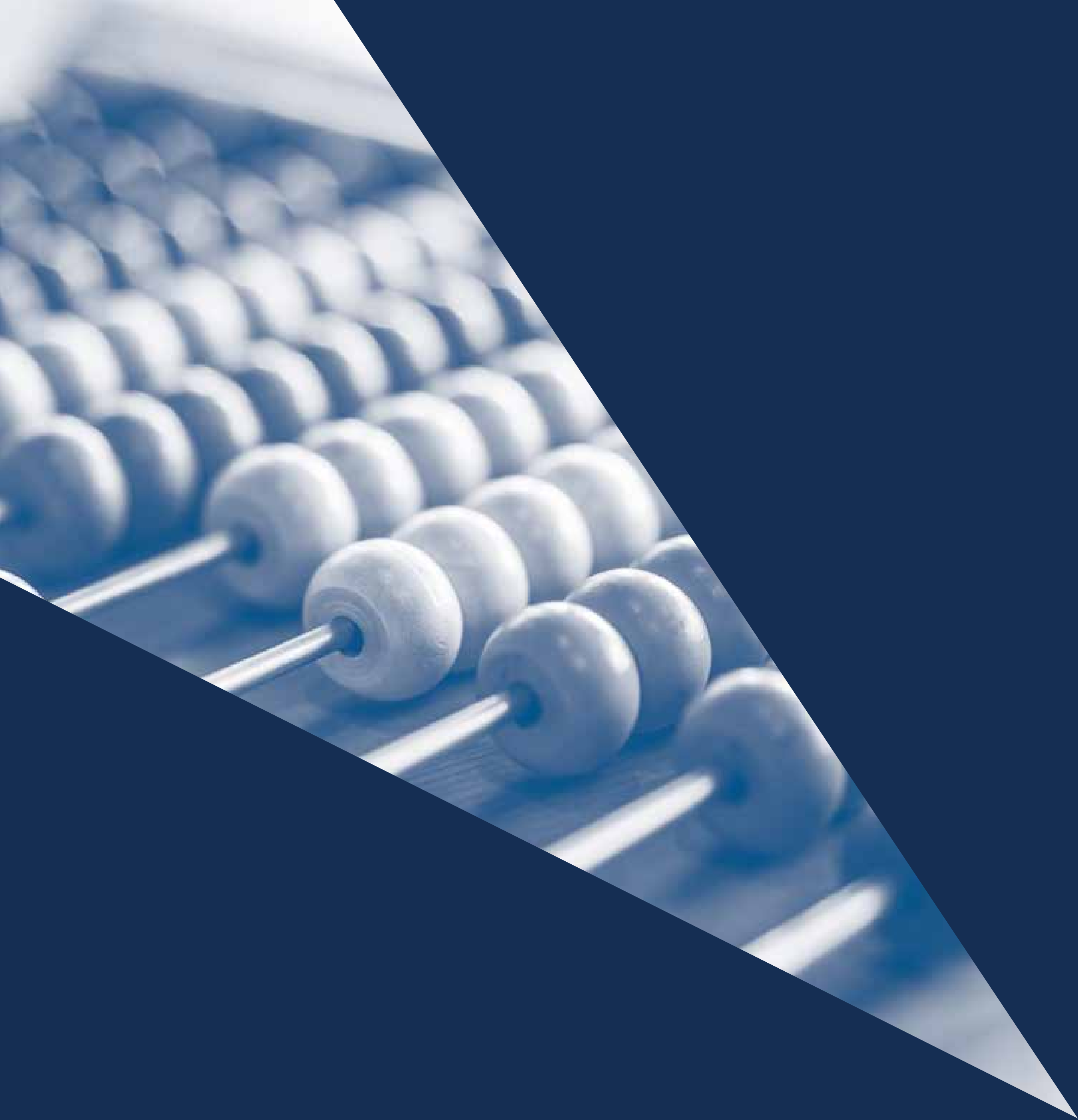


Tax-Advantaged Investments Ratings Methodology

DECEMBER 2018

MJ HUDSON
Allenbridge

CONTENTS

Overview

Our approach to looking at tax-advantaged investments is broadly divided into two core assessment areas: *Manager* and *Product*. Both consist of sub-categories ("Factors") which are then further broken down into key components ("Sub-factors"). Each Factor is scored and aggregated back to an overall score for key aspects of both Manager and Product.

In this document, we set out our process, detailing what each of the Factors are, explaining the rationale for each, and how we assess and score the Sub-factors. This methodology is not an exhaustive treatment of all Factors reflected in our approach, but it should enable the reader to understand the key considerations used by MJ Hudson Allenbridge in our analysis.

In this methodology, we also seek to capture key elements of a product, including the important distinctions of working with a Regulatory Manager, and also the potential for both added value and the need to manage a relationship (preferably with aligned incentives) with a Strategic Adviser. We also examine the most common specialist strategies employed by managers in the UK tax-advantaged sector (including VCTs, EISs, BR IHT and AIM IHT services), from AIM investing to media, biotech, operational real estate, and others.

We conclude with a list of further resources for those who would like more information about how we research tax-advantaged investments.

Methodology Framework

OUR ANALYSIS RESTS ON FOUR PILLARS, WHICH WE DETAIL BELOW:

THE FACTORS	**THE SCORECARD**
ADVANTAGEIQ **OUR PROPRIETARY DUE DILIGENCE SYSTEM, ADVANTAGEIQ.**	**THE INVESTMENT COMMITTEE**

Overview

The Factors

Our analysis looks at the Factors that we deem the most important for analysts to consider when evaluating and rating an investment.

As shown in the diagram below, the Manager section consists of three core factors, with the Product section comprising a further seven factors:

MANAGER

MANAGER PROFILE

- Manager's reputation and positioning
- Quality of management
- Servicing investors
- Fundraising ability

FINANCIAL & BUSINESS STABILITY

- Financial stability
- Business stability

QUALITY OF GOVERNANCE & MANAGEMENT TEAM

- Decision making
- Process and policies
- Oversight

PRODUCT

INVESTMENT TEAM

- Depth of experience
- Collaboration/cohesion and culture oversight
- Alignment
- Breadth of capability

INVESTMENT PHILOSOPHY & STRATEGY

- Philosophy
- Strategy
- Unique selling point

INVESTMENT PROCESS

- Diversity of origination channels
- Due diligence & deal selection
- Investment governance & decision-making
- Conflicts management

PIPELINE & CURRENT PORTFOLIO

- Alignment to the strategy (Return Profile & Portfolio Characteristics)
- Depth of the pipeline

RISK MANAGEMENT

- Identification
- Active engagement
- Monitoring
- Risk controls

FEES & KEY PRODUCT FEATURES

- Level and extent of fees
- Quantum of investee company fees and charges
- Transparency provided to investors
- Alignment with investors

PERFOMANCE

- Portfolio investment income
- Realised portfolio return
- Unrealised portfolio value

DATA INTEGRITY & TRANSPARENCY

- This is a rating adjustment applicable across both Manager and Product

Each Factor consists of several components or Sub-factors which we have identified as key criteria when assessing a tax-advantaged investment. In the rest of the methodology (Sections 1 and 2), we detail the rationale for each Factor and the key assessment criteria. In Section 3 we look specifically at the issue of Data Integrity and Transparency.

Overview

The Scoring Process

As part of our due diligence, our analysts complete a scorecard for each investment review. While some aspects may be difficult to quantify, it is nevertheless useful to have a numerical guide to promote consistency.

Once the scores are proposed, a number of adjustments may be made before the final scores are determined. One of these potential adjustments is to ensure consistency between the scores: so-called "intercoder reliability" (multiple analysts assigning the same scores to the same set of facts). Another common adjustment we make relates to concerns we might have about the quality of the data on a product or the transparency of a manager throughout our review process (please refer to the Data Integrity and Transparency section of this document for more detail). Other qualitative and quantitative aspects may be considered to determine the final scores during the investment committee process. Only after the committee process is completed are final scores assigned to each rating factor.

The Factors, and hence the scorecard, are divided into ten key categories of assessment. Once all Sub-factors and Factors are scored and agreed, they are aggregated back to a ranking at both Manager and Product levels within AdvantageIQ, depending on the weights assigned by the user to each Factor.

1. Our Due Diligence System: AdvantageIQ®

The Factors are informed by our proprietary Integrated Questionnaire Due Diligence system, AdvantageIQ. The system enables us to track and benchmark key data points over time, providing us with a comprehensive view and enabling us to run performance analytics. Our Advisory clients and subscribers also access our research through the system and are able to view data (subject to confidentiality), and use filtering, customisable rankings, and portfolio tools available on AdvantageIQ.

The data provided in AdvantageIQ, in answer to the questions therein, forms the basis for our analysis, supplemented by our analysts in onsite visits and in discussions with key personnel, utilising additional information requests, market expertise, and their own experience.

While subjectivity cannot be avoided altogether when assessing certain elements of a manager or a product, this approach means that our analysis can be both data-led, whilst also knowing that we are capturing all of the key information that goes into driving investment performance and risk over the long run.

2. Investment Committee Review

After the review process is completed, the analyst circulates the completed scorecard and a summary report to the members of the Investment Committee. This typically consists of at least two senior individuals and is chaired by a senior investment professional. All assignments and changes to scores result from a committee decision after consideration of the analyst's recommendation.

At the Investment Committee, the riskiness associated with the Product's investment strategy, relative to comparable products, is also discussed and a risk score ("The Tax Advantaged Investments Risk Score" or the "TAI Risk Score") is agreed by members of the Committee (see page 47 for more details). We elaborate on our in-house risk assessment framework in a later section of this methodology.

SECTION 1

Manager Rating

Manager Rating

It is a prerequisite to first assess the quality of the Investment Manager ("the Manager") who has responsibility for managing the Product. When thinking about the Manager - as opposed to the Product which the Manager is offering, we look at three main Factors.

