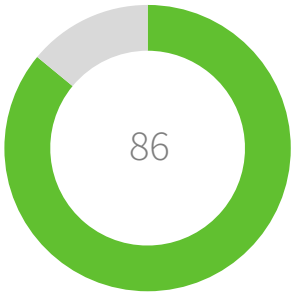
Foresight Williams Technology EIS

August 2018

Foresight Group LLP ("Foresight" or "the Manager") is looking to raise £20 to £30 million per annum for Foresight Williams Technology EIS Fund ("EIS" or "the Fund"), which is a collaboration between Foresight and Williams Advanced Engineering Limited ("Williams" or "WAE") part of the group best known for its involvement in Formula 1 .

The offer is open to new and existing investors and launched in November 2016.

Score Card



Offer Type	Discretionary Non-Approved Portfolio
EIS Strategy	Specialist
Cohort Type	Evergreen
EIS AUM (Pre-offer)	£26.6 million
Manager AUM	£2.5 billion
EIS Risk Level	High

Investment

Minimum subscription	£ 10,000
Maximum qualifying subscription per tax year	No maximum subscription
Early bird discount	Not applicable

Contents

Closing Date

Evergreen (no closing date)

Risk Warning for EIS Schemes

Individuals should always read and bear in mind the risk warning notices that are included within providers' investment offer literature/documentation, including prospectuses, information memorandums, securities notes, brochures and other related marketing literature. Whilst the following list is not exhaustive, some of the main risks to be aware of include:

- Investments are in small, unquoted companies and should be considered as high risk;
- Investments are illiquid and need to be held for at least three years in order to retain the initial income tax relief;
- An EIS/Seed EIS investment should be viewed as a long-term investment;
- Legislation, along with the nature and level of tax reliefs is subject to change. There can be no certainty that investments will be eligible or remain eligible for EIS/Seed EIS Relief; Historic investment performance cannot be used as a guide to future performance, and the value of any given investment may rise or fall;
- Many EIS/Seed EIS Schemes involve investment in a single company or sector and therefore should only be considered as a small part of an overall portfolio;
- Investors may not have independent representation on the Boards of investee companies which can mean their interests are not adequately considered relative to the executive team;
- EIS/Seed EIS investments should only be considered by sophisticated investors who understand, and have given careful consideration to, the underlying investment strategy and associated risks. For help in determining potential investment suitability, professional advice should be sought;
- Often there will be no regulatory oversight and investors will usually not be eligible for compensation if things go wrong.

Executive Summary

Offer: Foresight Group LLP ("Foresight" or "the Manager") is looking to raise £20 to £30 million per annum Foresight Williams Technology EIS Fund ("EIS" or the "Fund"), which is a collaboration between Foresight and Williams Advanced Engineering Limited ("Williams" or "WAE").

Manager: Foresight is one of the longest established tax-advantaged investment managers in the industry, managing Venture Capital Trust ("VCT"), Enterprise Investment Scheme ("EIS") and Business Property Relief ("BR" or "IHT") products as well as institutional funds. Founded in 1984, focusing initially on private equity and venture capital, it has £2.5 billion of assets under management across all products as at March 2018

Product: The Fund offers investors the opportunity to invest into a portfolio of early-stage SMEs developing innovative technologies which qualify for EIS tax relief. The Fund will target investment into companies where WAE's expertise and services can be harnessed to develop the businesses which, along with mentoring from Foresight and Williams team members to assist with broader business development, might give the potential to see exits at large multiples within a 4-8-year time horizon.

Summary Opinion: The combination of Foresight's experience in the tax-advantaged sector as a fund manager, and Williams' undoubted expertise in both technology and engineering, as well as having shown some ability to help SMEs develop technology to the point of commercialisation, presents a compelling opportunity for investors. The ability of large British businesses, like Williams to convey advanced skills in Science, Technology, Engineering and Maths ("STEM") fields into small start-up companies in need of mentoring and capital is in the sweet spot of what EIS tax reliefs were devised to achieve. Certainly, the strength of the manager, the advisor, and the strong development of governance, strategy, and detailed investment processes, are rare strengths in this investment area. However, a new partnership of this kind does not yet have a detailed track record to point to, especially in a higher-risk area like technology investing. The long list of fees charged for the Fund: - one year's Annual Management Charge ("AMC"), Secretarial fees up-front, services fees for Williams' assistance, arrangement fees and others, as well as the AMC being chargeable on the value of assets rather than the size of the subscription, make for a larger price tag than some other EIS products. While the nature of the Williams value-add part of the strategy is to find potential technological synergies between Williams and the investee companies, it also means relying on the team to select the opportunities which are most potentially profitable and not simply those that might be of greatest interest to Williams in terms of future potential technology tie-ups or "roadtesting" of potential IP which Williams might find beneficial to acquire.

The Fund might suit investors who already hold a diversified portfolio of tax-advantaged products, have an interest in engineering technology, and are happy to lock up their investment for long periods with a view to generating strong returns.

Positives

At the Manager level:

- Foresight has a strong and growing market profile in the tax-advantaged sector, supported by well-resourced sales and customer service teams, a broad suite of products, including three VCTs, nine EIS and a BR offering;
- The Manager has a strong track record of raising capital. Foresight currently manages assets of £2.5 billion. Capital raising initiatives have been consistent across the product range and in the most recent five years, Foresight has consistently increased its fundraising;
- Foresight is highly profitable, has a high degree of financial stability, which it uses to develop and launch new products, invest in its infrastructure, and generate improvements in customer service;
- Foresight has diverse business activities, including asset management and the provision of corporate finance to unquoted companies;
- The Manager has a strong senior management team and its governance process is well structured and documented;
- Foresight has institutional calibre operational processes and procedures, which have helped it to win prestigious mandates, including the Greater Manchester Local Authority pension scheme, an institutional infrastructure mandate worth £250 million and most recently was award the VC investment mandate for a portion of the Midlands Engine;
- Foresight has continued to open further new offices around the country and world, helping to strengthen its regional and international presence.

At the Product level:

- Williams Advanced Engineering can point to past successes in partnering with entrepreneurs to develop technology and find a profitable exit, such as with Williams Hybrid Power Limited which was sold to GKN plc and Aerofoil Energy Limited which is rolling out its aerodynamic energy-saving technology to Sainsbury's and other Tier 1 grocery retailers;
- WAE's expertise in those areas in which they are looking to partner with entrepreneurs and small companies are impressive and globally acknowledged;
- WAE's wide areas of knowledge makes sub-sector risk less of an issue than other early-stage tech-related investment plays;
- The investment process is robust with a strong committee-based approval process;
- The investments made so far have demonstrated considerable geographic diversity, going beyond the most saturated markets for investors in the South East;
- The portfolio companies are in-line with the strategy set out at the launch of the Fund, and WAE have been clear in where they would like to add value in order to aid their growth;
- Foresight and WAE have a strong pipeline of potential investee companies, with companies actively seeking to work with Williams;
- John Holden from the Foresight side and Matthew Burke from the WAE side, despite being based in London and Oxfordshire respectively, have been able to forge a close working relationship, with each working at least one day a week at the other's office and coordinating closely;
- Both Foresight and WAE have shown a willingness to add resources to the investment team as investments have been made, with WAE's core team increasing from two to three since last review, and Foresight's from two to four (from September), with further additions likely;
- The twin due diligence stages- financial, commercial and legal through Foresight, technology and IP through WAE- should give greater comfort for potential investors than other tech-based investment funds;

- Exit opportunities, judged by previous successful trade sales by WAE and Foresight's investment experience, seem plausible given a reasonable level of product development and investee company growth.

