education platform which allows teachers to share lesson plans, assign and review homework and communicate with students and parents online, leaving an audit trail of assignments submitted and marks received. Firefly is now planning to extend its global expansion while further developing its strong presence in UK Independent and State schools.

**Imagen Limited** is a SaaS video management platform which holds both current and archive footage for major sporting organisations and news outlets, including Premier League, World Tennis Association and the BBC. The platform helps sports, media and enterprise businesses to manage their expanding video and content libraries on its cloud-based technology.

**Xupes Limited** is an online retailer of pre-owned luxury goods including designer watches, handbags, jewellery and antiques. The management team has built a profitable business with a strong brand selling high-quality products, centred on exceptional customer service.

#### Non-Qualifying Investments

**Downing Strategic Micro-Cap Investment Trust plc** is an Investment Trust launched in May 2017 and managed by Downing which aims to take influential positions in a focused portfolio of 12 – 18 UK listed companies at the smallest end of the UK equity market.

**MI Downing UK Micro-Cap Growth Fund** is an Open-Ended Investment Company (“OEIC”) managed by Downing and invests in a concentrated portfolio of 25-30 UK listed companies at the smallest end of the UK equity market. These companies typically have a market capitalisation of below £150 million at the time of investment.

**MI Downing Monthly Income Fund** is an OEIC managed by Downing that targets a premium yield to the UK equity income sector, together with long term capital growth.

## Part V – Definitions

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Where used in this document the following words and expressions will, unless the context otherwise requires, have the following meanings:

<b>2006 Act</b>	Companies Act 2006, as amended from time to time
<b>Admission</b>	admission of the New Generalist Shares to the premium segment of the Official List and to trading on the London Stock Exchange
<b>Advisers</b>	financial advisers and Intermediaries
<b>Adviser Charge</b>	fee, payable to an Intermediary, agreed with the Investor for the provision of a personal recommendation and/or related services in relation to an investment in Generalist Shares, and detailed on the Application Form
<b>Annual Running Costs</b>	annual running costs incurred by the Company in the ordinary course of its business (including irrecoverable VAT but excluding any amount payable in respect of the Performance Incentive)
<b>Applicant</b>	a person who completes and submits an Application Form
<b>Application Form</b>	form of application for New Generalist Shares under the Offer
<b>Articles</b>	articles of association of the Company as at the date of this document
<b>Board or Directors</b>	board of directors of the Company
<b>Business Days</b>	any day, other than a Saturday, Sunday or public holiday, on which clearing banks in London are open for all normal banking business
<b>Closing Date</b>	31 January 2021 unless fully subscribed or closed by the Directors at an earlier date
<b>Company or Downing FOUR</b>	Downing FOUR VCT plc (registered number 06789187, formerly Downing Structured Opportunities VCT 1 plc)
<b>CREST</b>	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)) for the paperless settlement of transfers and the holding of Shares in uncertificated form which is administered by Euroclear UK & Ireland Limited (registered number 02878738)
<b>Directors or Board</b>	directors of the Company
<b>Direct Investors</b>	Investors who are not introduced by Advisers
<b>Downing</b>	Downing LLP, which is authorised and regulated by the Financial Conduct Authority (registered number OC341575; FCA number 545025)
<b>Downing VCTs</b>	all VCTs managed or advised by Downing LLP
<b>DP67 Shares</b>	DP67 shares of 0.1p each in the capital of the Company (ISIN: GB00BWX53D91)
<b>DP67 Share Pool</b>	assets and liabilities attributable to the DP67 Shares
<b>FCA</b>	Financial Conduct Authority
<b>FSMA</b>	Financial Services and Markets Act 2000, as amended from time to time
<b>Full Subscription</b>	£5.8 million being raised from Applicants under the Top Up Offer
<b>Generalist Share(s)</b>	Generalist Ordinary Shares of 0.1p each in the capital of the Company (ISIN: GB00BDHF5B49)
<b>Generalist Shareholders</b>	holders of Generalist Shares
<b>Healthcare Share(s)</b>	Healthcare Ordinary Shares of 0.1p each in the capital of the Company (ISIN: GB00BDHF5D62)
<b>Hurdle</b>	achievement, calculated on a per Generalist Share basis, of (a) a Total Return in excess of £1 per share for the years ended 31 March 2020 (b) subsequent annual Total Returns increasing by 3p per annum
<b>Initial Adviser Charge</b>	a one-off Adviser Charge to be paid at the time of or shortly after the investment being made
<b>Intermediary</b>	financial intermediary or adviser, authorised under FSMA, who signs the Application Form and whose details are set out on the Application Form
<b>Investment Manager</b>	Downing
<b>Investor</b>	subscriber for New Generalist Shares under the Offer
<b>ITA</b>	Income Tax Act 2007, as amended from time to time
<b>Listed</b>	admitted to the premium segment of the Official List and to trading on the London Stock Exchange
<b>Listing Rules</b>	listing rules issued by the FCA, acting as the UK Listing Authority, pursuant to Part VI of the FSMA

