

NOVA

Nova Cofoundery SEIS & EIS Fund

Product Overview

Welcome

We now live in an online, on-demand disruptive economy. Between 2000 and 2014, 52% of the Fortune 500 companies either went bankrupt, were acquired or ceased to exist as a result of digital disruption. In 1958 the average life expectancy of a S&P 500 company was 61 years, in 2011 that life expectancy was 18 years. At the present rate of churn research by Innosight in 2017 estimated that 75% of the S&P 500 will be replaced by 2027. We have never seen a time of more dramatic corporate churn.

Research tells us that the companies created to take advantage of this turmoil, built to fill the gap in changing markets, with no historical baggage to slow them down on average are growing at 34% year on year^[i], we believe this is really compelling growth.

However, 92% of these companies fail within 3 years^[ii]. I hear this figure all the time, it seems like it has almost become acceptable to some investors.

Interestingly when you look at the reasons for failure, 80% of mistakes made are accounted for by the same five errors^[iii]. Further, these same mistakes are addressed by accepted current business thinking, commonly found in the teachings of the Lean movement.

We believe we owe it to our entrepreneurs and our investors to create a more rewarding experience, and this belief led Nova to develop the Cofoundery business model.

The Cofoundery approach to creating new ventures addresses five of the most commonly made mistakes by startups.

As you would expect this results in a significant increase in the success rate of our portfolio companies. After over 70 investments, our current portfolio post-3-year failure rate is just 54% as compared to the industry standard of 92%.

In turn, this has resulted in exceptional growth in portfolio value. At July 2018 my own and Nova's portfolio combined has enjoyed average annual growth in excess of 80% year on year for 10 years.

Now for the first time, as a private investor, you can invest in the Nova Cofoundery SEIS & EIS Fund (the Fund). In doing so you are investing alongside Nova in our Cofoundery portfolio. Along with benefiting from the many years of operating experience accumulated by the Nova team you are also benefiting from, in our view, a very attractive category of tax relief available to UK investors.

Welcome to the Nova Cofoundery SEIS & EIS Fund, I believe you will have a rewarding experience.



Yours Faithfully,

Andy Davidson
Chief Executive Officer

[i] syndicatoroom, [ii] startupgenome project, [iii] 100firsthits

Opportunity.

The Fund is an opportunity to invest alongside Nova in their portfolio of early-stage knowledge-intensive companies.

Nova accepts the available data that suggests:

- Companies within the UK knowledge intensive market segment are growing on average at 34% year on year
- 92% of these technology startups typically fail within 3 years
- 80% of the mistakes that startups make are accounted for by 5 major errors

Members of the Nova team have spent the last 10 years developing their Cofoundry model in order to access this 34% year on year market growth while minimising the risk of losses due to the high 92% failure rate of companies within this market.

The Cofoundry model works by operationally addressing 5 of the most common mistakes which account for 80% of all the mistakes which startups make:

- Building something nobody wants
- Having the wrong cofounders
- Hiring the wrong people
- Failing to execute sales and marketing
- Chasing investors and not customers

This in turn reduces the failure rate of individual companies within the portfolio.

Each investors funds are co-invested alongside Nova into a diversified cohort of at least ten early-stage knowledge-intensive companies within Nova's portfolio. This diversification is large enough to reasonably mitigate the risk of failure across the whole cohort.

The Fund further reduces investor risk and increases returns by allowing the investor to take advantage of considerable income tax, capital gains tax, and inheritance tax benefits available under the Seed Enterprise Investment Scheme or Enterprise Investment Scheme providing that the investor is a UK tax payer.

Nova takes a digital approach to deal with origination and a mentorship-based approach to founder due diligence, regularly appraising over 25 opportunities before making an investment.

As you would expect, Nova's portfolio data reflects their improvement on market norms:

- Portfolio value growth of 83% year on year
- 54% of portfolio companies fail within 3 years

When combined with the SEIS or EIS benefits offered by the Fund, this makes a compelling proposition for investors:

- A 0.2% chance of every company in the cohort failing
- A minimum return of 58p in the £1 in the unlikely event that every company in the cohort fails^[iv]
- Target returns of £2.18 in the £1 based on targeted 20% year on year portfolio growth
- Returns of £5.70 in the £1 if portfolio growth continues at 83%

[iv] Based on an EIS investment by a higher rate taxpayer

Historical Portfolio Performance.