Issues to consider

At the Manager level:

- Following years of strong growth in assets under management, this number declined over the last calendar year as investments which matured were not replaced at the same rate;
- The firm has continued to expand internationally; satellite offices abroad may prove difficult to manage remotely and non-UK economic drivers and local legislation will need to be carefully accounted for;
- The firm has a good balance of institutional versus retail activities; however, if the institutional business were to generate considerably better margins, Foresight may switch resources to this side of the business away from tax-advantaged products, albeit we note that institutional margins have been compressing and so is unlikely to exceed retail margins;
- To date, Foresight has been product-led rather than brand-led, in the sense that it has tended to direct resources to product development rather than sales; we acknowledge that the firm is addressing this issue and has recruited personnel to this area.

At the Product level:

- Due to the nature of early-stage technology, "winners" within the Fund are likely to be less numerous than those with linear growth or who flame out completely;
- A slow start to fundraising meant that the investment team were constrained, both in terms of taking smaller stakes in investee companies and missing out on opportunities in the early months of the fund;
- This is the first venture of its kind for Williams and, thus, their first experience of working together with a Fund manager like Foresight;
- The small size of the Williams Ventures team, despite its recent expansion, would mean that the departure of any of the principals from that side of the deal would certainly constitute a key man risk, as would the departure of John Holden from the Foresight team, although Foresight has expanded their capability with another investment manager;
- Venture capitalists and other co-investors might have different priorities than Williams and Foresight, which might impact exit timelines;
- There is no track record with which to gauge the ability of the Fund to achieve exits at the back end, albeit we recognise that Williams Ventures and Foresight, through its original Foresight Technology VCT, have achieved exits at decent multiples outside the Fund;
- The ratio of asset-based fees to performance fees could be seen as demonstrating a lack of alignment with investors focused on end performance;
- The initial charge, together with the one year of Annual Management Charge taken up-front and the one year's worth of Secretarial Charges, and assuming a facilitated adviser charge of 2.5% means circa 5% of an investor's subscription will not attract EIS tax relief for typical rates of advised business, and circa 8% for direct investors (assuming 5.5% initial charge for execution-only clients or professional investors).
- While we have no reason to doubt the integrity of the Williams team, any Master Service Agreement (MSA) might well allow for wiggle room for Williams to seek to benefit from or learn from the underlying technology of an investee company, a potential conflict that Foresight will have to manage carefully, although this is at least somewhat mitigated by the IP clauses in the MSA document and Foresight's conflicts policy and committee.

Manager Quality

Manager Profile

Foresight Group LLP ("Foresight" or "the Manager") was established in 1984 by Peter English, partner, and Bernard Fairman, chairman, with the primary focus of investing in early-stage technology companies. Foresight was originally called VCF Partners, which launched with a £20 million Fleming Ventures Fund, and was subsequently renamed in 2004, in accordance with its expanded product range which, by then, included a number of similarly named products.

Foresight manages both institutional and tax-advantaged funds investing in unlisted securities across many sectors. Foresight entered the tax-advantaged investment market in 1997, when it launched its first VCT, Foresight Technology VCT plc (later renamed Foresight VCT). The Manager has eleven offices with a presence in six countries on four continents, having recently opened new offices in Seoul, South Korea, Milton Keynes, and Leicester.

As at 31 March 2018, Foresight had AUM of £2.54 billion which makes it one of the largest overall managers in tax-advantaged investments, although AUM has declined a little over the last two years as investments have matured more quickly than they have been replaced by new fundraising.

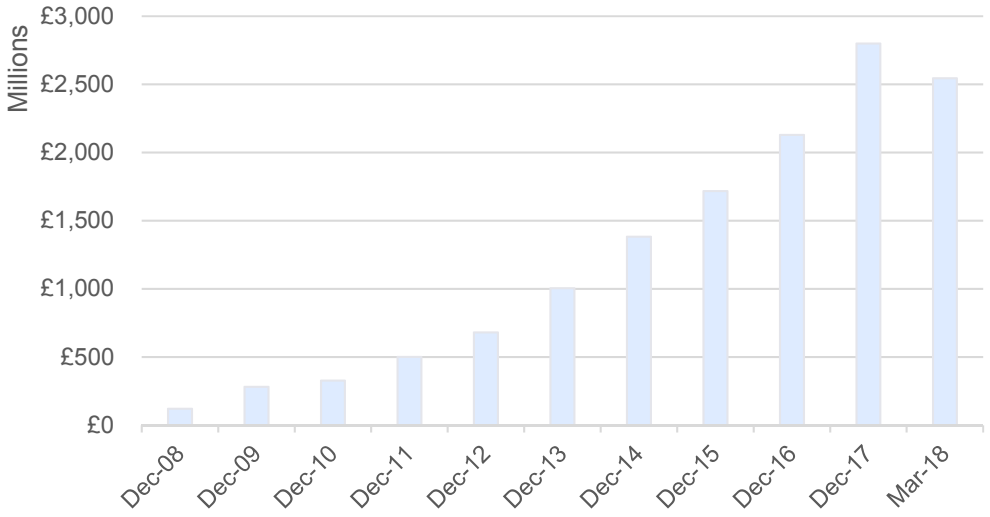
We note that prior to 2008, the Manager's AUM was substantially lower for a number of years given its focus on early-stage technology investments, although Foresight had begun to diversify into more generalist small company investing from around 2004. In 2007, the Manager set up its first solar infrastructure team and consequently launched the Foresight Solar Fund, which, along with the VCT's change in focus from technology to generalist, resulted in significant increases in AUM in subsequent years.

Since 2011, it has launched several new products, including a solar bond issuance, and won a large institutional mandate from the UK government Green Investment Bank (now owned by Macquarie Group) to invest £60 million in waste management renewable energy projects which has subsequently been followed by two further UK Government Green Investment Bank mandates totalling over £100m. In 2016, Foresight also won a large institutional mandate worth £250 million.

Given the firm's commitment to new product development, its wide product range, and its dual focus on both the institutional and retail business, we expect Foresight to continue increasing its AUM over the next few years, particularly as it has entered overseas markets, which are potentially larger than Foresight's domestic market.

CHART 1

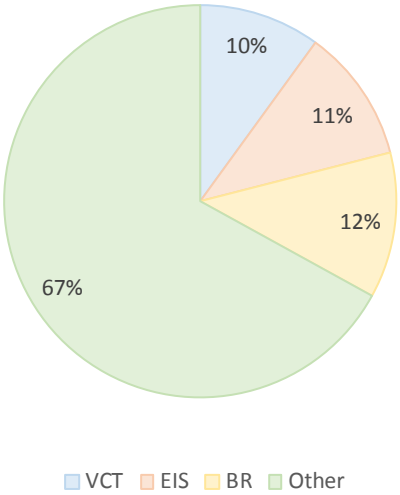
ASSETS UNDER MANAGEMENT



Source: Foresight; AdvantageIQ

The largest constituent of the Manager's AUM are institutional funds, which are made up of eleven vehicles and comprise two thirds of the total AUM. The remainder is divided roughly equally between EIS, VCT and BR products.