FACTORS

- MANAGER PROFILE
- FINANCIAL & BUSINESS STABILITY
- QUALITY OF GOVERNANCE & MANAGEMENT TEAM

We examine each of these Factors in turn in the sections that follow. While no Factor can be looked at in isolation, it is nonetheless important to delve deeply into each, to understand the Manager as the entity responsible for making the investment decision, and to ascertain its key areas of strengths and weaknesses, which forms part of the overall scoring process.

It is important to note that there are a number of different legal structures that result in more than one entity fulfilling the role of the "Manager", and we consider these as part of our analysis. In some cases, the use of **Regulatory Managers**[1] or **Strategic Advisers**, requires the Factors to be applied or adapted to also incorporate those entities, as well as to the Manager entity. We have mentioned where this applies in the text, but a fuller explanation of what we look for in terms of both entities can be found in **Appendix 1**.

1. The Regulatory Manager is an asset management entity which is responsible for the management of the fund from a legal and regulatory perspective. The Regulatory Manager is then advised by an "Investment Adviser" (where the investment team or portfolio managers reside) which recommends investments.

Manager Profile

MANAGER PROFILE

REPUTATION & FUNDRASING ABILITY	CULTURE	SERVICING INVESTORS	QUALITY OF MANAGEMENT

Why it Matters

The Manager's Profile is an important consideration when analysing tax-advantaged investments; its ability to thrive in its own market is both key for its longevity and also its ability to house investment teams who can deploy capital effectively.

Sub-factors

Manager Profile is composed of four main areas: the Manager's reputation and fundraising ability, its culture, its ability to service existing investors, and the quality of the firm's management team.

1. Reputation & Fundraising Ability

Looking at the Manager's reputation and positioning enables us to determine the Manager's size and positioning relative to other players (for instance, in terms of market share), how influential a player the Manager is both inside and outside of the tax-advantaged market, and the strength of its brand, which can all contribute to the Manager's ability to thrive over the longer-term. It also could be an indication of the Manager's success rate with regards to making and realising investments and hence impacting investor returns.

A Manager must be able to attract capital over the long term in order to be sustainable and grow its assets under management ("AUM"). While asset gathering for the sake of it might well be considered a red flag rather than something to uncritically laud, the ability to launch products and successfully fundraise means not only that a company can grow in line with its ability to deploy that capital effectively, but replace any assets which may be lost due to investor redemptions or product maturity. Nonetheless, AUM needs to be grown in a controlled manner, consistently meeting capacity but not exceeding it, to be optimal and ensure alignment between the Manager and its investors.

2. Culture

"Culture eats strategy for breakfast". No matter whether a management team has the best business plan possible, or the latest in terms of technology and operations, if there is an unhealthy culture, it will inevitably not succeed, as shown by numerous historical examples. Those firms that could institute a culture of doing the right thing and not the easy thing, of investing in its people, and growing sustainably, have stood the test of time while others burn brightly and often collapse spectacularly. The ultimate test for any analyst evaluating a company's culture is whether it enables a well-equipped investment team to successfully invest capital, and back- and middle-offices who are empowered and valued, or whether it undermines that endeavour. While this is difficult to measure empirically, we list it here as something we know to be important and could be weighed when and if evidence presents itself either positively or negatively.

Manager Profile

3. Servicing Investors

Quality service, from having clear and detailed investor reporting and communication to having an adequately staffed and trained client servicing team, both increases the chance of investors staying with that Manager, and therefore having a high investor retention rate, and shows that the Manager takes its fiduciary duty as being a careful steward of investors' money seriously.

4. Quality Of Management

The quality of the management team, its track record, its ability to set a winning strategy and in getting the right people to deliver it, its ability to create a structure and a culture that can outlive any one individual, as well as its ability to attract and retain assets, helps set apart the best managers from those managers who are likely not to be competitive in the long run.

EXAMPLE OF KEY EVALUATION CRITERIA
Number of years operating as an investment manager & within the tax-advantaged sector
Number of years fundraising, its consistency and success in deployment
Proportion of tax-advantaged to non-tax-advantaged products
Consistency of performance delivered across the Manager's key products
Annual AUM growth rate since inception
Concentration of fundraising channels
Staff turnover levels
Number of employees
Number of material complaints
Experience of management team
Impact of any major media coverage positive or negative

Financial and Business Stability

FINANCIAL & BUSINESS STABILITY	
FINANCIAL STABILITY	BUSINESS STABILITY

Why it Matters

One of the most important tasks for analysts is to ascertain whether the Manager is viable and profitable and that the day-to-day business of the firm operates as smoothly as possible. This, in turn, affects the long-term viability of the funds and the operational stability of the Manager.

There are two Sub-factors within this section that relate to the stability of the Manager in both a financial and business context. The Manager should be able to show that it is **financially stable**: in other words, that an investor can trust that the Manager will not go bankrupt and that it has longevity; the Manager must also demonstrate that its **business** is **stable** and is able to run smoothly. This means that portfolio managers/investment teams are more likely to be able to focus on the investment function and "value-added" services that they provide to investors.

Sub-factors

1. Financial Stability

Financial stability is one of the more quantitative areas of assessment. A lot of the relevant information is found by examining the Manager's financial statements: revenues, costs, profitability, assets, liabilities, and the growth rates of each.

Our analysts also consider any financial backers, whether in the form of an affiliated parent company or an individual who is prepared to support the Manager. In the case of a parent company, or the use of a Strategic Adviser or Regulatory Manager, we would also examine their financial accounts, looking at many of the same indicators as we would assess if a manager was operating under its own regulatory cover. In the case of Regulatory Managers, our focus is in ensuring that the companies have sufficient resources (financial and otherwise) to perform their role with reference to the Manager and the Product being reviewed. We also look to see that the Strategic Adviser can add value to the Product over its whole lifetime without any worries in terms of its own stability. Nuances regarding Regulatory Managers and Strategic Advisers are covered in greater depth in the Appendix.

2. Business Stability

Business stability encompasses the other important contributors to the stability and likely persistence of the Manager. We look to find out about the corporate ownership structure, including the ownership of the Manager. In general, we view management owning part or all of the Manager as a positive, there is perhaps less chance of the tax-advantaged business being wound down when compared to a manager owned by a larger company, which may have other business priorities. However, owner-managers might also look to exit the business to a larger player, and a better-capitalised ownership might have more room to invest in the business. Background and specific context here in terms of ownership plans are important.

Financial and Business Stability

We also consider the key risk dependencies in the business, both internal and external (where functions have been outsourced). With regards to key man risks within management or the investment team we explore the Manager's succession plans. A broad senior management team (the definition of "broad" being dependent on the size and complexity of the business) and diversity of ownership, on the one hand, could generally be seen as a positive, as there might well be less key man risk, but could also be disruptive if individuals are not aligned with the group. With regards to outsourced functions we review these on a case by case basis, and where there are material functions outsourced, especially those requiring a high degree of specialist expertise (i.e. non-commoditised), our analysts will seek to get comfort that the third-party providers are stable and the legal agreements in place create alignment of interest with the Manager.

Our review will also cover any substantial (or potentially disruptive) corporate changes, which we address during our interviews with the Manager. If there have been a high number of corporate changes and/or a radical change has occurred near the time of our review, this would typically be viewed as having a negative impact on business stability, although analysts would also consider the context as not all changes are necessarily disruptive. In addition, analysts also seek to address whether there are any upcoming corporate changes, or material business plans. This may include opening new offices, hiring new senior personnel, or launching a new product: all things which are likely to impact on the stability of the business.

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA
Firm AUM vs number of employees
Revenue breakdown by fee type and product/service line
Five-year historical cost growth vs revenue growth
Cost-to-income ratio
Five-year historical change in profit margin
Debt burden on the business - Debt-to-equity ratio, interest coverage ratio, etc.
Cash & Cash equivalents against short-term liabilities
Financial strength of ownership base
Ownership structure
Key Man Risk
Arrangements with strategic advisers
Corporate, strategic, ownership, and personnel changes

Quality of Governance and Management Team

QUALITY OF GOVERNANCE & MANAGEMENT TEAM

DECISION MAKING	PROCESSES & POLICIES	OVERSIGHT

Why it Matters

A large proportion of the biggest implosions in corporate history have been directly traceable to sub-standard governance and internal processes. Every manager needs appropriate governing bodies in place relative to the size and complexity of their business, with the appropriate people, and with access to the correct information, buttressed by independent checks and balances. This helps to ensure that the business is managed effectively and, crucially, that the investment team can focus on their roles and not be distracted by internal matters.

To that end, we have broken down the subject of governance into three main pillars: **decision making** outlines who is involved in taking decisions, in what structure; **processes and policies** detail the rules that show decision making procedures are consistently applied and can outlive any one person in terms of addressing major, ongoing issues that a manager must account for; and **oversight** to make sure that there exist sufficient checks and balances.

Sub-factors

1. Decision Making

Individuals are subject to biases and may at times behave irrationally. As such, we look to see that the correct bodies are set up, with defined mandates, and are populated with the correct people. For every important decision, we look for clarity in terms of which bodies or personnel are responsible, and how a decision can be taken (majority vs. unanimous, for example).

We look to evidence through minutes or other documented examples that top decision making bodies are not simply a talking shop or a rubber stamp, but instead should challenge the ideas and proposals brought to them. Committees should, ideally, also have some independent members, unconnected by personal or professional interests, who can provide an outside perspective. Research also suggests that such decision-making bodies benefit from diversity in terms of background and thinking.

Finally, we check that decisions are shaped by those who are most knowledgeable about a topic, and those with the time to properly digest all of the issues that need to be addressed. Ideally workload should be spread out, input should be sought from those who are most directly involved with an issue, with no one person serving on too many bodies.

While some managers are small enough that a too-rigid structure might be overly burdensome, investors want to see that major functions, from investment committees to a systematic approach to risk and basic audit functions, are properly addressed by a manager of any size. At a minimum, regardless of size, the Manager should have some form of board, responsible for corporate and strategic decision-making and, size permitting, an investment committee that governs portfolio management and investment matters.