<b>London Stock Exchange</b>	main market for listed securities of the London Stock Exchange plc (registered number 02075721)
<b>Management Team</b>	individuals engaged in the business of the Company and/or Downing
<b>Management Shares</b>	up to approximately 1.4 million Generalist Shares to be subscribed for by members of the Management Team
<b>ML Regulations</b>	Money Laundering Regulations 2007
<b>NAV or Net Asset Value</b>	net asset value per Share (in the case of the Generalist Shares, calculated without including the Management Shares)
<b>Net Assets</b>	gross assets less all liabilities (excluding contingent liabilities) of the Company
<b>OEIC</b>	an Open-Ended Investment Company as defined by the Open-Ended Investment Companies Regulations 2001, as amended
<b>Offer Price</b>	price per Generalist Share under the Offer as determined by the Pricing Formula from time to time
<b>Offer Shares</b>	Generalist Shares being made available for subscription pursuant to the Offer
<b>Offer or Top Up Offer</b>	offer for subscription of up to 8,250,000 Generalist Shares made on the terms set out in this document
<b>Official List</b>	official list of the UK Listing Authority
<b>Other Shareholders</b>	holders of Other Shares
<b>Other Shares</b>	DSO D Shares and/or DP67 Shares and/or Healthcare Shares.
<b>Performance Incentive</b>	performance-related benefits accruing to the Management through their holdings of Management Shares in the event that the Hurdles are achieved, as described in this document under the section headed "Charges"
<b>Pricing Formula</b>	mechanism by which the pricing of the Offer may be adjusted according to the latest published NAV, the level of the Promoter's Fee and Adviser Charge, as described on page 28 of this document
<b>Promoter</b>	Downing
<b>Promoter's Fee</b>	fee payable by the Company to Downing, calculated as a percentage of each Applicant's gross subscription in the Offer in return for which Downing will pay the launch costs of the Offer
<b>Prospectus Rules</b>	prospectus rules issued by the FCA pursuant to Part VI of the FSMA
<b>Qualifying Company/ies</b>	unquoted company carrying on qualifying trades wholly or mainly in the United Kingdom and which satisfy certain other conditions as defined in Chapter 4, Part 6, of the ITA
<b>Qualifying Investment</b>	investment in an unquoted trading company, which comprises a qualifying holding for a VCT as defined in Chapter 4, Part 6, of the ITA
<b>Registrar</b>	Link Asset Services
<b>Shareholders</b>	holders of Shares
<b>Share(s)</b>	DSO D Shares and/or DP67 Shares and/or Generalist Shares and/or Healthcare Shares (excluding Management Shares), as applicable
<b>Spouse</b>	spouse or civil partner
<b>Total Return</b>	NAV, together with cumulative dividends paid or proposed
<b>UK Listing Authority</b>	FCA acting in its capacity as the competent authority for the purposes of Part VI of the FSMA
<b>VCT or Venture Capital Trust</b>	venture capital trust as defined in Section 259 of the ITA
<b>VCT Regulations</b>	Part 6 ITA 2007 and every other statute (including any orders, regulations or other subordinate legislation made under them) for the time being in force concerning VCTs as amended from time to time