CHART 2
ASSETS UNDER MANAGEMENT



Source: Foresight; AdvantageIQ

We understand that the Manager will continue to focus both on its retail and institutional business. In our opinion, Foresight is well-positioned in the tax-advantaged market. We note that the regulatory changes in the renewable sector for both EISs and VCTs played a significant part in the substantial growth rate in AUM in 2014-2015, but that Foresight has branched out into other areas since the solar rule changes, for example, the Foresight Williams EIS Fund under review here.

Client servicing is one of the key areas for Foresight, as evidenced by the size and growth of the team responsible for servicing both wealth managers and private clients. The sales and marketing team consists of 32 individuals including six covering institutional clients (out of a headcount of 204 in total as at 31 March 2018); the team is subject to monthly quality reviews, together with monthly performance incentives based on client interaction. We view this monthly incentive as a positive for investors and good practice. City Partnership UK LLP also provides support to the team as receiving agent. Investor communications vary from product to product, but typically there will be written communication from Foresight twice a year for EIS and ITS products and quarterly for VCTs, together with access to an online portal, which provides product literature; the Manager has recently updated the valuation information provided to clients from semi-annually to quarterly, along with more detailed factsheets. The Manager also hosts an annual investors' day for the Foresight Williams EIS Fund, at which investors and IFAs are able to meet investee companies and hear updates, the first of which was held in April and was well-attended.

We reviewed Foresight's formal complaints-handling procedure and found it to be detailed and robust. According to the Manager's disclosure, as provided to Allenbridge during our review, Foresight had a relatively low level of complaints (given the size of investor base). There was one complaint referred to the Ombudsman over the time period, which was resolved in Foresight's favour.

Financial & Business Stability

The Manager's sales and revenue streams include: recurring management fees, performance fees, and administration fees generated by its products. Revenues are diversified by product and management is focusing its activities on expanding its revenues from retail and institutional distribution channels, which is further helped by the launch of new regional and international offices.

Foresight is a highly profitable and growing business. Its balance sheet is healthy, well-capitalised, carries no debt and enjoys a good level of liquidity.

TABLE 1
KEY FINANCIAL METRICS SUMMARY

(£'000)	2018	2017	2016	2015	2014
Revenues	36,288	36,504	25,618	19,448	11,261
Revenue Growth	*-1%*	*42%*	*31%*	*73%*	-
Pre-Tax Profit	13,209	13,300	9,171	6,028	6,059
Pre-Tax Profit Growth	*-1%*	*45%*	*52%*	*-1%*	-
Gross Profit Margin	36%	36%	36%	31%	54%
Net Balance Sheet Assets	10,133	6,117	4,399	1,883	1,838
Debt to Assets	-	-	-	-	-
Net Cashflow from Operating Activities	11,110	15,104	9,533	5,847	5,590

*Source: Foresight Financial Statements for the year ended 31 March 2018.*It is worth noting that, as an LLP, the cost of the partners is not treated as an expense in the accounts, but Foresight is obviously reliant on their services to maintain operations.

As at time of writing this review, Foresight has a headcount of 204, and there have been no material changes to personnel in the last three years nor any major corporate changes. As previously mentioned, new offices have most recently been opened in Seoul, Milton Keynes and Leicester; as a result, Foresight now has a presence in 13 locations and six countries. Details of Foresight's domestic and global presence are found in the table below:

TABLE 2
FORESIGHT LOCATIONS

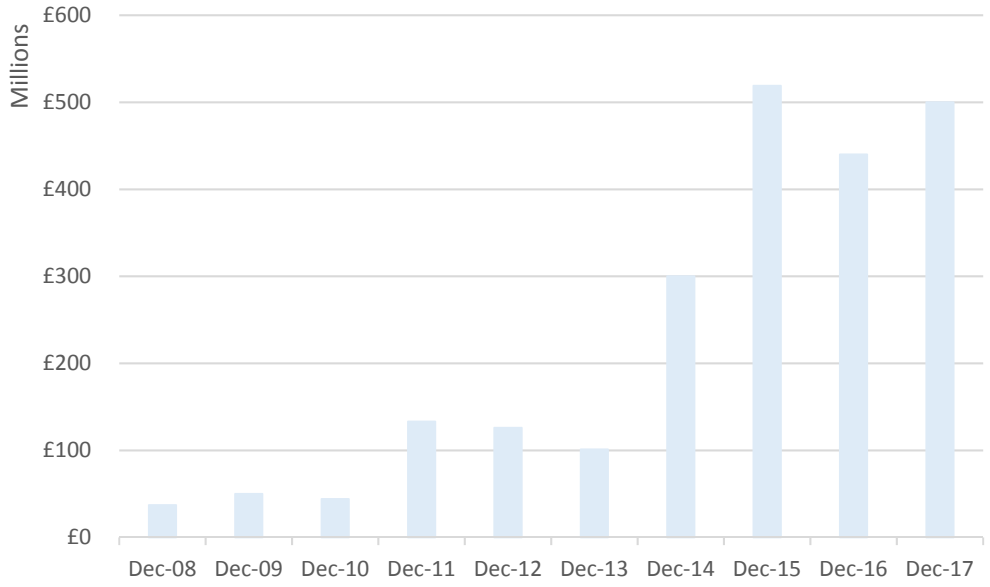
Location	Headcount
London	150
Nottingham	18
Salisbury (subsidiary)	11
Italy	9
Sydney	6
Manchester	4
USA	2
Guernsey	1
Seoul	1
Madrid (no office)	1
Northern Ireland (no office)	1
Milton Keynes	(recruiting)
Leicester	(recruiting)

Source: Foresight

Foresight Group LLP is a limited liability partnership comprising sixteen partners, including one corporate partner, Foresight Group CI Limited, which is licensed by the Guernsey Financial Services Commission. It is majority owned by its founders, Bernard Fairman and Peter English. Foresight consists of three subsidiaries:

Foresight Fund Managers Limited, Foresight Group Italy SRL (an Italian trading company), and Foresight Group US LLC (a US trading entity).

CHART 3
FUNDRAISING TRACK RECORD



Source: Foresight; AdvantageIQ

Foresight has consistently met fundraising targets, and we recognise that the opening of new regional and international offices in particular should help to maintain fundraising levels. In addition, Foresight are continuing to hire across the business, and are on the lookout for new investment professionals and sales and client-servicing personnel.

Quality of Governance and Management team

The ultimate decision-making entity is the Manager's partnership committee, which is chaired by Foresight's chairman, Bernard Fairman. To both govern and advise the firm, the Manager has a number of committees, including an executive/partnership committee and a risk committee, which oversee various business functions and are an integral part of the decision-making process. These are detailed below:

TABLE 2
OVERSIGHT COMMITTEES

Committee	Members	Frequency	Mandate
Executive/Partnership Committee	Chairman, CFO, CIO, head of relevant investment team(s)	Weekly	Manage, oversee, and implement the strategic and operational activities on a day-to-day basis
Investment Committee	Chairman, CIO, head of infrastructure/ environmental/ private equity, CFO	Weekly and ad hoc as required	Review and approve all investments across the business
Product Development Committee	Investment committee, head of product development, senior representatives from the sales team	Monthly	Initiate and develop ideas for future products and updates on launch of recent products

Source: Foresight, AdvantageIQ

The partners are experienced and have a relatively low turnover ratio. The firm adheres to the guidelines as set down by the International Private Equity and Venture Capital Valuation ("IPEVCV"). It also endorses the UK Stewardship Code published by the Financial Reporting Council ("FRC") and is a signatory of Principles for Responsible Investment.