Quality of Governance and Management Team

2. Processes And Policies

Pre-prepared, thought-through policies and guidelines have been shown to lead to better decision-making and provide a structure that external parties can place some reliance on. When it comes to issues ranging from investment allocation between funds to managing conflicts within the Manager, investors should expect to see firm policies that are monitored and not easily subverted by individuals within the firm itself. We check for the existence of the major policies that should be expected of a manager of that size, and then check the policies themselves in terms of clarity and comprehensiveness.

Analysts examine how certain issues which are key to the integrity of the firm are dealt with, such as business continuity and cybersecurity. In addition, we review the controls in place to check adherence to all firm policies, as well as any failures or policy breaches observed over the previous few years.

Much commentary has arisen in recent years in terms of the sub-optimal role performed by remuneration committees, leading to an explosion in executive pay without a rise in performance to justify it. Analysts also check how the remuneration of the top team aligns with the long-term interests of investors, in terms of the trajectory and level of risk taken by the Manager.

3. Oversight

The governance framework also needs to be designed in order to provide adequate oversight of the activities of the company as a whole. Appropriate bodies, staffed by relevant representatives, need to be presented with the right information in order to appropriately oversee the company as a whole. The company itself should also be appropriately overseen by external parties to make sure that the information presented to investors is both accurate and can be relied upon.

Firms in the tax-advantaged sector range from small start-ups to large institutions which may be listed on major exchanges. As such, there is no one model for what is appropriate governance to provide adequate oversight of the firm's activities. We look to see that there are enough and appropriate committees to oversee all of the major activities of the firm, that the appropriate members of staff are required to attend in order to adequately fulfil their responsibilities, and that there are clear guidelines for how often these committees should meet and that they can make decisions informed by a transparent flow of information. We can ask to see example of both board minutes and examples from other relevant committees.

As well as an adequate infrastructure to provide oversight, analysts also look for the existence of appropriate checks and balances for the firm as a whole. These can take a variety of forms, from independent directors on the board of the company, strategic advisory boards, third parties performing calculations or undertaking valuations or handling investor money, and appropriate external auditors. Ideally, certain functions should also be separate, even if headed by internal staff: those responsible for compliance, for example, should preferably not also be on a related investment committee; risk management should ideally be separate from the investment team and compensated in a manner not tied to the performance of the funds.

Quality of Governance and Management Team

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA (RELATIVE TO THE SIZE OF THE MANAGER)
The composition and powers of the key oversight committees
The materials produced for key committees and any documented minutes
Decision-making bodies and mandates
Expertise and knowledge of key individuals
Appropriate documented polices
Relevant controls
Level of independent oversight and challenge
Appropriate level of segregation between key functions that could have conflicting interests

SECTION 2

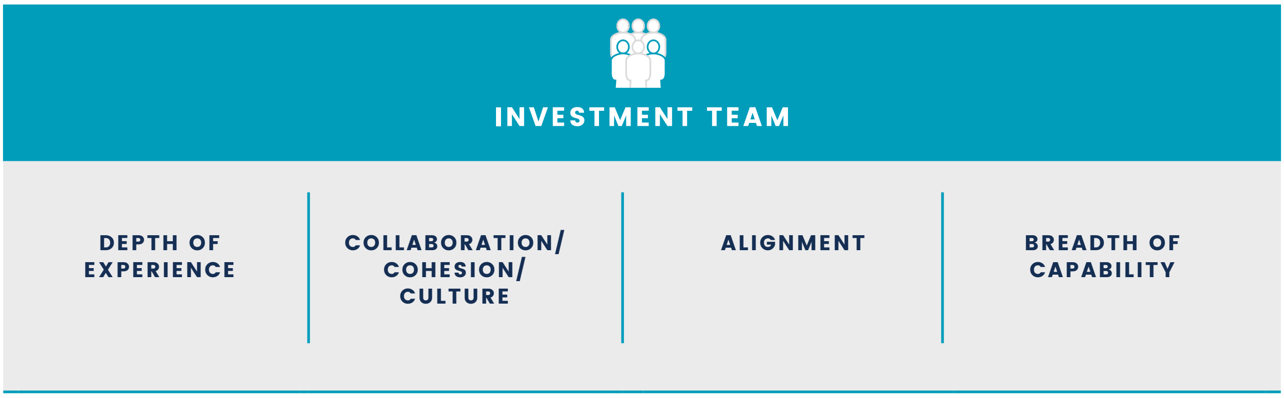
Product Rating

Product Rating

Having assessed the Manager in depth, we turn to the Product. We break the Product down into seven Factors, which provide a comprehensive framework for analysis.

We start with the '*who*, *why*, and *how*': the **investment team**, the **investment strategy and philosophy** behind the product, and the **investment process.** We also examine the **pipeline and current portfolio**, **risk management**, **fees** and the product's **performance.** If the Manager is working with a Strategic Adviser, they may also need to be scrutinised from the perspective of many of these Factors, as we address in the Appendix. As with the Manager section, each Factor will be scored separately, with clients able to assign each their own weighting.

Investment Team



Why it Matters

A key part of assessing the Product is the Investment Team that manages it – the people making it happen. The Investment Team ("Team") comprises those who choose and manage the investments within the Product.

We consider the Investment Team along four Sub-factors, as shown in the diagram above. The first is the **depth of experience** of the Team - their track record and expertise. We want to know how well the Team **collaborates** and fits together, and we are concerned with how the **incentives of the Team are aligned** with the interests of the investors. Finally, the **breadth of capability** of the Team with reference to the strategy is a key consideration. Where there is a Strategic Adviser working together with the Manager's own investment team, it is important to evaluate them using these same categories.

The quality of the Investment Team, as measured across these four sub-factors, is a critical indicator as to how successful it is likely to be in executing the strategy. Investors should be able to trust in the quality of the Team to deliver, external circumstances notwithstanding, what they have promised.

Investment Team

Sub-factors

1. Depth Of Experience

Here we want to understand what relevant expertise the Team has, and why an investor should trust them to be able to execute the strategy well. The Team should be able to demonstrate the talent and abilities needed at each stage of the investment process. To assess this, an analyst would consider the years of experience in tax-advantaged investing, other types of investing, or related experience. For example, this may include experience in related but separate fields, such as private equity or corporate finance, which can provide valuable deal-making and structuring experience. In addition to the length of track record, the quality of the experience is also critical, and can only be assessed more subjectively.

For certain strategies or specialisations (such as in biotech or more specialised media products), having a team with sector-specific expertise is particularly important to identifying good opportunities. Many strategies we examine depend on a team's personal network, from film producers to NHS commissioners, and are also be key to ensuring that an investment strategy maximises its chances of success.

2. Collaboration/Cohesion/ Culture

Assessing this Sub-factor is somewhat more qualitative and subjective than the others, and can be difficult to do for external analysts. While we can ask how long the Team has worked together, the best way to get a sense of the cohesion of the Team is through the Manager meeting, seeing the Team interacting. Strong communication within the team is vital to the effective execution of the strategy. Some evidence can be reviewed: for example, the frequency of formal internal team meetings or inclusiveness of investment or other committees.

Analysts will also establish how the Team has changed over time with emphasis on the more recent changes and how those may impact the overall team. Consistency and cohesion are key to determining the effectiveness of the Team. The quality of an entire team may be less than the sum of the qualities of each individual member if they cannot cooperate effectively.

3. Alignment

The alignment of the Team's incentives with those of the investors is a key considerations in our review. Analysts review how the Team members are remunerated and focus on performance pay. While all managers will claim to be committed to extracting the best performance for investors, having some "skin in the game" (i.e. by investing in their own product on the same basis as investors) is a more material way of demonstrating alignment. It is also important to delve into the incentives of any Strategic Advisers being used, who are often a major selling point for a particular investment. However, these third-parties will likely have other projects which may or may not be related to the Manager and/or Product being reviewed. Knowing that the Product under review is of sufficiently high priority, and reflected in terms of their financial incentives, is a key component of a manager and advisor working together effectively in the interest of investors.

4. Breadth Of Capability

This Sub-factor aims to capture how well the Team is resourced to properly carry out the strategy. The importance of this Sub-factor will vary depending on the strategy – more active or diverse investment strategies would likely require a larger team. In addition, if the Team is responsible for several products, the allocation and management of the time and effort of the Team is particularly important. Some managers will have access to networks of advisers – the structure of these vary, with greater or lesser levels of involvement and formality governing the arrangements. An analyst should aim to understand the role played by advisers, and how much additional capacity they have to really contribute.

Key man risk and succession planning are also considered here; some investment teams are very dependent on one or two senior members – the loss of whom would be detrimental to the Team's ability to execute the strategy.

Investment Team

Finally, while the Team might be extremely knowledgeable in some sectors of particular expertise, what is the likelihood that the product might seek to invest outside of these areas? In terms of sector knowledge, analysts should check that the breadth of knowledge is as comprehensive as it is thorough, with back-ups in place in case this knowledge is concentrated in one particular member of the Team.

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA
Appropriate level of relevant experience within the Team
Track record of key individuals
Team size and time dedicated to product vs. other commitments
Strength of network
The availability of other investment professionals within the group to provide support to the Team
Evaluation of key third-parties/Strategic Advisers
Appropriate and sufficient level of resources dedicated to each stage of the investment process
Team dynamics
Team stability - level of turnover, number of years worked together
Key man risk
Key man risk mitigation
Skin in the game

Investment Team

Product-Specific Nuances

For each of these product sections there are nuances that must be appropriately assessed when we are analysing the different offerings of the tax-advantaged investment products.

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS	
VCTS	• Evaluation of the experience of the VCT Board • Evaluation of the role of the VCT Board • Evaluation of the team responsible for the non-qualifying investments (where relevant)
AIM IHTs	• Strength of relationships with NOMADS[2], market makers, and other trade facilitators

Sector/Strategy Nuances

Equally, our analysis will look to ascertain certain strategy-specific skills and knowledge when assessing a product's investment team. What might constitute a great technology venture-oriented team might, for example, be less qualified when addressing a media or AIM vehicle. The table below sets out some key measures that we look at as part of our due diligence.