## Part VI – Terms and Conditions of Application

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1. In these Terms and Conditions of Application, the expression “Application Form” means the application form for use in accordance with these Terms and Conditions of Application. Save where the content otherwise requires, the terms used in the Application Form bear the same meaning as in this document.
2. The right is reserved to reject any application or to accept any application in part only. Multiple applications are permitted. If any application is not accepted, or if any contract created by acceptance does not become unconditional, or if any application is accepted for fewer Offer Shares than the number applied for, or if in any other circumstances there is an excess payment in relation to an application, the application monies or the balance of the amount paid or the excess paid on application will be returned without interest by post at the risk of the Applicant. In the meantime, application monies will be retained in the Company's bank account.
3. You may pay for your application for Offer Shares by cheque or banker's draft submitted with the Application Form or direct bank transfer (CHAPS/BACS).
4. The contract created by the acceptance of applications will be conditional on Admission. The Offer is not underwritten.
5. By completing and delivering an Application Form, you:
  - (a) offer to subscribe for the amount specified on your Application Form plus any commission waived for extra shares or any smaller sum for which such application is accepted at the Offer Price;
  - (b) acknowledge that, if your subscription is accepted, you will be allocated such number of Offer Shares as determined by the Pricing Formula;
  - (c) authorise your financial adviser, or whoever he or she may direct, the Registrar or the Company to send a document of title for, or credit your CREST account in respect of, the number of Offer Shares for which your application is accepted, and/or a crossed cheque for any monies returnable, by post at your risk to your address as set out on your Application Form;
  - (d) in consideration of the Company agreeing that it will not, prior to the closing date of the Offer, offer any Offer Shares to any persons other than by means of the procedures set out or referred to in this document, agree that your application may not be revoked once made and that this paragraph constitutes a collateral contract between you and the Company which will become binding upon despatch by post or delivery of your duly completed Application Form to the Company or to your financial adviser;
  - (e) warrant that your remittance will be honoured on first presentation and agree that, if such remittance is not so honoured, you will not be entitled to receive share certificates for the Offer Shares applied for or to enjoy or receive any rights or distributions in respect of such Offer Shares unless and until you make payment in cleared funds for such Offer Shares and such payment is accepted by the Company (such acceptance shall be in its absolute discretion and may be on the basis that you indemnify it against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and that at any time prior to unconditional acceptance by the Company of such late payment in respect of such Offer Shares, the Company may (without prejudice to its other rights) treat the agreement to allot such Offer Shares as void and may allot such Offer Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Offer Shares (other than return of such late payment at your risk and without interest);
  - (f) agree that all cheques and banker's drafts may be presented for payment on the due dates and any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the verification of identity required by the ML Regulations and that such monies will not bear interest;
  - (g) undertake to provide satisfactory evidence of identity within such reasonable time (in each case to be determined in the absolute discretion of the Company and the Receiving Agent) to ensure compliance with the ML Regulations;
  - (h) agree that, in respect of those Offer Shares for which your application has been received and processed and not rejected, acceptance of your application shall be constituted by the Company instructing Downing or the Registrar to enter your name on the share register;
  - (i) agree that all documents in connection with the Offer and any returned monies will be sent at your risk and may be sent to you at your address as set out in the Application Form;
  - (j) agree that, having had the opportunity to read this document, you shall be deemed to have had notice of all information and representations including the risk factors contained therein;
  - (k) confirm that (save for advice received from your financial adviser) in making such application you are not relying on any information and representation other than those contained in this document and you accordingly agree that no person responsible solely or jointly for this document or any part thereof or involved in the preparation thereof will have any liability for any such other information or representation;
  - (l) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offer shall be governed by and construed in accordance with English Law and that you submit to the jurisdiction of the English Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising

- out of or in connection with any such applications, acceptances of applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
- (m) irrevocably authorise the Company, the Registrar or Downing or any other person authorised by any of them, as your agent, to do all things necessary to effect registration of any Offer Shares subscribed by or issued to you into your name and authorise any representatives of the Company, the Registrar or Downing to execute any documents required therefore and to enter your name on the register of members of the Company;
  - (n) agree to provide the Company with any information which it may request in connection with your application or to comply with the VCT Regulations or other relevant legislation (as the same may be amended from time to time) including without limitation satisfactory evidence of identity to ensure compliance with the ML Regulations;
  - (o) warrant that, in connection with your application, you have observed the laws of all requisite territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in the Company, Downing or the Sponsor acting in breach of the regulatory or legal requirements of any territory in connection with the Offer or your application;
  - (p) confirm that you have read and complied with paragraph 6 below;
  - (q) confirm that you have reviewed the restrictions contained in paragraph 7 below;
  - (r) warrant that you are not under the age of 18 years;
  - (s) warrant that, if the laws of any territory or jurisdiction outside the United Kingdom are applicable to your application, you have complied with all such laws and none of the Company, Downing or the Sponsor or any of their respective agents will infringe any laws of any such territory or jurisdiction directly or indirectly as a result or in consequence of any acceptance of your application;
  - (t) agree that Downing and the Sponsor are acting for the Company in connection with the Offer and for no-one else and that they will not treat you as their customer by virtue of such application being accepted or owe you any duties or responsibilities concerning the price of Offer Shares or concerning the suitability of Offer Shares for you or be responsible to you for the protections afforded to their customers;
  - (u) warrant that if you sign the Application Form on behalf of somebody else or yourself and another or others jointly or a corporation you have the requisite power to make such investments as well as the authority to do so and such person will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions of application and undertake (save in the case of signature by an authorised financial adviser on behalf of the Investor) to enclose a power of attorney or a copy thereof duly certified by a solicitor with the Application Form;
  - (v) warrant that you are not subscribing for the Offer Shares using a loan which would not have been given to you or any associate, or not given to you on such favourable terms, if you had not been proposing to subscribe for the Offer Shares;
  - (w) warrant that the Offer Shares are being acquired by you for *bona fide* investment purposes and not as part of a scheme or arrangement the main purpose of which, or one of the main purposes of which, is the avoidance of tax. Obtaining tax reliefs given under the applicable VCT legislation is not of itself tax avoidance;
  - (x) warrant that you are not a "US person" as defined in the United States Securities Act of 1933 (as amended) nor a resident of Canada and that you are not applying for any Offer Shares on behalf of or with a view to their offer, sale or delivery, directly or indirectly, to or for the benefit of any US person or resident of Canada; and
  - (y) warrant that the information contained in the Application Form is accurate.
6. No person receiving a copy of this document, or an Application Form, in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use such Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her or such Application Form could lawfully be used without contravention of any registration or other legal requirements. It is the responsibility of any person outside the United Kingdom wishing to make an application hereunder to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any of the formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
7. The Offer Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state or other political subdivision of the United States, and may not be offered or sold in the United States of America, its territories or possessions or other areas subject to its jurisdiction (the "USA"). In addition, the Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended. Downing will not be registered under the United States Investment Adviser Act of 1940 (as amended). No application will be accepted if it bears an address in the USA.
8. This application is addressed to the Company and the Receiving Agent. The rights and remedies of the Company under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to it, and the exercise or partial exercise of one will not prevent the exercise of others.