Regarding compliance, the CFO and the director relating to each business unit and, invariably, the chairman, meet regularly to review compliance procedures relating to the different aspects of the business and product.

The Manager indicated that there were no material regulatory or litigation issues, as at the time of writing. Our view is that Foresight exhibits strong governance characteristics, and its structure and approach to governance appears to be consistent with an institutional asset management business.

Engineering and Technology Advisor- Williams Advanced Engineering (WAE)

Williams Advanced Engineering Limited is the advanced engineering services and technology business under Williams Grand Prix Holdings PLC ("the PLC") which also includes Williams Racing. Williams Grand Prix Engineering Limited was formed in 1977 by Sir Frank Williams and Sir Patrick Head. Since 2010 the Williams Group has diversified its operations to offer Williams Advanced Engineering, a technology and engineering consultancy business, which provides technical innovation, engineering, testing and manufacturing services to a number of sectors, including automotive, motorsport, defence, energy and healthcare.

WAE has grown significantly in recent years, and becoming a separate business from the Group, transferring WAE's business from WGPE Ltd into WAE Ltd, in January 2017. The business employed an average of 169 employees during 2017, with access to a further 500 staff on site as part of the Formula 1 team.

The genesis for Williams' diversification started with the hybridisation of Formula One in 2008. Williams was the only team to develop its own hybrid systems, entirely in house, creating both battery and flywheel equivalents. Realising the commercial potential of some technologies developed for Formula One, the Williams Group diversified its business. An example of this was the mobile flywheel technology which was tested for application for the car. Seeing its uses for public transport and beyond, Williams set up a new company to house the technology for which it paid £1.5 million: Williams Hybrid Power Limited. This company was eventually sold to GKN plc in 2014 for £8 million (with further payments on a royalty basis). Williams has also done contract work from building a hybrid supercar for Jaguar Land Rover to collaborating with UK start-up Aerofoil Energy to develop a new aerodynamic device that can significantly reduce the energy consumed by refrigerators in supermarkets and convenience stores.

In 2017, the PLC made a net profit of £14.1 million up 138% on the year before, and had net assets of £46.6 million. Within the PLC, WAE is profitable, and in 2017 WAE generated 22% of total revenue and income, and 31% of total profits. From 2016 to 2017, WAE profits increased by 14%, and the profit margin increased slightly, from 10% to 11%.

Williams Advanced Engineering works across the development journey from prototype, additive and advanced manufacturing, and is supported by specialists in aerodynamics, thermodynamics, lightweight materials and structures, and electrification. WAE has access to the Williams Formula One team's testing and manufacturing facilities including wind tunnels, materials labs, composite production etc.

The collaboration with Foresight will be spearheaded by Williams' Technology Ventures team. It has three full-time employees and handles over 6 deals a year, with scope for more with the support of the wider WAE organisation.

After selecting and structuring of the investment deals have taken place, WAE will undertake both technical due diligence and perform more advanced analysis on the strength of an investee company's patents.. WAE will then assess the level of technical maturity and set out a path for Williams to add value to the technology

to bring it closer to commercialisation. Clearly this process will vary along with the nature of the opportunity being assessed.

There is a joint venture agreement in place between Foresight and WAE that covers all key activities of the working relationship. This was negotiated over at least a two-month process between Principals and lawyers and is a robust, legally binding document with a strong position both ways on non-compete. Each party is unable to terminate the agreement easily so can't jump ship to an alternative fund manager or engineering adviser. Williams is also an appointed representative under Foresight's FCA approval which demonstrates some degree of commitment between the parties.

Product Quality Assessment

Investment Team

As a joint undertaking with WAE, Foresight has put together a senior blended team, with Bernard Fairman, David Hughes, and Gary Fraser from Foresight teaming up with Craig Wilson, Martin Hudson and Christian Bedford from WAE and James Colgate from Williams Grand Prix Engineering Limited. They will oversee the smooth running of the product team.

The core investment team is also comprised of both Foresight and Williams people: John Holden, David Miles, and Tom Haywood from Foresight work alongside Matthew Burke, Edward Inns, and Karol Szczecinski and from the Technology Ventures team from WAE. This core team will be responsible for identifying potential investment opportunities for the Fund, as well as monitoring investments and facilitating investee companies' joint working with Williams Advanced Engineering.

John Holden joined Foresight from Imperial Innovations and is dedicated to, and leads, this project (spending a day a week in Oxfordshire at WAE's offices, as well as Matthew Burke working one day a week in London), and resources have been added to the team since the product launch. This shows a welcome commitment of resources from Foresight, as well as the understanding of the advantages of having experienced tech investing experience. This is Williams' first undertaking of this kind with a fund manager, and the team from Foresight is being augmented as the portfolio grows, which will involve some need to integrate new team members quickly. Two previous members of the product team- Tom Thorp and Steve Newbury- have been moved onto other projects within Foresight and WAE respectively, so it is also important to take into account the wider capabilities of both Foresight and WAE as the teams continue to be fleshed out. However, the continuity of leadership from John Holden and Matthew Burke, as well as the close pattern of working established so far, does mitigate some concerns about the changing nature of the wider teams working on this project.

Investors should bear in mind that with the possible exception of John Holden, there is nobody at Foresight who will have the engineering expertise to challenge Williams when it comes to deciding on the commercial viability of the engineering concepts the Fund will invest in, albeit the private equity team does have a long experience of investing in hard tech and engineering, and Peter English (the founder of Foresight) is an engineer by training, so any asymmetry of information is unlikely to be as wide as it might be with another investment entity.

All teams are supported by a wider team of administrative staff. The biographies of the members of both Foresight and Williams team members are provided in Appendix 1 below.

Investment Strategy & Philosophy

The Fund's core investment strategy is to invest in early-stage companies with exciting and defensible intellectual property ("IP"), operating in markets worth more than £75 million (and, Foresight told MJ Hudson Allenbridge worth, in reality, normally much more), where Williams' technical, commercial, and promotional expertise would provide considerable added value for an investee company. Foresight also told us that they were keen to provide commercial and financial insight to an investee company, thereby providing complementary assistance to an investee company's management team. Rather than specifying one particular sector or sub-sector in advance, the Manager and WAE target companies which have the potential for significant development with the assistance of WAE's technical expertise.

The upper limit of any investment is £3 million but the Fund will consider co-investment with other EIS funds, family offices, IP investing groups and/or university spin out funds to provide additional investment as well as spread the risk of early-stage investment (as well as bringing in more potential expertise). Investments could also be based on a tranche basis, based on milestones agreed with investee companies according to technology development and business development targets.