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS[3]	
MEDIA	• Network/relationship with key distributors & major market players • Knowledge of media finance structuring • Relevant operational/project management experience • Experience of collecting tax credits
INFRASTRUCTURE	• Relevant network to facilitate the strategy
BIOTECHNOLOGY	• Network/relationship with key distributors (NHS, healthcare systems, etc.) • Relevant subject-matter expertise (in-house or access to) • IP Patent expertise (in-house or access to)

2. Nominated Adviser, approved by the London Stock Exchange.
3. While we only concentrate on a few select sectors in this document, others (such as Property Lending or Impact Investing etc) will have their own particular nuances and specific points which should be considered. The sectors addressed here should not be considered exhaustive.

Investment Strategy & Philosophy

INVESTMENT STRATEGY & PHILOSOPHY		
PHILOSOPHY	STRATEGY	UNIQUE SELLING POINT (USP)

Why it Matters

The investment strategy and philosophy are key to the success of any investment producer or service. Without a manager communicating a coherent strategy and philosophy, investors cannot know an investment team's broader investment outlook, whether a market opportunity really exists, or why a particular team may be "better placed" than others to generate returns. A thoughtful and thorough strategy and philosophy are a must if managers aim to be more than simply asset-generating machines, deploying funds to generate fees and, instead, are known for their quality, generating alpha for investors.

Investment srategy and philosophy incorporates an investment team's orientation to the market in terms of the values and principles that guide them in allocating capital; their view of a particular market opportunity and how it might be profitably addressed by the team to the benefit of investors; and finally, the investment team's unique selling point ("USP"), or competitive advantage, in being uniquely positioned to best exploit that opportunity compared to other market participants.

Sub-factors

1. Philosophy

A clear investment philosophy and approach is of fundamental importance to investment managers, as it forms the foundations of a decision-making framework that guides their actions and informs their behaviour. For investors, knowing a manager's investment philosophy provides a guide as to how a manager is likely to (or should) react in different market environments and when they are likely to perform well and when not. Different managers tend to possess different outlooks on how they can best deploy capital profitably. As circumstances and markets change, it is important for investors to know that managers possess a clearly thought-out view of why they do what they do, and the instincts that will guide them across market cycles.

2. Strategy

In order for a manager to generate alpha on behalf of their investors, and return money profitably after fees, there has to be an opportunity for the Manager to exploit a mismatch between demand and supply in a particular market. These market disequilibria cannot, by definition, last forever, so managers must show the nature of the market dislocation, the extent of the opportunity that they seek to exploit in terms of its economics, the structure of the investment, and the window of time before which any mismatch is likely to be cleared by the market, in order to generate an attractive risk-adjusted return for investors.

Investment Strategy & Philosophy

3. Unique Selling Point

An additional element to the existence of a market opportunity is why that particular manager might be best-placed, to the exclusion of others, to address that opportunity profitably. Managers can exploit market inefficiencies due to limited competition, either through pre-existing contractual arrangements or network effects providing barriers to entry for competitors, or through other 'unfair advantages', from subject matter or domain expertise to the ability to deploy money quicker than competitors.

Not every strategy needs a USP to be effective and while most managers claim to have an advantage over their competition, it is more easily asserted than demonstrated. Nonetheless, a USP is often a key ingredient in generating returns better than those of a manager's peers.

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA
Clarity of investment philosophy and strategy
Size and scope of market opportunity
Strength of network
Competitive advantage and barriers to entry in executing the strategy

Investment Strategy & Philosophy

Product-Specific Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS

VCTs	• The Manager's strategy to meet dividend targets • The strategy for non-qualifying investments
BR IHTs	• Understanding of the structure: – Ensuring BR-qualifying investments – The different trading activities within each portfolio company typically separated by separate business lines – Exposures across the different trading activities • Liquidity management strategy
AIM IHTs	• Structure of the AIM IHT - Bespoke or Tranche-based. • Trading strategy (active/passive) and strategy for rebalancing and expected frequency

Sector/Strategy Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS

MEDIA	• The role being targeted within the media production value chain (i.e. screen agent, P&A, producer etc.) • Distribution strategy (i.e. cinema, on demand, network etc.) • Position in recoupment waterfall
OPERATIONAL REAL ESTATE	• Strategy for location and site selection • Planning, construction, and refurbishment considerations
INFRASTRUCTURE	• Planning and construction considerations • Product testing strategy (where relevant)
BIOTECHNOLOGY	• Product testing strategy • Route to market/monetisation • Strategy for sourcing these specialist opportunities

Investment Process

INVESTMENT PROCESS

DIVERSITY OF ORIGINATION CHANNELS	FILTERING	DUE DILIGENCE & DEAL SELECTION	INVESTMENT GOVERNANCE & DECISION-MAKING	CONFLICTS

Why it Matters

The investment process- how an investment is identified/sourced, selected, and approved- is a crucial element of assessing likely future investment performance: the **diversity of deal origination** sources, the efficacy of the **filtering** of leads into a potentially investable universe, the thoroughness of **due diligence and deal selection**, and the **use of checks and challenges**, must all be appropriate and replicable if performance is likely to be sustained into the future.

It is also important that any co-investment/allocation and **conflicts** are satisfactorily dealt with within the investment process itself, so that all investors are treated appropriately.

Sub-factors

1. Diversity Of Origination Channels

Any potential investment must first be found; the Manager might rely on a range of different sources, including direct approaches, repeat entrepreneurs, referrals through networks, and relationships with universities or incubators. We want to see that the Manager has access to a diverse range of high-quality deals, ideally sourced directly or through multiple channels. A key way for a manager to distinguish itself is through some form of exclusivity in its sourcing - this enables it to see deals that other managers will not, giving it a competitive edge, but without having too much concentration in any one inbound avenue.

2. Filtering

Most managers have a large quantity of potential investments which they must sift through to find the best opportunities. How do we know that the best deals are being selected for further, in-depth review? To answer this question, we look at who is doing the filtering and what criteria they are using (and if there are checks to see how consistently they are applied). An important part of the process is achieving exactly this consistency – ensuring that two different analysts, armed with the same criteria, would make the same decision on a particular investment. Analysts would, if possible, review specific examples of the criteria and analysis used to decide which deals make it to the next stage. Analysts will also evaluate the resources utilised at this stage of the process, including how much time is devoted to it.

Investment Process

3. Due Diligence & Deal Selection

The due diligence carried out by the Investment Team is a critical step in the investment process. This holds particularly true for more active approaches and investments into unlisted companies. This is where the expertise looked for in the team comes in - are they capable of carrying out the due diligence to the required standards? Are they looking at more macro or strategic inputs where required? Do they utilise third-party validation, either in part such as legal or IP checks, or with industry experts in the review of opportunities? What is the level of expertise in terms of sector knowledge and other specific emphases needs on top of a generic due diligence process? We expect a strong due diligence process to be thorough, at least as likely to reject an investment as confirming reasons to invest, and to include in-depth assessments of the people, processes, and product, and should demonstrate a knowledge of a sector befitting the level of investment being made.

4. Investment Governance and Decision-Making

We look at how investment decisions are made and whether there are any oversight mechanisms in place such as investment or risk committees. There can be different structures in place depending on the size and complexity of the fund, and the Manager. This can range from one person being the sole decision-maker to having a hierarchy of investment and risk committees in place. In our opinion, the use of committees as the ultimate point of escalation is positive and (assuming the committee composition is appropriate) ensures that the relevant parties are involved in the decision-making. However, having an appropriate individual or smaller group as ultimate decision-makers, which can be achieved by having a committee chairman and/or veto rights for the appropriate people, is regarded by MJ Hudson Allenbridge as good practice. For managers where this is more practical and appropriate to the strategy, on top of having the right committees or decision-making bodies in place, we seek evidence that they exert their influence on the process in terms of acting as an appropriate challenge, not simply acting as a rubber stamp. Sunk costs, both intellectual and financial, can subvert decision-making processes by making it difficult to push back when opportunities deserve further scrutiny- it is important that the investment process embeds checks, balances, and a role for a devil's advocate as part of a robust process.

5. Conflicts

We will also look at how trades are allocated amongst different investment vehicles and the funds' co-investment policies to ensure that the process is fair and consistent between both funds and investors. We look to see the existence of appropriate policies and documentation detailing the Manager's approach to addressing actual and potential conflicts of interest. Our goal is to have an understanding of the major allocation policies, this is particular relevant for related-party transactions or where managers are responsible for multiple funds and/or investment vehicles investing in the same deals. A rational and fair allocation, and ideally formulaic processes, are the attributes that we will look for in a policy.

Investment Process

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA
The range of and dependency on deal sourcing channels
The quality of the deal filtering process
Ratio of No. of deals sourced vs. No. of due diligenced vs. No. ofbid on vs. No. of investments made
The amount and quality of the resources available to undertake the required level of due diligence
The reliance on third-parties across the investment process
Existence of oversight mechanisms in place to challenge the findings of due diligence pre the investment decision
The appropriateness of the co-investment policies in place
The appropriateness of the allocation policies in place
The key controls in place to address any potential Manager conflict (and any related-party transactions)
The quality of the investment papers reviewed prior to investment decisions
The timeliness of the due dilligence process

Investment Process

Product-Specific Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS	
VCTs	• The role and involvement of the VCT Board in the investment oversight and governance
EISs	• Process and allocations polices which consider the diversification requirements of each individual investor, given the nature of a portfolio service
BR IHTs	• Dependent on the structure of the BR, it might be necessary to review the investment process across all distinct trading business and or business lines
AIM IHTs	• Less focus is placed on the quality of the investment papers produced

Sector/Strategy Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS	
MEDIA	• The role of artistic judgement • How potential for tax credits have been valued • Assessing the strength of contracts with counterparties along with their creditworthiness
OPERATIONAL REAL ESTATE	• Approach to identifying suitable locations for the business to operate • Review of investment models • Specialist due diligence reviews
INFRASTRUCTURE	• Review of assumptions made, including any residual value of assets and implied discount rates • The drivers of the returns through a review of the underlying investment models • Specialist due diligence reviews

Pipeline and Current Portfolio

PIPELINE & CURRENT PORTFOLIO

ALIGNMENT TO THE STRATEGY	DEPTH OF THE PIPELINE

Why it Matters

An analysis of a product current portfolio (if it has one) and its **pipeline** of opportunities go hand in hand. Once completed, analysis should provide a good indication of the types of investment opportunities new investors will have exposure to, an idea of portfolio composition in terms of number of investments and their characteristics, and an indication of how their portfolio could evolve over the short-to-medium term.