9. The dates and times referred to in these Terms and Conditions of Application may be altered by the Company with the agreement of the Sponsor.
10. The Company has taken advantage of the provisions of the 2006 Act to allow annual reports and other statutory shareholder communications to be made available in electronic form on its website as the default means of publication. This will have a positive environmental impact and save the Company some costs compared to providing all communications in hard copy form by post. By default, applicants who provide an email address on the Application Form and do not complete select any alternative notification methods, will receive notification of shareholder communications by email. Investors can elect to receive notifications by post and to receive all shareholder communications in paper form by ticking the appropriate box on the Application Form. Should you subsequently wish to change your election, you can do so at any time by contacting the Registrar, Link Asset Services, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Notwithstanding any election, the Company may in its sole discretion send any notification or information to Shareholders in paper form.
11. Intermediaries who have not provided personal recommendations or advice to UK retail clients in respect of the Offer Shares and who, acting on behalf of their clients, return valid Application Forms bearing their stamp and FCA number may be entitled to commission on the amount payable in respect of the Offer Shares allocated for each such Application Form at the rates specified in the paragraph headed "Commission" in Part VII of this document. Intermediaries may agree to waive part or all of their initial commission in respect of an application for Offer Shares. If this is the case, then the offer charges will be adjusted, in accordance with the Pricing Formula. Intermediaries should keep a record of Application Forms submitted bearing their stamp to substantiate any claim for their commission.
12. The section headed "Notes on Application Form" forms part of these Terms and Conditions of Application.
13. It is a condition of the Offer to ensure compliance with the ML Regulations. Downing is therefore entitled to require, at its absolute discretion, verification of identity from any Applicant including, without limitation, any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to Downing to be acting on behalf of some other person. Pending the provision of evidence satisfactory to Downing as to the identity of the Applicant and/or any person on whose behalf the Applicant appears to be acting, Downing may, in its absolute discretion, retain an Application Form lodged by an Applicant and/or the cheque or other remittance relating thereto and/or the Registrar may not enter the Applicant on the register of members or issue any share certificates in respect of such application. If verification of identity is required, this may result in delay in dealing with an application and in rejection of the application. The Company reserves the right, in its absolute discretion, for it or Downing to reject any application in respect of which Downing considers that, having requested verification of identity, it has not received evidence of such identity satisfactory to it by such time as was specified in the request for verification of identity or in any event within a reasonable period. In the event of an application being rejected in any such circumstances, the Company reserves the right in its absolute discretion, but shall have no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the application will be returned (without interest) to the account of the drawee bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the Offer Shares in question (but in each case without prejudice to any rights the Company may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence as aforesaid). The submission of an Application Form will constitute an undertaking by the Applicant to provide promptly to Downing such information as may be specified by it as being required for the purpose of the ML Regulations.
14. The right is also reserved to treat as valid and binding any application not complying fully with these Terms and Conditions of Application or not in all respects complying with the Notes on Application Form. In particular, but without limitation, the Company may accept applications made otherwise than by completion of an Application Form where the Applicant has agreed in some other manner acceptable to the Company to apply in accordance with these Terms and Conditions of Application.
15. The Company and/or Downing may use the information you give for administration, research and/or statistical purposes. Your details may be used by the Company and/or Downing (but will not be sold to third parties) to send you information on other potential investment opportunities (maximum six communications per annum). If you would prefer not to receive such information, please write to Downing.
16. The minimum subscription is £5,000 subject to the Board's discretion.
17. The application of the subscription proceeds is subject to the absolute discretion of the Directors.