CHART 4:
TECHNOLOGY READINESS LEVEL AND STAGES OF COMMERCIALISATION

Technology Readiness Level ("TRL")								
1	2	3	4	5	6	7	8	9
Research		Applied Research & Development			Demonstration		Pre-commercial deployment	
Basic Research	Applied Research	Proof of Concept	Lab testing component	Lab testing system	Prototype system verified	Pilot system demo	Incorp. In Comm'l design	Full comm'l deploy't

Stages of commercialisation								
1	2	3a	3b	3c	3d	4a	4b	4c
Concept	Seed	Product development				Market Launch/Growth		
Idea to exploit	Market research, initial product spec	Resources & Plan	Validate market & build venture	Route to market, supply chain	Client trails & first sale	Market entry	Proven	Growth
3	4	5	6	7	8	9 TRL		
Fund focus								

Source: Foresight Group

The Fund will seek to invest in companies between levels 4 and 8 on the Technology Readiness Level ("TRL")[1], either pre- or post-revenue.

WAE's expertise might most readily apply to young companies developing innovations in:

- lightweight structures;
- composites, materials, and nanomaterials;
- battery systems and energy storage;
- data analytics;
- aerodynamics and thermodynamics;
- electronics and control systems; and
- advanced manufacturing.

Foresight set the following criteria for evaluating potential investments:

[1] The TRL scale was originally developed by NASA to describe technological maturity and is now widely used across government, academia and industry.

- Williams value-add: early stage companies should boast technology which could gain a considerable advantage thanks to Williams' technical, engineering, commercial, and promotional support.
- Disruptive technology: technology developed by an investee company should have the potential to disrupt existing markets and clearly benefit end consumers.
- Roadmap to commercialisation: Investee companies should come equipped with a roadmap to commercialisation which is less than 36 months from the point of initial investment.
- Market opportunity greater than £75 million: the market in which technology is designed to disrupt should be worth more than £75 million and in reality, will probably be in a market worth considerably more.

Together with a skilful and ambitious management team, Foresight hope that this will help identify businesses with the potential to deliver 10x multiples at exit. The Fund will look to invest in companies located between stages 4 and 8 in the TRL chart, above, which will contribute to the level of risk and reward taken on with each investment.

Before or shortly after any investment is made, the Fund will offer a Master Services Agreement ("MSA") between Williams and the Investee Company to lay out the basis which might allow the two entities to work closely together. The specific content of any MSA will vary based on the technology and commerciality of the investee company. Foresight tells us that "typical support could include a range of engineering, prototyping and commercial services such as assisting with the development of supply chains and collaborations". The standard template of a WAE MSA includes: objective, scope of work, deliverables, resource plan, timing plan, assumptions, fees applied etc. valued at what Foresight stated will be heavily discounted rates with resources from within WAE locked into the business. While we have no reason to doubt the integrity of the Williams team, any Master Service Agreement (MSA) might well allow for wiggle room for Williams to seek to benefit from or learn from the underlying technology of an investee company, a potential conflict that Foresight will have to manage carefully, utilising their conflicts of interest policy and committee to that end.

WAE may also offer promotional services, based on experience getting publicity through varied forms of media due to its global brand reach.

The MSA is an agreement between the investee company and WAE. In addition to Directors independent of both Foresight and Williams, a member of Foresight will typically sit on the investee company Boards. If the terms are uncompetitive the investee companies are under no obligation to enter into a MSA or to use the services of WAE although investors should bear in mind this could jeopardise funding and therefore it may not be easy to decline.

Williams has an asset allocation policy, set out in the joint venture agreement, which governs the purpose of Williams' engagement/relationship with a company. Subject to specific circumstances, such as investments or acquisitions which are strategic to the Williams group, they are committed to introducing to the fund any companies that meet its target profile.

Foresight will seek to beef up an Investee Company's governance by appointing an Investor Director as well as a non-exec chairman or director for each Investee Company to both set strategy over the course of the 5-8 years until exit and to mentor the company's management team. The Fund will have an Advisory Board which will seek to review soft KPIs, identify potential hurdles to move to the next stage of development and help provide potential solutions to any problems that might be restricting company growth.

Valuations will be updated every six months, reviewed by a third-party, with a quarterly investor newsletter, annual investor day, and half-yearly report. In this way, Foresight hope that investors can see each Investee Company's journey from early-stage right up to commercial deployment.

In terms of exit strategy, Foresight outlined a few different possibilities for exit, including a trade sale, management buyout and a flotation on AIM. When asked if Williams itself might be a possible end-buyer of Investee Companies, after having built up a relationship with them over the course of the MSA, Craig Wilson did not rule out Williams taking a stake but said that no conversations had been had to that effect and it was

not part of the plan. Indeed, unless Williams sees application of the technology which lends itself specifically to Formula One, Williams could be said to prefer a sale to a company with better ability to roll out the technology commercially, a model they have followed in previous Ventures projects. Foresight also envision perhaps using their own Venture Capital Trusts ("VCTs") or Private Equity funds to provide follow-on funding, if necessary. While exit preparations will take place after the three-year qualifying period for EIS is over, Foresight expect that a holding period is more likely to be between 4 and 8 years. Therefore, investment in this Fund might not be appropriate for those with a preference for more liquid investments or who prefer to be able to reinvest at the end of the three-year minimum holding period.

In terms of evaluating this strategy, MJ Hudson Allenbridge finds the mixture of Foresight's investment expertise and Williams' leading development of hard tech a compelling combination, subject to the careful managing of any potential conflicts outlined above. There is certainly a great deal that Williams can offer any young firm with strong IP related to the areas where Williams traditionally excels. While the fund is a technology play, there exists a good potential for sub-sector diversification with Williams' broad expertise. Great technologists do not always make great business people, however, and Foresight's commitment to mentorship (almost akin to their Private Equity approach in other funds) should serve as some reassurance that the company's overall growth will mirror that of its tech. Lastly, prospects for exits seem realistic, with Williams having successful previous exits.

The Fund's strategy will not be to everyone's tastes. Investments in new technology are inherently risky: Foresight acknowledge that one or two big exits would have to drive the Fund to reach its hoped-for multiples; and investments are likely to be tied up for up to eight years as the companies' tech and business capability grow and round out before any exit can be made.

Pipeline/Prospects and Current Portfolio

In terms of sourcing opportunities, Foresight told MJ Hudson Allenbridge that that this will continue to be a joint effort between Foresight and Williams. 17 members of Foresight's Private Equity team are involved in the sourcing of deals across the UK, as well as actively investigating inbound leads into WAE, as companies contact Williams directly.

Foresight identify five main routes to generating dealflow:

- Self-sourced: Williams and Foresight meet numerous SMEs per year and will consider EIS-eligible companies for the fund.
- VC co-investors: Foresight has identified the potential to invest alongside established Venture Capital houses in order to share risk and benefit from expanded networks and expertise.
- Family offices: Foresight has access to dealflow from its network of family offices.
- University spin-outs: Williams is well-situated in networks into university departments, incubators and accelerators. Both companies have good links into universities with a strong tradition of spinning out successful companies such as Cambridge, Imperial, Oxford and University College London. Williams' location close to Oxford has helped the company develop especially close relationships with the University there.
- IP agencies and owners: dedicated owners of IP like universities, but also technology institutions and the like.
- Inbound leads – Unsolicited leads made to Williams and to Foresight by companies that actively seek to work with Williams and may be willing to accept lower bids to do so.

Foresight also told MJ Hudson Allenbridge that they have developed strong links with companies who have received Innovate UK funding, and with Innovate UK itself too, which also helps provide another level of Government-led due diligence as well as the possibility of a substantial level of additional grant money.

There have been six investments made so far, details of which are found in the table below.