The Nova Cofoundry approach has been developed by Nova's CEO Andrew Davidson since 2008.

During this time, the team has invested in over 70 companies and the value of this portfolio has grown at 83% year on year.

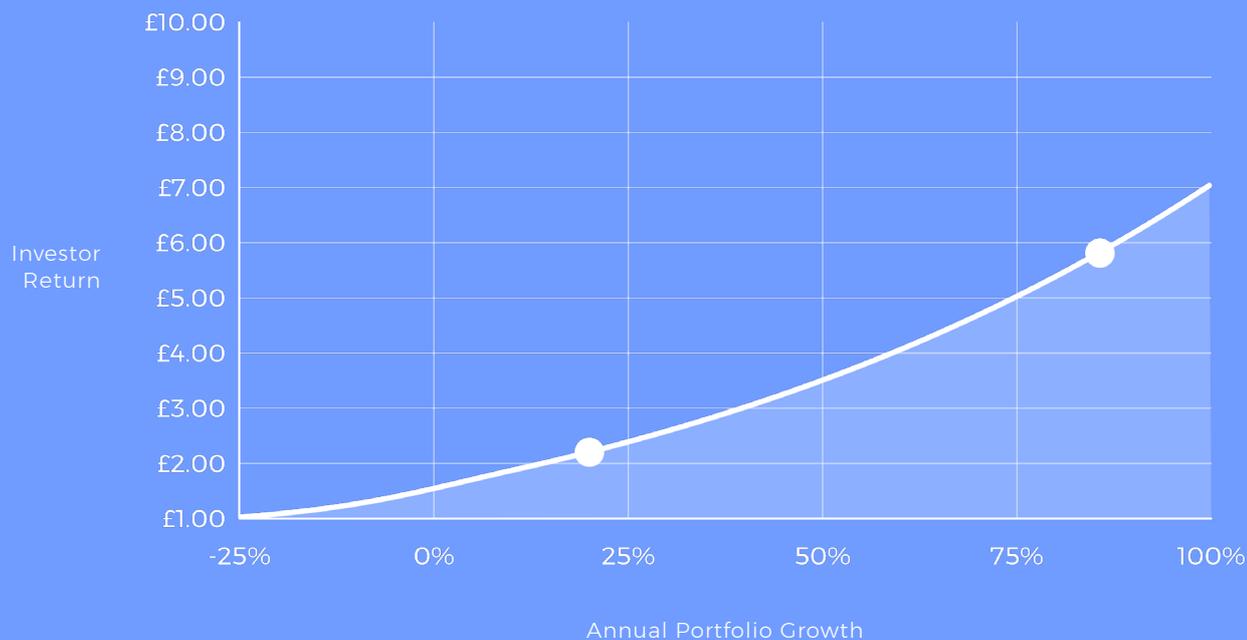
Research from syndicate room suggests that the market annual rate of growth for this sector is 34% since 2011.

The funds raised from the fund will be invested alongside Nova in their growing portfolio of digital technology companies.

Nova is targeting portfolio growth of 20% year on year. This will result in the Fund making its targeted return of £2.18 for every £1 invested.

If the portfolio continues to grow at 83%, the product will make returns of £5.70 for every £1 invested.

Projected Returns



83% portfolio growth, yielding returns of **£5.70 in the £1**

20% portfolio growth, yielding returns of **£2.18 in the £1**

Key Tax Benefits.

The Nova Enterprise Investment Scheme is structured to provide eligible investors who are tax resident in the UK, with the opportunity to obtain tax advantages available under the Seed Enterprise Investment Scheme (SEIS) or the Enterprise Investment Scheme (EIS).

The main shared SEIS and EIS tax advantages are:

Tax free capital gains

There is no capital gains tax liability on gains on the disposal of shares which have been held for at least three years on which SEIS or EIS income tax relief has been obtained.

100% inheritance tax exemption

Through the availability of Business Property Relief, there may be 100% inheritance tax exemption on the death of the investor (or on certain lifetime transfers) for each individual investment that has been held for at least two years.

Loss relief

A loss on any qualifying investment in the portfolio, irrespective of the overall performance of the portfolio, can be offset by individuals against income of the tax year of the loss, or of the previous year, or against capital gains of the tax year of the loss and future years.

The main SEIS tax advantages are:

50% income tax relief

Income tax reduction equal to 50% of the amount invested (claims limited to investments of £100,000 per annum). An Investor can opt to treat an investment as having been made in the previous tax year, in whole or in part, such that the tax reduction is available against income tax payable in that year rather than in the year of investment.