The **current portfolio** provides a snapshot of the investment opportunities that an existing investor is exposed to through his/her investment in the Product; and that have been selected by the fund manager to deliver the investment objectives. It is important to understand how well these investment opportunities align to the stated investment strategy, and also if there are any risk vulnerabilities that sit outside the targeted investment strategy.

We note that the importance of a product's portfolio will vary depending on the Product under review; some products provide new investors with access to the existing portfolio whilst others do not.

The table below presents a summary of where new investors gain access to the existing portfolio.

TABLE 1: EXISTING PORTFOLIO ACCESS SUMMARY

SERVICE	EXISTING PORTFOLIO ACCESS
EIS	No
VCT	Yes
BR IHT	Yes
AIM IHT	Depends on the Structure*

* If a Model Portfolio-based approach is used, then all subscribers will get exposure to the same companies.
If a Bespoke Portfolio-based approach is used, then there might be differences in portfolio exposures between subscribers.

In our opinion the existing portfolio provides the best indication of what new investors can expect to receive, assuming of course, that there have not been significant changes in the strategy.

Pipeline and Current Portfolio

In cases where we are reviewing a new product, and hence one where there is no existing portfolio or a composite of individual investments made by a manager, we consider the portfolios of similar "comparable" products executed by the same fund manager, where they exist. If there are no comparable products, then our evaluation in this section is focussed solely on the pipeline in terms of assessing how closely opportunities reflect the themes of the investment strategy and a likely portfolio composition.

The description of the pipeline refers to the list of investments that are currently under consideration as part of the Manager's investment process. Importantly, the depth of the pipeline provides insight into the potential composition of a new investor's portfolio, how selective the Manager can afford to be in selecting opportunities, and how quickly the Product is likely to be fully deployed, which is important for both the Product meeting government rules and for investors getting their tax certificates. Deployment and the size of the pipeline are, of course, directly related to the amount of capital being raised. In cases where the Manager is raising capital frequently (or continuously) for the Product, we consider the additional pressure that this would place on the Investment Team to deploy the capital and we would expect to see evidence of consistently deep pipelines.

It is important to note that any ability to make any inference from our analysis of the portfolio and pipeline is largely determined by the transparency of the portfolio and visibility of the pipeline; i.e. how much certainty we have on the composition of an investor's portfolio and how it will evolve in the short to medium term.

Sub-factors

1. Alignment to the Strategy

The assessment of the alignment to the strategy is relatively broad and helps us to form a view on the suitability of the portfolio and the pipeline, given the risk and return parameters targeted by the Product. Analysts capture additional key portfolio characteristics (such as number of positions, sector exposures, etc.) that need to be considered due to the way the Manager is executing the strategy.

Analysts note that the underlying investments in the portfolio and the pipeline are not evaluated in detail, but there are a number of high-level factors that we analyse to help sense check the feasibility of the return targeted by the Product.

The main priority is getting a better understanding of the following:

- Return Profile: the range of possible returns is largely based on the broad asset class mix and the types of investments in the portfolio and pipeline (or by analogy from a previous portfolio from the same strategy). We also consider an assessment of the investment horizon because return is a function of both the realised exit price of the underlying investments and the time taken to exit all investments.
- Portfolio Characteristics: this captures the general factors that should be considered with regards to portfolio construction (such as liquidity and concentration), the sector-specific factors, and the common micro-factors unique to investee companies. It is important to assess the alignment of these factors to the strategy: for example we would product that is targeting diversification to have a concentrated portfolio.

2. Depth of the Pipeline

For this Sub-factor, the focus is on developing a better understanding of the value and spread of the investment opportunities in the pipeline through the evidence presented by the investment team.

Practice differs across managers in how investment opportunities are logged and in how they progress through the investment process. As such, one opportunity which might be logged by one manager as being in the early stages of the process, and, hence, included in the Manager's pipeline, might not be considered by another manager as part of their pipeline at all as it might be considered too early in their process.

Pipeline and Current Portfolio

Consequently, it is difficult to form an opinion of the strength of a manager's pipeline purely on the total number of investments/value of investments that are classified as under consideration. Our approach is to review the list of investment opportunities identified by the Manager, paying particular attention to how far along within the Investment Process each opportunity is. We give more weight to the list of investments at advanced stages of the Manager's investment process (ideally where managers have undertaken some level of due diligence and preferably after signed terms) as they are the most likely to be completed and, as such, most relevant for investments in the near term.

The strength of the Product's pipeline is an important consideration, when we assess the visibility of the investor's portfolio and the Product's deployment capabilities. Additionally, we assess how much capital the Product has been able to deploy over its recent history as a predictor of what it can deploy in the future (assuming there have been no recent events that could impact deployment capabilities). It is important to consider factors such as team size, and changes in the size of the investment universe, as valid reasons why the historical rate might not be a good predictor.

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA
The asset class mix and the types of investee companies in the portfolio, given the targeted return and investment horizon
The suitability of key portfolio characteristics, such as the number of companies in the portfolio and the spread of sub-sectors, given the targeted investment strategy
The list of investment opportunities identified by the Manager (by investment amount and number of investments), paying particular attention to how far along the investment process each opportunity is
The size of the investment universe
The historical deployment track record - i.e. the average number of investments made each year since inception
The deployment capacity, after considering the level of **uninvested capital**, compared to the fundraise target
The expected deployment timeline
The promptness of the due dilligence process

Pipeline and Current Portfolio

Product-Specific Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS

EISs	• The Composition of historical comparable portfolios • Fund Type: Approved Funds, Knowledge-Intensive Funds and Services • Structure: Tranche-based compared to bespoke portfolios
VCTs	• Investors in VCTs receive access to all investments in the current portfolio and hence more importance is placed on the portfolio • Considerations of joint and linked offers • For debt exposures we consider the following characteristics where relevant: weighted average duration, average term-to-maturity, credit quality, seniority, fixed vs floating rate historical defaults and recovery rate on defaults • The level of cash in the portfolio compared to the level of new cash being raised • The composition of the legacy portfolio & non-qualifying investments • Legacy portfolio rules
BR IHTs	• Investors typically receive access to all investments in the current portfolio and hence more importance is placed on the portfolio • A lot of BR products are structured as one or two portfolio companies, but with a wide and varied list of trading activities usually separated by business lines. Consequently, a high-level analysis of the portfolio companies might not provide a good snapshot. Where this is the case, our assessment of the portfolio and pipeline is based on an analysis of the exposures across each distinct trading activity/business line and portfolio statistics within each • For debt exposures we consider the following characteristics where relevant: weighted average duration, average term-to-maturity, credit quality, seniority, fixed vs floating rate historical defaults and recovery rate on defaults • The level of cash in the portfolio, as this could affect the level of IHT tax relief

Pipeline and Current Portfolio

Product-Specific Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS (CONTINUED)	
AIM IHTs	• Limits and constraints affecting the potential investments in the AIM universe such as market cap preferences, excluded sectors, and stock liquidity restrictions • Concept of pipeline is different as the investment universe is fixed and finite. We focus more on the AUM of the Service compared to the number and types of AIM stocks that will makeup the portfolio

Sector/Strategy Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS	
MEDIA	• Any IP in the underlying investments that is owned or leased
OPERATIONAL REAL ESTATE	• Where possible we separate the cost and value of the real estate from the total cost and value of the companies in the portfolio
INFRASTRUCTURE	• We focus on infrastructure-specific characteristics that help describe the portfolio such as: exposure to government subsidies, asset backing, the level of leverage, and the useful life of underlying assets

Risk Management

RISK MANAGEMENT

IDENTIFICATION	ACTIVE ENGAGEMENT	MONITORING	RISK CONTROLS

Why it Matters

A strong risk management framework is crucial to the long-term success of the Product.

Risk is inevitable in investments of any kind, and investments in the tax-advantaged space are typically on the higher end of the risk spectrum. While risk can not be completely eliminated, it can be managed. A good investment manager will try to optimise the risk-adjusted returns in a portfolio. Whether risk management is through trying to structure an investment to reduce risk or, where this is not possible, monitoring it closely and addressing issues in a timely manner, it is a key part of the evaluation of a product.

A typical risk management structure would begin with the **identification** of the key risks that the Product is likely to encounter. A framework would be set up to manage these risks with proactive **engagement**, **controlling** and **monitoring**. Risk **governance** refers to how decisions are made and by whom within the Manager, and is a arguably the most important feature relating to Risk Management.

Sub-factors

1. Identification

The first step in managing risk is identifying what it is that needs to be managed. This includes key risks to the strategy and the idiosyncratic risks specific to the investee companies. We want to see a manager's acknowledgement of these and, where applicable, that there are policies in place to mitigate these pre-identified risks.

2. Active Engagement

Some of the risks identified can be actively managed – actions can be taken to reduce them. Active engagement takes different forms for different types of investment strategies. In particular, trading in listed assets would typically enable portfolio managers to more actively manage and adjust portfolio risk, by being able to freely trade the assets. Those more illiquid strategies, like venture capital investment, have very different types of engagements. The first layer of risk management takes place in the due diligence part of the investment process, while most managers also aim to incorporate some risk management features into their portfolio construction, through sector or holding limits for example. For those who employ a more active investment strategy, risk is also managed by providing investee companies with help and guidance. Through this approach they may be able to prevent an investee company making a poor decision, or see potential issues coming from further away. Managers may lobby or otherwise engage with the government with regards to potential policy changes in order to manage regulatory risk.

Risk Management

3. Monitoring

While not all risks can be actively managed, they can be monitored and, at times, stress-tested. Our analysts review how these risks are monitored, and who does the monitoring. For investments which involve a significant amount of operational risk in terms of project delivery, managers should possess project management tools and stakeholder engagement processes so that major projects are delivered within the cost/time/quality envelope. Managers should also ensure that the right people are feeding the right information into these tools and that, where there are some quality controls, they are fit for purpose. Where managers have set KPIs or flags, analysts will check them for appropriateness and look for sample-based evidence that they are used in practice.