TABLE 3:
PORTFOLIO AS AT AUGUST 2018

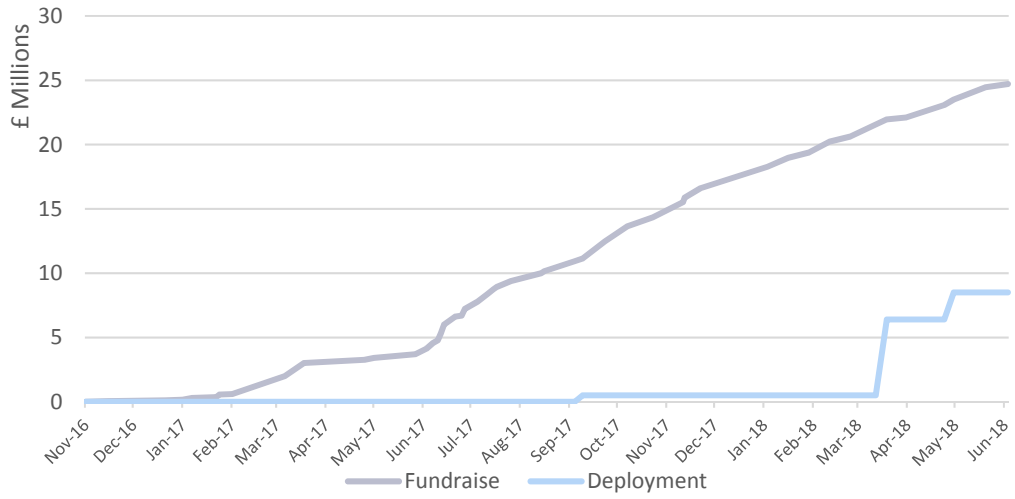
Investee Company Name	Investment Date	Investment Size	Equity	Description
Utonomy	Aug-17	£ 500,000	10.7%	Intelligent gas grid solutions provider
Codeplay	Apr-18	£ 1,050,000	8.0%	Software developer specialising in AI
Geospatial Insight	Apr-18	£ 1,650,000	18.1%	Provider of commercial research derived from satellite imagery
Salvalco	Apr-18	£ 1,600,000	26.3%	Eco-friendly aerosol valve technology company
Mirico	Apr-18	£ 1,580,000	15.9%	Developer of highly sensitive gas analysis tools
Oxford Space Systems	May-18	£ 2,100,000	6.8%	Satellite technology business

Source: Foresight

It is noticeable that five of the six investments were made in April and May 2018. This reflects the slow start to fundraising that the Product experienced following its launch in November 2016, which only began to take-off in July 2017. This led to there being a rush of investments at the end of the 2017/18 tax year as the Fund reached critical mass (as shown by the graph below).

CHART 5:

FUNDRAISING AND DEPLOYMENT AS AT 17TH JUNE 2018



Source: Foresight

While both Williams and Foresight were passionate in their conviction in the investments that were made, this end-of-year rush might otherwise raise questions about the selectivity regarding companies chosen if looked at in isolation. However, we note that the companies are in-line with the investment strategy, and that Williams have carefully considered how they will be able to add value to each. For example, Geospatial Insights has collaborated with the Formula One team, providing expertise in Machine Learning to Williams and gaining publicity in return. We also note that the companies are geographically diversified across the UK, which provides some evidence to Foresight's hope that their regional presence would help deliver dealflow outside of the "Golden Triangle" (Cambridge-Oxford-Milton Keynes) which tends to be the most fertile, and picked over, for start-ups and spin-outs.

In terms of pipeline, the team has reviewed opportunities from a wide range of different sectors within the limits set out by the strategy. The full breakdown is found in Appendix 2. Williams tends to invite more technology-led opportunities, while Foresight's opportunities tend to be nearer to commercialisation, but all typically will be within the TRL range of 4-8. Foresight estimate currently that it might take 18 to 24 months until the money is fully deployed, although they have the need to generate EIS3 certificates firmly in mind.

TABLE 4:

PIPELINE AT 1ST AUGUST 2018

Description	Funding
Compact electric bike technology	£1.5m
Collaborative robot technology	£1.5m
Novel X-ray scanning technology for security	£2.0m
Upcycling LiOn battery packs	£1.3m
3D metrology company	£2.0m
Autonomous vehicles for agricultural sector	£1.0m
Durable super hydrophobic coating	£1.5m
Low vibration compressors	£1.5m
Total	**£13.3m**

Source: Foresight

The Manager states that they have a strong pipeline of opportunities in place. At the time of writing, there were eight opportunities which were furthest down the pipeline, worth £13.3 million in total. These opportunities (found in the table above) are diverse in terms of both sectors and geographic locations, and investors will be able to have a clearer idea of what their portfolio is likely to contain.

Investment Process

The Manager has described its investment process as follows in AdvantageIQ:

TABLE 3:
INVESTMENT PROCESS

Investment Process	Details
Deal sourcing/origination	Foresight and WAE will collaborate to identify investment opportunities meeting the Fund's investment criteria and leverage the existing deal flow generated by their teams. Deals are originated using the combined networks of Foresight and WAE, as well as direct sourcing of new opportunities. Foresight will work with co-investors and supports Government's micro business and IP initiatives. Moreover, the Fund will hold a series of technology marketing events annually to target off-market opportunities and ensures a significant presence at the space. We have been told that Foresight and WAE have already identified a number of co-investors whose investment profiles are aligned to the Fund across early stage VCs, tech-oriented family offices and dedicated IP owners (e.g. universities).
Deal filtering and selection	As mentioned earlier, Foresight reviews over 500 investment opportunities in the technology sector a year. The investment team and WAE specialists meet on a weekly basis to review the initial business plans and rejects most of the deals that do not fit the Fund's initial criteria. They score each relevant opportunity using a Balanced Score Card that covers a wide range of aspects, including Foresight and Williams value-add prospects, market opportunity, profitability outlook etc. The score for each opportunity will be discussed at the weekly meeting. Only the deals that receive scores of more than 70 out of 100 will proceed to the next stage. The filtered deals will then be considered by the investment team, senior management and the Investment Committee (the "IC"). Upon approval of IC and review of CIO, an offer letter will be sent to each opportunity being considered to make sure all the terms are agreed upfront. This stage takes 3-4 weeks.

Due diligence process	Following the initial filtering, the deals will have due diligence conducted by the investment team (and independent consultants where appropriate) covering technical, regulatory, legal, tax, financial, insurance, market, technology, etc. While Foresight has an in-house team to perform due diligence on the management team of each opportunity, WAE will undertake technical due diligence of the technology and will analyse the strength of an investee company's patent portfolio to verify the technical maturity of the technology (engaging external advisors where appropriate). In summary, the goals of the technical appraisal and technical due diligence are to assess the following: • Technical capabilities of the technology including the maturity of the technology (TRL) • Technical capabilities of the team • Strength of a company's patents/patent applications • Potential for Williams to add value This stage typically takes 6-8 weeks.
Deal approval	Once a deal has passed the due diligence stage, it will then be passed to senior management and ultimately up to the IC for approval. Only when the IC unanimously agrees will a commitment be considered. Further due diligence and contract negotiation may be required before a commitment is made. The IC will be kept informed by the investment team of any updates to the deal and the IC will provide final approval prior to investment. In all cases both Foresight and Williams representatives have to agree to the investment for it to proceed, with a final decision coming via the Investment Committee.