Capital gains tax exemption

Reinvestment relief available to provide exemption for other capital gains made in the year of up to 50% of subscriptions on which SEIS relief is claimed.

The main EIS tax advantages are:

30% income tax relief

Income tax reduction equal to 30% of the amount invested (claims limited to investments of £2m per annum providing £1m is in knowledge intensive companies). An Investor can opt to treat an investment as having been made in the previous tax year, in whole or in part, such that the tax reduction is available against income tax payable in that year rather than in the year of investment.

Capital gains tax deferral relief

Capital gains tax deferral of gains on the sale of other assets up to the value of EIS investment's made within one year before or three years after the date of the disposal of the assets which give rise to the gain.

Investment details

 TAX RELIEF SCHEME SEIS & EIS	 COMPLIANCE STATUS alternative investment fund	 MINIMUM INVESTMENT £10,000	 MAXIMUM INVESTMENT £2,100,000	 SECTOR knowledge intensive	 CLOSING DATE evergreen
 MAXIMUM RAISE uncapped	 CLIENT TYPE retail & professional	 DEPLOYMENT monthly & annually	 TARGET RETURNS 218p for every 100p invested	 TARGET TIME SCALE 6 years	

Please note that tax benefits depend on personal circumstances, are not guaranteed, and rely on UK tax legislation which may change in the future. This is not an exhaustive list of SEIS and EIS tax rules and is only intended as guidance on SEIS and EIS. Nothing in this document shall be regarded as constituting tax advice. No reliance should be placed upon the tax content herein.

Portfolio Diversification & Risk Mitigation.

Each investor's investment is spread across a cohort of at least 10 different companies.

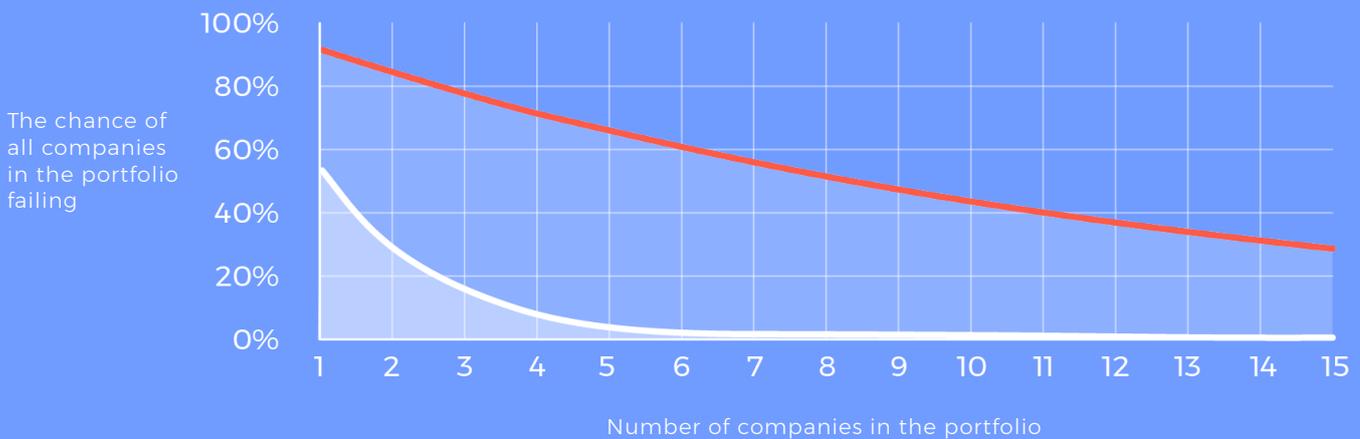
Statistical analysis of our performance data shows that a portfolio of 10 companies has a 0.2% chance of all companies failing within 3 years.

The cohort is most likely to have between 3 and 6 successful companies.