4. Risk Controls

If the monitoring raises any issues, it is important that the Manager has solid procedures in place for how to escalate and act on these issues. When does an issue warrant action? Who is responsible for making this decision? Once a decision is made, what form does the action take? If any formal limits are in place, more often seen for example in AIM portfolios, analysts would check if there are any formal or informal guidelines in place to spell out how the Manager has conceived and monitors these position limits or stop-loss orders.

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA
The portfolio monitoring process, including: key tools, documents reviewed, and the involvement of an independent committee
The use of portfolio construction parameters/limits
Use and controls around leverage
Pre- and Post-trade controls (incl. board seats or observer rights)
The roles of key individuals and their involvement in risk management
The approach to dealing with conflicts of interest
Key policy documents such as allocation and conflicts policy
Key controls in relation to follow-on funding
The speed and adequacy of response to poorly performing investments

Risk Management

Product-Specific Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS

EISs	• The risk controls around each individual investor's portfolio
VCTs	• The role and involvement of the VCT Board in the investment oversight and risk management process • The process for monitoring the qualifying nature of the VCT • The share buyback policy • The cash management strategy
BR IHTs	• Dependent on the structure of the BR, it might be necessary to review the risk management procedures across distinct trading businesses and business lines in addition to risk management at the portfolio company level • Where lending is one of the investment strategies, a variety of credit risk measures and management features need to be in place
AIM IHTs	• The rules, guidelines and limits around portfolio rebalancing • Evidence of actual portfolio trading resisting from a risk-based decision

Risk Management

Sector/Strategy Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS

MEDIA	• Depending on the strategy, our analysts may place more emphasis on project management tools instead of portfolio monitoring tools • The use of completion bonds and other standard risk reducing features
INFRASTRUCTURE	• Focus on project management tools in addition to portfolio monitoring tools • Construction risk considerations • Use of leverage in infrastructure equity • Management of any sensitivity to other market risks, such as cost of energy
BIOTECHNOLOGY/KNOWLEDGE-INTENSIVE FUNDS	• Project management tools • IP, technology risk mitigation • Approach to managing cash burn (typically from R&D)

Fees and Key Product Features

FEES & KEY PRODUCT FEATURES

LEVEL AND EXTENT OF FEES	TRANSPARENCY PROVIDED TO INVESTORS	ALIGNMENT WITH INVESTORS

Why it Matters

Fees matter in the first instance because they have an impact on investor returns. The level and structure of fees can impact what proportion of invested capital is eligible for tax relief, how much money finds its way into identified investments in order to generate growth, how much a manager is paid in return for their services, and, finally, in what proportion any upside of an investment is shared between the investor, the Manager and/or the Strategic Adviser. In our reviews, we assess the total level and extent of fee charges and expenses levied on investor capital, whether paid to the Manager, a Regulatory Manager, a Strategic Adviser, an operator, an administrator, or any other third party. We also look at those charges and expenses that may have been paid directly by investors or investee companies so as to ensure that we can compare like for like across comparable products.

Other expenses and one-off fees such as director fees, administrative expenses, custodian fees, and dealing commissions (amongst others) can also add up and have a material impact on investor returns. Any analysis which looks at performance before and after fees and expenses shows how important they are in determining the ultimate returns for investors.

Our assessment also covers the overall **transparency provided to investors**, as these are important for investors to be able to assess value for money. Lastly, we focus on any features built into the structure of the fees, which are designed to create **alignment** between the Manager and its investors.

Sub-factors

1. Level and Extent of Fees

The level and structure of direct fees and charges outlined by a manager, coupled with how well the investment performs overall, drives the overall extent of fees charged to an investor. Some managers charge a lower level of fees up-front in order to maximise the amount of an investment eligible for tax relief, but charge higher performance fees at exit; others charge relatively lower annual management charges but set a low performance hurdle when compared to the Manager's own identified return target; yet others might seem to have superficially lower fees than another manager but will pass on a much higher proportion of expenses and one-off fees to the investor which makes it comparable in terms of the total amount charged.

In order to judge the appropriateness of the extent of fees charged, it is first important to ascertain the overall amount that could be charged by a manager across different return scenarios, when all different fees and charges are taken into account, and looked at holistically. Fees should not be seen strictly in terms of higher always being worse than lower, but should be seen instead through a lens of value for money.

Fees and Key Product Features

Higher fees can be justified when managers take greater steps to generate returns to investors at a given level of risk: greater activity on behalf of managers does not necessarily mean that this should be rewarded with higher fees if that activity does not generate value for investors beyond what might have been expected if that activity had not taken place, but investors should be happy to pay a slightly higher level of fees if this allows the Manager to generate this higher return for investors. However, the structure of fees, from higher performance fees driving riskier strategies, to managers to ongoing annual management charges, providing incentives to hold onto investments perhaps beyond when might be optimal for investors, can drive manager activity in a way that is detrimental to investor value for money.

Instead of charging investors directly, many managers instead charge investee companies either on an ongoing basis or for one-off services. These charges to investee companies are either directly passed on to investors due to lower investee company performance, or managers write slightly elevated cheques to investee companies in order to allow management to pass back a proportion of that investment straight back to the Manager, which simply means that investors have a stake in an investee company at an artificially high valuation.

Some managers will also charge investee companies for services which they undertake on their behalf- from corporate finance projects to consulting advice - which both can throw up obvious conflicts between the Manager and investors, and can also depress returns for investors if they do not provide value. It is important for analysts to explore the likelihood and historic frequency of the Manager providing such services for investee companies, and the levels of fees paid, in order to assess their ability to pass scrutiny from both a conflicts and value perspective.

Finally, while the extent of fees and charges in the tax-advantaged market are typically higher than one sees for mainstream unit trusts and investment trusts, analysts must judge the extent of fees relative to the market as whole.

2. Transparency Provided to Investors

There has been a drive in recent years to make fees and charges in the asset management industry more transparent and simpler for investors to grasp and understand. Equally, given the lack of conformity to any standard practice in the tax-advantaged market, there are variations in terms of how clearly all potential fees and charges are set out in investment memoranda and other investor communications. Some managers set out charges to investors, but inform our analysts during our reviews that they had historically never charged these (in cases such as these, we work on the basis that any fees that can be levied, will be, unless there is compelling reason not to); others are opaque when it comes to any profit shares or ongoing charges that might accrue to Strategic Advisers or other third-parties; while supplementary fees for services, or accessing a Manager's other investment products, can see much higher fees charged to investors than they would rightly expect to have to pay from a straightforward reading of an investor agreement.

Investors are entitled to expect a relatively straightforward and complete accounting of all and any possible fees which might be charged to them after responsibility for their capital is passed over into a manager's hands. Our analysts assess the completeness and clarity of communication of all terms with investors and then makes a judgement in terms of how these stack up compared to the rest of the market.

3. Alignment with Investors

All fees have the potential to produce skewed incentives: annual management fees can incentivise managers to become "asset gatherers" and raise capital that they cannot deploy efficiently or to hold investments longer than optimal; on the other hand capped management charges can lessen an investee company's hold on a manager's attention compared to another investment that is more profitable. Performance fees can also incentivise risk taking as it is a one-sided bet for the Manager.

However, while analysts understand the potential existence of these skewed incentives, the structure and type of fees still provide an insight into the degree of alignment with investors. Performance fees, for example, should have a realistic but sufficiently high hurdle that drive an Investment Team to really go above and beyond on behalf of investors, while not being so high in terms of hurdle that it seems too far out of reach to change behaviour. Often annual management charges and performance fees are split in terms of accruing to either the Manager or the Investment Team, which provides direct incentives to the investment decision makers and can serve to boost retention so that a team sees out the investment period.

Fees and Key Product Features

The only true form of alignment, however, is when the Team are invested in the product that they manage - on the same terms as investors. This *skin in the game* means that any principal-agent problems between the Team and Investor are minimised, given that the amount invested is material to those making the investments. Analysts look at the structure of fees and the existence of *skin in the game* in order to assess the degree of alignment between the Manager and investors.

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA
Compare gross asset returns vs net asset returns, accounting for any initial fees and fees charged to investee companies
Impact of all fees on investor net returns over a given holding period and across a range of return scenarios
Identification of all fees charged and their impact on the total investment subscription eligible for tax relief
Consideration of both the fee charged to the investor and the fees charged to investee companies
Method of calculation for all fees as this will change the amount paid. For example: • Are ongoing fees based on amount subscribed or NAV; • Are performance fee calculated on the overall portfolio or on a deal by deal basis
Are ongoing fees charged until the investor exits from the Product or over a limited number of years - this is an important consideration for evergreen products
Performance Fee - the headline charge rate and the performance hurdle
Presence of fee rebates and fee caps
Key triggers for contingent charges
Potential conflicts of interests created by the products fee structure or fees charged on other products offered
Product features that limit an investor potential return - i.e. options held by the Manager or priority returns provided to related parties
General expenses involved in the execution of the strategy

Fees and Key Product Features

Product-Specific Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS	
VCTs	• Share buyback discount to NAV • Fees charged on the non-qualifying portion of the portfolio • Performance fees on unrealised gains
BR IHTs	• Appropriateness of the level of fees charged for insurance protection
AIM IHTs	• Dealing fees

Sector/Strategy Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS	
MEDIA	• Production fees which are charged to the investee company should be reflected by demonstrable actual producing and as such, incorporated into an overall evaluation of a typical AMC

Performance

PERFOMANCE

PORTFOLIO INVESTMENTS' INCOME	REALISED PORTFOLIO RETURND	UNREALISED PORFOLIO VALUE

Why it Matters

It probably goes without saying why this Factor is important, as it is the primary reason for making any investment.