Source: Foresight Group, AdvantageIQ

As part of the comprehensive due diligence process on each prospective investment, Foresight will ensure that HMRC Advance Assurance is in place prior to any investment, although since the rule changes in the Patient Capital Review, the Manager expects any investment to be clearly qualifying.

As mentioned earlier, there is an Allocation Policy in place, which applies to both tax efficient and institutional funds. Generally, once a prospective investment has been finally approved by the IC, the allocations across various funds are decided by the IC following the allocation policy at the point of each investment. The shares of an investee company are allocated pro rata to each vehicle in proportion to its respective net cash raised, limited by cash available at the time of investment, subject to:

a) all funds reach and maintain target qualifying investment levels and their tax status;

b) amounts committed to investees but not yet advanced;

c) follow-on investment requirements in the current portfolio; and

d) non-investment cashflows such as buy-backs and distributions.

In our opinion, the overall investment process is satisfactory. We have reviewed sample balance score card and sample investment committee submissions, which we found it to be detailed and comprehensive.

Risk Management

Investment in smaller, unquoted companies, by its nature, involves a high amount of risk. This goes double for investing in early-stage technology. Foresight expect returns to be largely generated from one, two or three of the investee companies out of the ten lined up for investment. And, even then, realisation of investments in unquoted companies can take considerable time (5-8 years in this case, according to Foresight). Investors in this product should have an appropriate risk appetite along with the patience to wait past the mandatory three years for EIS tax relief before expecting to receive returns.

The Fund intends to invest in a minimum of ten investee companies. Due to Williams' expertise in "hard tech", there is a risk of concentration here, albeit mitigated by the potential for a large degree of sub-sector diversification as Williams' experience is spread across a range of technologies, from energy storage to aerodynamics, and with applications to a variety of different sectors, from defence to aerospace. That being said, the Fund's portfolio may include a small number of large positions at any given time, which lends itself to a certain amount of risk in terms of a potential general downturn in tech, one or more of the investee companies, or in any sector where an application could be realised.

Returns could be affected by the potential for cash drag: cash sitting in a Fund not invested can lose value as inflation cuts away at its value rather than being productively invested in a growing company.

Key Man risk is something that should be borne in mind by any investors. Williams Technology Ventures is a relatively new division and is key to act as an interface between investee companies and services offered by the wider WAE team. When asked about the future of Williams Technology Ventures, WAE told MJ Hudson Allenbridge that they were an important part of WAE's future strategy and a key pillar of their PR and marketing strategy. While we are satisfied as to the future of Williams Technology Ventures in terms of its place in the wider Williams' firmament, Ventures only has three full-time employees and eight on a part-time basis. A few departures from this group could significantly hobble Venture's role in the firm and the fund. Currently Ventures handles at least 6 deals per annum so Williams should be resourced to handle an additional ten investee companies on top of this number.

Equally, there is some Key Man risk on the Foresight side. The hiring of John Holden, with an extensive background in technology investing, is a great sign that Foresight will be able to marshal both the business and the tech skills to be able to meet any needs investee companies might have along their growth trajectory. Foresight's plan to hire an additional investment manager is also welcome. However, these new hires will have to be quickly embedded in the firm, alongside the Williams Technology Ventures team, and with the entrepreneurs from the investee companies.

Potential conflicts of interests will have to be policed with care, particularly those between the Williams Group and investors in the Fund. Follow-on funding from Foresight's VCTs or Private Equity funds will have to balance the interests of both sets of investors, any stakes taken by WAE in an investee company would have to be decided on the basis of investors' interest and the future growth of the company, and the interests and preferences of co-investors will have to be ascertained so as investors have similar expectations and goals. MJ Hudson Allenbridge was pleased to learn that members of the senior management team at both Williams and Foresight have invested in the Fund.

Finally, like any investment in a tax-advantaged fund, there is the risk of legislative changes. Exit multiples many years from now could be considerably affected by the macroeconomic conditions prevailing at that time, a future state that has proved extremely perilous to predict with any accuracy.

Key Features

The following fees (number 1-4) describe the fees directly payable by the investors.

1. Initial Fee and On-going Fund Management Fee

TABLE 5:
SUBSCRIPTION/APPLICATION FEES

Initial Fees	On-Going Annual Management Fees	Administration and Accounting Fees (Secretarial Charge)
2.5% for retail client; 5.5% for professional clients	2% of portfolio value + VAT	0.3% of the portfolio value + VAT

Source: Foresight Group, AllenbridgeIQ

The initial fees cover costs related to fundraising. Foresight retains 2% of the initial fee charged from retail clients whilst 0.5% is given to Williams. In the case of professional investors, the rates retained are identical

from both parties, except, the remainder of 3% is usually passed on to advisers, which is paid via commissions.

The Annual Management Charge ("AMC") is 2% of the portfolio value and is charged from all investors. Foresight deducts one year of AMC from the initial subscriptions prior to making investments. While this is not totally uncommon for growth EIS funds, AMCs are often capped after five or so years in many other funds and are often calculated on the basis of subscription, rather than value of the portfolio. The AMC applicable for year two and beyond are accumulated and charged once the investments are realised.

The Secretarial Charge are the operation and administration costs of the Fund, which is levied on the value of the portfolio at a rate of no more than 0.3%. Similar to the AMC, the Manager deducts one year's worth of Secretarial fees from the subscriptions before deploying funds into investee companies; the deducted amounts do not qualify for EIS tax relief. Manager collects the charges pertaining to year two and above and recoups these from the cash generated from exits.

The investee companies are liable to pay arrangement fees and director fees to Foresight; the Manager may provide a portion of the aforementioned to Williams. Foresight averred that the rates charged cannot be determined beforehand. Arrangement fees range from 0% - 3% and are one-off expenses. Investor Director fees are up to 25k per annum

2. Subscription/Application Fees

TABLE 6:
SUBSCRIPTION/APPLICATION FEES

Type of Investor	Initial Application Fee (and initial commissions/initial adviser charges)	On-going management charges (and on-going commissions/on-going adviser charges)
Direct Application (Investors who make an application, without using a financial adviser or execution-only intermediary)	5.5% of gross subscriptions (3% initial commission paid to financial intermediaries)	To be agreed with the adviser
Application through an adviser (investors who make an application through a registered financial adviser without an on-going fee)	2.5% of gross subscriptions	To be agreed with the adviser
Application through an adviser (investors who make an application through a registered financial adviser with an on-going fee)	2.5% of gross subscriptions	To be agreed with the adviser

Source: Foresight Group, AllenbridgeIQ

Note: Foresight facilitates the payment of initial charges and on-going charges to financial intermediaries and deducts these amounts from the subscriptions. The charges must be agreed with the intermediaries.

4. Performance Fee

The Fund charges a performance fee, which is triggered once the investors receive £1.00 per £1.00 invested. The rate applied is 20% on any returns delivered above the aforementioned hurdle rate and the proceeds obtained are shared equally between Foresight and Williams.

Performance

This is a new partnership between Foresight and Williams and, as such, has no past performance to assess. However, Williams does have a track record of incubating technologies and developing them for wider commercial use, which would be comparable to the broader aim of this fund. Equally, Foresight have a range of funds that have invested in technology. However, these investments tend to have been more in the software arena than in hard tech: multiples for those technology investments that Foresight have realised

have been around 3x on average; however, this declined to 1.3x on average for non-software tech investments, albeit from around three total investments which have exited. The data that MJ Hudson Allenbridge has seen also shows holding periods varying between three and twelve years, albeit the same caveats about how comparable these are remain.