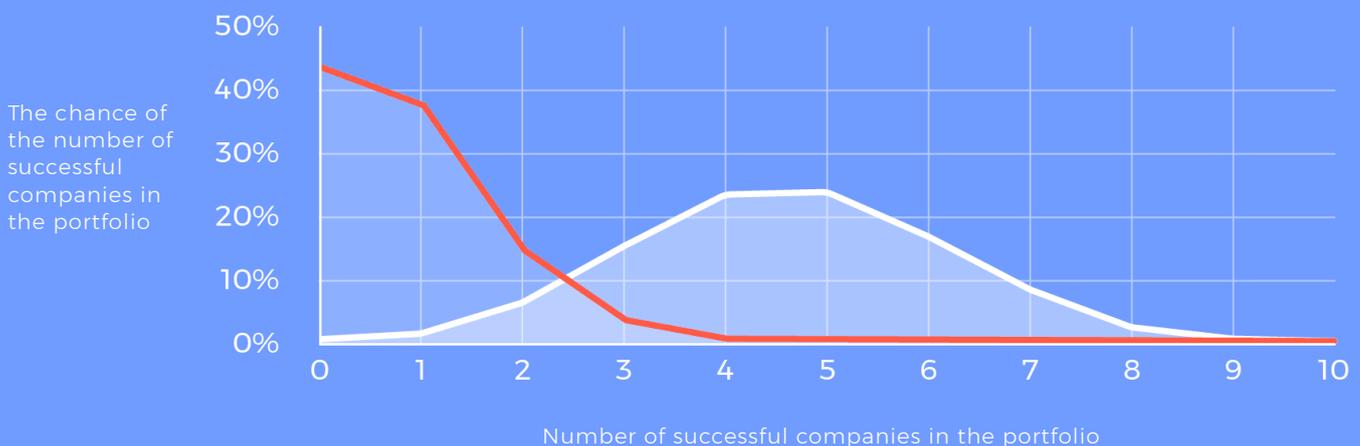
In the unlikely event that each company in the portfolio fails, the NOVA Cofoundery EIS product will still provide a 58p in the £1 return from income tax relief.

Market 92% individual failure rate Nova historical 54% individual failure rate

Chance of all companies failing at various portfolio sizes



Likely number of successful companies within a portfolio of 10



You must be able to take full advantage of available income tax relief and have paid enough income tax in the year the portfolio losses are realised to benefit from the full downside protection provided through tax relief.

Charges & Investment Criteria.

Charges

There are no management charges levied on the investor at the point of investment.

Nova charge investee companies an arrangement fee and monitoring fees as described in the Information Memorandum.

Nova will receive an incentive fee of 20% of the amount of cumulative total cash returned to the Fund by each portfolio of Investee Companies into which the investor's monies have been invested in excess of 150% of the amount of funds invested in the respective portfolio.

Investment Criteria

The investment strategy of the Fund is for subscriptions to be invested in a diversified portfolio of a minimum of 10 investee companies that exhibit some or all of the following qualities:

- Significant market potential with clear and demonstrable consumer or commercial need or demand
- A problem originated solution that has the potential to create new market segments or displace current market offerings
- Companies that utilise a technology-derived platform and/or an innovative approach to meet a newly-identified or existing market or consumer demand
- Knowledge-intensive opportunities that possess a clear and realistic path to the delivery of a minimum viable product or prototype
- A clearly defined strategy aimed at creating and protecting intellectual property
- Passionate, energetic and experienced founders
- A clear exit strategy to be implemented within 4-5 years with an alignment of founder interests with shareholders

Example Portfolio Companies.



ORCHA

ORCHA provide comprehensive and dynamic monitoring of the fast-paced and ever-changing health and care app market. Their team includes experts from all aspects of the health and care app world. The combination of these skills and capabilities ensures that the ORCHA review process and score is based on a fully rounded and rich analysis of each app. ORCHA's customers include primary care trusts and other healthcare ecosystems in the UK and in the near future overseas!



Door

Solves a common problem in the investment industry with a simple solution: a new way to exchange common due diligence information. Combining the benefits of standardisation and digitisation, we have reimaged the archaic due diligence questionnaire process.



Pinpoint

Pinpoint allows companies to offer their employees financial advice tailored to their specific circumstances via their mobile phone. Whether the individual is making short-term month-to-month goals or longer-term objectives like planning for retirement, Pinpoint has the correct level of targeted goal based advice.



Aquarate

Aquarate provides accurate and automated fluid balance monitoring to prevent hydration-related illnesses. They empower clinicians to improve the quality of patient care. Aquarate's automatic system allows healthcare professionals to track their patients fluid balance with accuracy and assurance. With 40,000 hydration related preventable deaths per year, poor hydration costs the NHS £1 Billion per year.

Important Information & Risks.

The underlying investments are both illiquid and high risk, not suitable for all investors and investors should not consider investing unless they can afford the full loss of their investment.

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