When we consider the performance track record of a product, what we are trying to evaluate is the range and the consistency of the total returns received, by previous and or existing investors, against their subscriptions, excluding the impact of any tax relief (except for in the instance where the tax relief is lost). With regards to new products, we consider the performance track record of sufficiently similar products executed by the same manager (where they exist). If there are no comparable products we assess the track records of key members of the Investment Team. Though we note that past performance is not a guarantee of future returns, evaluating the range and consistency of historical returns in context, provides a good objective measure of the effectiveness of the strategy. It also allows us to form an opinion on the Manager's ability to deliver returns relative to its strategy and return target to-date.

Performance has three key Sub-factors which need to be evaluated over time in order to form a sensible opinion on the consistency of the total returns delivered to investors: i) the investment income received over the holding period (where this is applicable), ii) the realised returns received over the holding period, and iii) the portfolio valuations the value of the assets that remains in investors' portfolios. We also consider the level of risk associated with the returns delivered to form a view on the appropriateness of the returns, where possible.

Consistency is a function of time and performance but can be greatly influenced by macro-economic conditions, independent of the strategy. Therefore, the ideal is to be able to evaluate these Sub-factors over a reasonably long performance history, and across business cycles. However, we note that a sizeable proportion of the products we review within our universe of tax-advantaged products have relatively short performance track records. Consequently, we are limited in our ability to analyse the consistency of returns. Where the Product's track record is limited, we consider: i) the track record of comparable products executed by the same team, and ii) the relevant performance track record of key individuals in the Team.

Sub-factors

1. Portfolio Investment Income

This relates to all income received by the investor (i.e. dividend and interest payments) as a benefit of subscribing to the Product (with the exception of tax relief), and needs to be considered because it increases the value of an investor's eventual cash proceeds. Our focus here is on evaluating the investment income against any performance targets set by the Manager, as well as those achieved by other market participants. We also assess whether there is a reliance on cash inflows from new subscriptions or the need to sell off parts of the portfolio, earlier than expected, to meet the investment income targets.

We note that this is not relevant for EIS products as typically investors do not receive any investment income.

Performance

2. Realised Portfolio Returns

This measures the extent to which the cash proceeds returned to the investor through the sale of all/parts of their portfolio exceeds the respective capital invested. Our focus is on evaluating the exit realisation multiples and IRRs delivered on a representative sample of investments selected and exited by the Manager under the Product's strategy. Reviewing exits over the last three to five years should provide a good sample. We analyse the range of returns delivered by the sample and how the average exit multiples and IRRs achieved compare with the Product's performance targets.

We also consider the investment holding period when assessing the magnitude of the realised returns, as time directly effects the rate of return.

3. Portfolio Valuations

This relates to the current value of all underlying investments that still remain in an investor's portfolio.

As the current value of the portfolio, often referred to as the portfolio's net asset value ('NAV'[4]) , could be above or below its initial cost, it needs to be considered when assessing an investor's overall return. We note, however, that until a purchase price has been agreed for investments that remain in the portfolio, its NAV can only be estimated. This is especially true for privately held investments. Given that the holdings in tax-advantaged investments are typically unquoted (except for any AIM equity holdings), and are therefore not marked-to-market, this leads to difficulty in obtaining an accurate overall valuation of the underlying investments. Valuation practices differ across managers and may include a large element of subjectivity. Consequently, we review whether the Manager adheres to any best practice standards - such as the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines. However, we note that the application of these guidelines differs between managers. We also review whether there is any independent oversight of the valuation process; best practice is for the valuations of illiquid investments to be assessed by an independent third-party, or at least verified by someone independent of the investment team that was responsible for making the investment. Notwithstanding this, the estimate of NAV provides some indication of what the investor's eventual cash proceeds will be. Any discounts-to-NAV when realising one's investments (i.e. selling something for less than it had been valued at the accounts) should also be taken into consideration here, as is common for many VCT share buyback schemes.

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA

A minimum of three years of relevent performance history (including previous funds or potentially other funds managed by the same team, if applicable)

Where there are historical portfolios/comparable historical products that have been fully exited we can analyse total net investment returns delivered to investors

With regards to individual company exits, we consider exit multiples, IRRs, and holding periods

Failure rates calculated as the number of investments that have been written off against the total number of investments made since the Product's inception. We would expect riskier strategies to have higher failure rates

4. NAV would also include any cash and other net assets (asset less liabilities) that may form part of an investor's portfolio.

Performance

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA (CONTINUED)

The performance history is evaluated against the Product's performance targets and our chosen peer group of comparable products

We analyse whether the return delivered sufficiently compensates the investor for the lock-up period/liquidity cost associated with the Product

Product-Specific Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS

VCTs	• The consistency of dividend payments and the level of payments vs. the target • The impact on NAV growth given the need to sustain dividend payments • For debt exposures - we consider the historical recovery rates and the level of historical defaults • The impact of the legacy portfolio and non-qualifying investments on performance • How sustainable historic returns appear to be • Separating the Manager's performance track record from the VCT's performance track record
BRS IHTs	• Where the investment takes the form of a trading company, we consider the share price methodology employed by the trading company and its relation to the net asset value of the company’s underlying assets • Level and consistency of return (and income) delivered vs the Manager’s targets, as well as relative to other products in the market • Since inception NAV per share growth - this measures the growth in the unrealised value of the portfolio. BR Investors tend to have shares in holding companies/businesses which are unlikely to be sold in order to generate investor returns

Performance

Product-Specific Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS (CONTINUED)	
BR IHTs	• For debt exposures - we also consider credit spreads achieved and the historical recovery rates and the level of historical defaults
AIM IHTs	• Quarterly portfolio returns, since inception, compared to our bespoke AIM IHT benchmark • Assessment of volatility and risk-adjusted returns (Sharpe ratio) compared to our bespoke AIM IHT benchmark • Impact of portfolio turnover on performance

Sector/Strategy Nuances

EXAMPLE OF KEY ADDITIONAL CONSIDERATIONS	
MEDIA	• How residual income in projects will be monetised for investors
OPERATIONAL REAL ESTATE	• Performance attribution: breakdown between the performance/growth of the business and the performance/growth of the real estate in the business

SECTION 3

Data Integrity and Transparency

Data Integrity and Transparency

DATA INTEGRITY & TRANSPARENCY	
DATA INTEGRITY	TRANSPARENCY

Why it Matters

The appropriateness of our conclusions on the Product and Manager hinges on the quality of the data provided by the Manager, and how transparent they have been throughout our due diligence process. Consequently, our methodology includes an adjustment factor that provides us with the ability to discount each Factor score based on any concerns around the data integrity and transparency of the Manager.

To be clear, Data Integrity and Transparency is not a separately scored factor. It is an adjustment that we can apply to any of our ten Factors singularly, or across all ten Factors uniformly.

Data integrity relates to the accuracy, the consistency, timeliness, and the appropriateness of all information we receive from the Manager across all the factors we consider. In order to properly assess a product we need to be certain that we have an accurate factual basis, something that is unlikely to be achieved if a manager's information lacks internal consistency or conflicts with itself.

Transparency relates to the Manager's willingness to provide detailed, accurate, and complete information, without an attempt to obfuscate or disguise the data presented. For example, has the Manager set out its fee structure in a simple and clear format (both to investors and throughout our due diligence process)? Are there gaps in the data provided by the Manager, such as missing years or a deliberately shortened time series? Is the Manager willing to provide information on the conflicts of interest that surround their products? These are some examples of how a lack of transparency could impair our ability to form a reasonable conclusion about a product.

There are four techniques that we adopt in assessing Data Integrity and Transparency: i) triangulating information received across different sources, ii) requesting evidence to validate the Manager's claims, iii) sense checking information received, and iv) assessing the completeness of the information presented both on the AdvantageIQ system and in subsequent reviews. Based on our expertise in the tax-advantaged sector and also through the triangulation and validation of some of the data we receive, we are able to assess the reasonableness of some of the claims made by the Manager. For example, managers usually provide an estimate of their deployment capability, which may be difficult to verify in isolation. However, we are able to examine information on historic deal flow, the number of deals they expect to make, the average size of deal they expect to make, and their current pipeline, to check that all of these are consistent with one another and the estimated deployment capability.

In summary, this adjustment is our measure of confidence in our review outcome based on the information we had available to make these assertions; the lower our confidence, the greater the degree to which we will opt to be conservative.

Data Integrity and Transparency

Key Evaluation Criteria

EXAMPLE OF KEY EVALUATION CRITERIA
Completeness and timeliness of the information provided on AdvantageIQ
Ensuring that data on a product's component parts sums up to the data provided on the Product as a whole
Looking for discrepancies in information submitted on AdvantageIQ, the Investment Memorandum, and information provided to us at our on-site meetings
Request for evidence to validate a manager's claims. For example, can the Manager provide due diligence and investment committee documents to validate the structure of the investment process

SECTION 4

The MJ Hudson Allenbridge Risk Score Assessment Framework

The MJ Hudson Allenbridge Risk Assessment Framework

Our risk assessment framework presents three numerical scores that summarises our opinion of a product's investment strategy risk (the "TAI Risk Score"), its liquidity risk, and the risk related to receiving the full tax relief under offer.

Please note: our risk assessments are a qualitative, relative opinion on the risk inherent in a product or offering.

The Tax-Advantaged Investments Risk Score

The TAI Risk Score provides a qualitative measure of the riskiness of a product's investment strategy relative to other products in its universe. We note that each product type (i.e. VCTs, EISs, BR IHT and AIM IHT) has a separate investment universe. It considers several factors ("Risk Factors") specific to the investment strategy and to the Product and translates these into a single score that summarises our opinion of a product's Investment Strategy Risk.

Given the nature of tax-advantaged investments, apart from AIM products it is difficult to provide a quantitative measure of risk. Thus, our approach is to provide a qualitative opinion on the relative level of risk within each Risk Factor in the context of the Product's investment universe. Our analysts score each Risk Factor on a scale of 1 to 5 (see the ratings description table below) and The TAI Risk Score is then calculated based on a weighted average of these scores (see the Risk Factor Weights table below).