Appendix 1: Investment Team

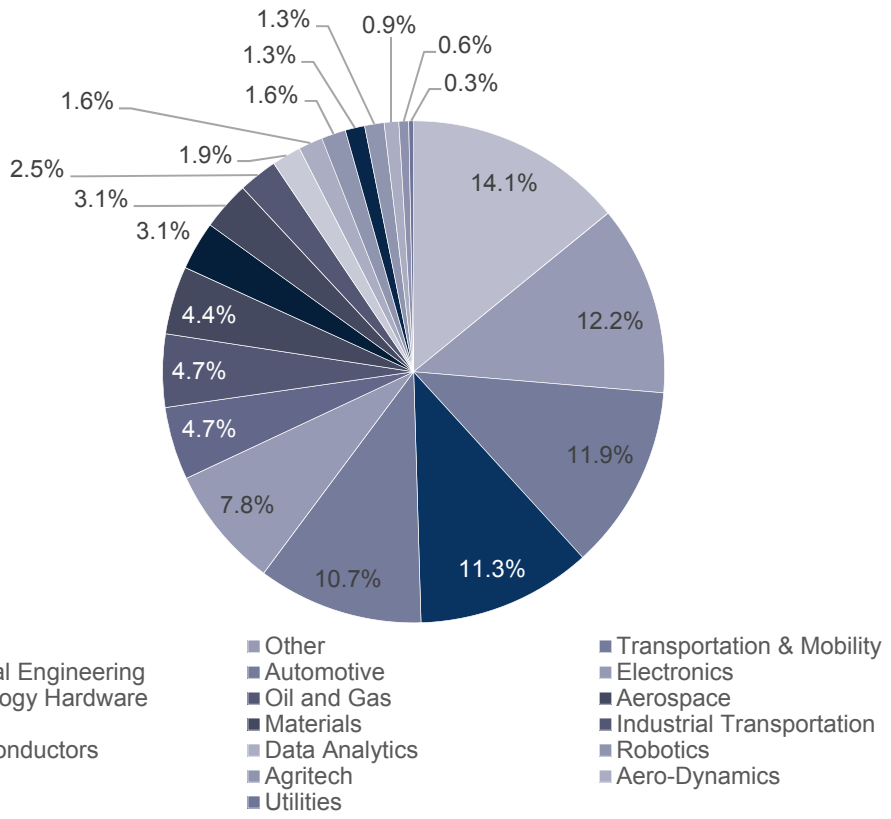
TABLE 6:
KEY INVESTMENT PROFESSIONALS

Name	Job title	Biography
Bernard Fairman	Chairman, Foresight Group	Bernard founded Foresight Group, formerly VCF Partners, with Peter English in 1984, having worked with several small electronics companies before joining the newly formed 3i Ventures in 1981. Bernard received his degree in economics from Nottingham University, became an oil analyst at Panmure Gordon, and worked at Edward Bates, a specialist investment bank.
Craig Wilson	Managing Director, WAE	Craig joined Williams Advanced Engineering in 2013 as Managing Director. Before joining Williams, Craig cofounded an engineering consultancy specialising in sustainable transport projects. Craig is also Director of Williams Technology Ventures Limited.
David Hughes	CIO, Foresight Group	David has 40 years' experience of unquoted investment management, initially with 3i and Framlington Investment Management Ltd, Baltic plc and Bank Austria AG.
James Colgate	Group Strategy Director, Williams Grand Prix Engineering Limited	James joined Williams in 2011 and is a member of the Williams Executive Management Team. James is also a Director of Williams Technology Ventures Limited.
Gary Fraser	Finance Director, Foresight Group	Gary is a Chartered Accountant and Chartered Fellow of the Securities Institute. Gary previous worked for Ernst & Young and Livingbridge Asset Management before joining Foresight.
Christian Bedford	Head of Legal, WAE	Christian is a qualified solicitor and a member of WAE's Senior Leadership Team. Christian previously worked in the Intellectual Property group of Allen & Overy. He is also a Director of Williams Technology Ventures Limited.
Martin Hudson	Financial Director, WAE	Martin has been FD of WAE since 2016. He started his career at Ford Motor Company, and also worked at a smaller automotive company during a period of rapid growth. Away from the automotive world Martin spent a number of years in the industrial manufacturing sector, including involvement in international M&A activity. He has more than 6 years of experience applying knowledge and know-how from the automotive and motorsport sectors to other industries. Martin qualified as a CIMA associate in 2003 and holds a first-class honours degree in Mathematical Sciences with German from Liverpool University.
John Holden	Director, Foresight Group	John joined Foresight specifically to work on this Fund, having been a specialist technology investor. John has worked in and managed teams at 3i, ANGLE, and Imperial Innovations. John graduated from Durham University and received his MBA from Cranfield.
Matthew Burke	Head of Technology Ventures, WAE	Matthew has been head of Technology Ventures at WAE since 2015. Previously Matthew was Chief Engineer at WAE for four years. Matthew was previously at Tata Motors, Torotrak, Rover Group, and Ford. Matt is a Chartered Engineer. He will be involved in the sourcing of investment opportunities for the Fund for and on behalf of Foresight.

David Miles	Investment Manager, Foresight	David joined Foresight in 2012 as a member of the Finance team before transferring to Foresight's Private Equity division where he is a member of the Ventures team. David acquired operational experience working on secondment to Foresight portfolio company TheIdleMan.com and other portfolio companies. David holds a degree in History from Exeter University and is ACCA qualified.
Tom Haywood	Investment Manager, Foresight Group	Tom's experience straddles both sides of the venture capital fence, as an investment manager at early stage cleantech venture capital and PE turnaround firms but also as co-founder and CFO of a pre-revenue biotech manufacturing company, raising funds from venture capital and governments and forging partnerships with big pharma organisations. At Foresight he is focused on the deployment of the Foresight Williams Technology EIS Fund and management of the portfolio. Tom graduated from UCL with a 1st in classics, has an MSc from Oxford in Biodiversity conservation and management and an MBA from London Business School.
Edward Inns	Investment Analyst, WAE	Ed is responsible for sourcing and assessing investment opportunities for the Foresight Williams Technology EIS Fund. Prior to Williams Advanced Engineering, he was involved at Oxford Technology Management in early-stage investments into over 20 science and technology companies since 2015 working both in venture capital and operational roles. Ed graduated with a MEng from Oxford University and pursued his interest in scientific research at Cambridge University where he completed his PhD in Biomedical Materials.
Karol Szczecinski	Technology Ventures Coordinator, WAE	Karol joined Williams in 2017 and his primary responsibility is technology scouting, managing the investment database and general investment assistance to the Foresight Williams Technology EIS Fund. Prior to Williams, Karol worked as an Innovation Specialist for Castrol and British Petroleum Innovation Groups and as an Energy Storage Consultant for Veolia. He holds an Academy Profession (AP) degree in Automotive Technology and a BSc in Innovation and Entrepreneurship.

Source: Foresight; AdvantageIQ

Appendix 2: Sector Breakdown of Opportunities Reviewed



Source: Foresight

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