## Part VII – Pricing of the Offer, Adviser Charges and Commission

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### Pricing of the Offer

The number of New Generalist Shares to be issued to each Applicant will be calculated based on the following Pricing Formula (rounded down to the nearest whole Generalist Share):

$$\text{Number of Offer Shares} = \left[ \begin{array}{l} \text{Amount subscribed, less:} \\ \text{(i) initial Promoter's Fee}^1 \text{ and} \\ \text{(ii) Adviser Charge (if any)} \end{array} \right] \div \left[ \begin{array}{l} \text{Initial/Latest} \\ \text{published NAV} \\ \text{per Generalist Share}^2 \end{array} \right]$$

<sup>1</sup> less any reduction for commission waived by Intermediaries (where applicable)

<sup>2</sup> adjusted for any dividends declared that are ex-dividend but not yet paid, as appropriate.

**Illustrative examples** (based on a subscription under the Offer of £10,000 and a NAV per Generalist Share of 77.6p)

- (i) Promoter's Fee (Commission payable: 5% less 2% commission waived) of 3% = £300

$$\text{Number of Generalist Shares} = (10,000 - 300 - 0) \div 0.776 = \mathbf{12,500}$$

$$\text{Offer Price} = \text{Amount Subscribed (Gross)} \div \text{Number of Generalist Shares} = \mathbf{80.0p}$$

- (ii) Promoter's Fee (advised) of 3% = £300

Example Adviser Charge = £225

$$\text{Number of Generalist Shares} = (10,000 - 300 - 225) \div 0.776 = \mathbf{12,210}$$

$$\text{Offer Price} = \text{Amount Subscribed (Gross)} \div \text{Number of Generalist Shares} = \mathbf{81.9p}$$

- (iii) Promoter's Fee (advised) of 3% = £300

Example Adviser Charge = £400

$$\text{Number of Generalist Shares} = (10,000 - 300 - 400) \div 0.776 = 11,984$$

$$\text{Offer Price} = \text{Amount Subscribed (Gross)} \div \text{Number of Generalist Shares} = \mathbf{83.4p}$$

It should be noted that the example Adviser Charges set out above have been provided to illustrate the pricing of the Offer and should not be considered as a recommendation as to the appropriate levels of Adviser Charges.

Income tax relief should be available on the total amount subscribed, subject to VCT regulations and personal circumstances, which in each of the above examples would be £3,000 (£10,000 at 30%).

**Adviser Charges**

Commission is generally not permitted to be paid to Intermediaries save in circumstances where an “enhanced value” non-advisory service is provided or where restricted advice is provided to a professional client of the adviser. Instead of commission being paid by the Company, a fee will usually be agreed between the Intermediary and Investor for the advice and related services (“Adviser Charge”). This fee can either be paid directly by the Investor to the Intermediary or the payment of such fee may be facilitated by the Company.

If the payment of the Adviser Charge is to be facilitated by the Company, then the Investor is required to specify the amount of the charge on the Application Form. The Investor will be issued fewer Generalist Shares (to the equivalent value of the Adviser Charge) through the Pricing Formula set out above.

The Adviser Charge is inclusive of VAT, if applicable.

We are unable to facilitate payment of any ongoing adviser charges.

**Commission**

Commission is only payable in limited circumstances noted above. Commission is payable by Downing out of its Promoter’s Fee. Those Intermediaries who are permitted to receive commission will usually receive an initial commission of 2% of the amount invested by their clients under the Offer.

Additionally, provided that the Intermediary continues to act for the Investor and the Investor continues to be the beneficial owner of the Generalist Shares, and subject to applicable laws, regulations and FCA rules, the Intermediary will usually be paid an annual trail commission of 0.25% of the Net Asset Value of their clients' holdings for a maximum of five years from the date of allotment. Trail Commissions will not usually be transferred to a new Intermediary after the original investment has been made.

Trail commission may be waived, at Downing’s discretion, in favour of an additional upfront commission of 0.75%. Trail commission will be paid by Downing annually in August based on the audited Net Asset Value at the preceding 31 March. Both the initial and annual trail commission will be payable by Downing out of its fees.