TABLE 2: RISK RATINGS DESCRIPTION

RATING	DESCRIPTION TERM
1	LOW RISK
2	LOW-MEDIUM RISK
3	MEDIUM RISK
4	MEDIUM-HIGH RISK
5	HIGH RISK
6	NOT RATEABLE

The Risk Factors that we consider are as follows:

Macro & Market Risk

This factor assesses two areas:

1. The extent to which a product is vulnerable to macro-economic conditions. As an example, we would consider a product that is heavily exposed to energy prices to be riskier than one that is only marginally exposed to energy prices (all other things equal).
2. The relative riskiness of the markets/sub sectors the underlying investments in the Product's portfolio are materially exposed to, compared to other markets in our universe. As an example, we would consider a portfolio of investments focussed on drug discovery to be riskier than a portfolio of investments focussed on managed storage.

The MJ Hudson Allenbridge Risk Assessment Framework

Company-Specific Risk

This factor assesses the characteristics common across the underlying investments in a product (independent of the markets they operate in) that will impact the likelihood of success or failure. Considerations include characteristics such as the stage of development of portfolio companies and the type of customers/counterparties that the investee companies are exposed to. As an example, we would consider a portfolio of early-stage, business-to-customer ("B2C") technology investments to be riskier than a portfolio of late-stage investments servicing the public sector.

Investment Structure

This factor assesses two areas:

1. The relative risk inherent in the type of assets the fund invests in. As an example, we would consider a portfolio of short-term secured debt exposures less risky than a portfolio of levered equity positions enhanced by exposure to derivatives; and
2. The impact of structural features of the Product on the likelihood and magnitude of loss. In our experience, there are a range of product features that can be used to amplify (leverage) or minimise risk (insurance protection, use of fee rebatesand priority returns).

Concentration

This factor assesses the extent to which the Product is diversified across a range of factors that minimise idiosyncratic risk. Our definition of diversification looks beyond the number of positions in the portfolio and considers the spread across sectors, counterparties, term-to-maturity (in the case of debt exposures), and across company types (amongst other things).

Scoring

We evaluate and score each of these Risk Factors with a score of 1 to 5 based on its level of relative riskiness, see Table 2. The Investment committee will then compare each of these scores to a peer group of other products to ensure consistency at the factor level. These are then aggregated using weighted-average, based on the weights in Table 3 (on page 50).

Once a preliminary “Initial Risk Score” is calculated, the Investment Committtee may incorporate an Adjustment Factor that allows us to adjust the calculated score up or down, where required. Our default position is not to adjust our Initial Risk Score, however, at times it is necessary to consider a wider range of additional factors (any “known or unknown”) that could prove material to the risk level of a given product. As examples, issues such as material competative advantages/disadvantages, transparency concerns, material conflicts, and unusual practices adopted by the Manager are considerations that would warrant an adjustment to the TAI Risk Score.

The MJ Hudson Allenbridge Risk Assessment Framework

TABLE 3: RISK FACTOR WEIGHTINGS

RISK FACTOR WEIGHTS					
RISK CATEGORY	**VCT**	**EIS**	**BR**	**AIM IHT**	**SCORE**
MACRO & MARKET	30%	30%	30%	30%	(1 to 5)
COMPANY SPECIFIC	25%	25%	20%	25%	(1 to 5)
INVESTMENT STRUCTURE	20%	20%	30%	20%	(1 to 5)
CONCENTRATION	25%	25%	20%	25%	(1 to 5)
INITIAL RISK SCORE	100%	100%	100%	100%	(1 to 5)
ADJUSTMENT FACTORS					-1 to +1
FINAL RISK SCORE					(1 to 5)

We note that as part of the risk assessment framework, there are two additional risk factors that we consider but are not included in the TAI Risk Score: Liquidity risk and the Tax Relief Risk. These factors do not impact what we define as important to the Product's Investment Strategy Risk but are important considerations nonetheless for investors, who are selecting products within the tax-advantaged investment universe. These factors are also scored on a scale of 1 to 5.

The Liquidity Risk Score

The Liquidity Risk Score measures the underlying liquidity of the investments and any mismatch between that liquidity and the promise made to investors in the Product (primarily contractual, but also "promises" which are not contractual in nature, which would impact broad investor expectations of liquidity). It is heavily impacted by the degree to which underlying investments in the Product can be sold at a fair market value within the pre-defined redemption timeframe. There are many factors that come into this analysis, including the market for the underlying investment, leverage and leverage terms in the underlying investment, size of the investment controlled by the Manager vs. the size of the market, daily trading volumes (for AIM Investments), and number of routes to exit illiquid investments. As an example, we will place a higher Liquidity Risk Score on a Product exposed to private infrastructure investments in comparison to a product exposed to publicly quoted securities.

The Tax Relief Risk Score

This score provides our opinion on the level of confidence investors should have around receiving all tax benefits linked to the Product, or rather the risk or not receiving them. This can be affected by the degree to which a product adheres to the principles of the tax relief schemes, the use of HMRC advance approvals, the use of external tax advisors, and the approach to monitoring qualifying conditions. The score here is our opinion as to how well the Manager's strategy and (where possible) evidence seen in the portfolio, pipeline, and investment and risk management processes related to the Product, stacks up relative to the prevailing rules for tax relief for each product. It is important to note that a low perceived risk does not mean that the Product will not breach the rules, but only that at the time of our review it appeared that the product was well within the generally accepted boundaries applied by HMRC. We also may rely on the opinions of third-party consultants and tax experts (which may have been commissioned by the Manager), to inform our views and opinions on this risk. Moreover, the rules change regularly and there are no guarantees that what once was deemed appropriate will continue to be the case. As an example, we will place a higher Certainty of Tax Relief risk score on a Manager that has

The MJ Hudson Allenbridge Risk Assessment Framework

shown a tendency to exit the underlying investments before the minimum holding conditions have been met. Investors should take tax advice prior to making investments in these products.

It is important to note that the our three risk scores, as well as the Manager and Product score, in addition to other risk considerations, will be presented by the Analyst to the Investment Committee, as part of our process. Additionally, other qualitative and quantitative factors may be considered by the Investment Committee[5] to determine the final rating outcome.

5. The Rating Committee consists of three senior individuals who review and assess the Analyst's recommendation and rating rationale and are responsible for assigning the final rating score.

Appendix 1

Appendix 1

Strategic Adviser

We consider a Strategic Adviser to be a third-party (business or consultant) that is materially involved in the execution of the Product's strategy. The Strategic Adviser typically plays a necessary role at some stage or at multiple stages of the execution process: from an involvement in the sourcing and selection of investments, to the portfolio monitoring/risk management process to the exit process.

We are by no means attempting to scrutinise all third-parties associated with a particular product. Our focus is to get comfort on the suitability of those third-parties that we consider to be significantly important to the Product due to some sort of expertise that is emphasised and or essential to the Product's strategy – for example, a sector expertise or a bespoke/proprietary sourcing channel. There is clearly an element of subjectivity in what is consider to be significantly important and consequently this judgement is reserved for our expert opinion.

The key areas that we evaluate to form an opinion on the suitability of the strategic advisers are as follows:

1. The scope of their responsibilities
2. The process for terminating the agreement between the Strategic Adviser and the Manager
3. An assessment of their Team – along the four sub-factors that we use to evaluate the Product's Investment Team; we view the Strategic Adviser as an extension of the Investment Team
4. How they collaborate with the Product's in-house Investment Team
5. Key conflicts of interest and how they are managed
6. The nature of the agreement that governs their responsibilities to all parties
7. How they are incentivised and remunerated
8. Their financial and business stability

Regulatory Manager

A Regulatory Manager is an FCA-regulated entity that provides investment management services for a company that wishes to advise on particular investments. Much of the time the Manager named on the Investment Memorandum ("IM") also provides the Investment Team and recommendations to invest money into a particular investee company. However, there are two other models that we most often see where the Regulatory Manager role is split out from the investment advisory function.

1. **Present & Involved Regulatory Manager & Investment Adviser** – this model involves a split between the regulated entity named on the IM which is legally responsible to investors, and the investment adviser who is expected to do the bulk of the sourcing, due diligence, and decision-making on which companies are deserving of investment. This model might also see the Regulated Manager perform duties such as promotion.

   Under this model the Regulatory Manager might have expanded duties beyond simply being a "rubber stamp" for an adviser. The Manager is often involved during the investment process and will actively give advice and insight, even sometimes vetoing investment decisions recommended by the Investment Adviser, especially if the Regulatory Manager deems a particular investment to be outside the fund's specified mandate. The Investment Adviser is expected to provide sector expertise and works in partnership with the Regulatory Manager to source, filter, and recommend deals.

2. **Service-Only Regulatory Manager and Investment Adviser** - This is where the Regulatory Manager, who is responsible to the investor, is simply providing regulatory services and is for all intents and purposes signing off deals after checking that it meets the Fund's mandate, but providing no investment insight or oversight beyond this– if it meets the criteria of the mandate as outlined in the IM then is signed off. The Investment Adviser is doing all the promotion and investment decisions and even most of the governance is dealt with at their level, only at the last stage is it going to the Regulatory Manager just to formalise deals.

For this model the analyst checks that the Regulatory Manager does indeed possess all of the covers that it is there to provide, checks the agreement between the Regulatory Manager and Investment Adviser, and we check its potential longevity over the investment period by assessing its financial and business security.

Appendix 1

Process

To complement an understanding of our methodology, it helpful to also be aware of our internal research and governance processes. To ensure independent consistent, and in-depth research, all our reports follow the same formal governance process as set out below and all are run on our dedicated AdvantageIQ platform for audit purposes.

1. Initial information request through AdvantageIQ
2. "IQ process" completed. Data audited and verified
3. Onsite manager meetings scheduled
4. Due diligence analysis and meetings
5. Report drafting
6. Investment committee and compliance review process
7. Final drafting
8. Manager sent draft for factual accuracy review
9. Report finalised and published

The AdvantageIQ system is our proprietary platform, which we use to collect due diligence information about managers, products and anything else that our analysts need to complete their research. We also use the system to provide information to our advisory clients and subscribers, effectively integrating our research with the latest data. The flexible system architecture allows us to customise data collection and the user interface for clients which require a more tailored approach.

MJ Hudson Allenbridge, is an independent investment advisory group, with institutional client assets exceeding £120bn. We provide investment research and advice to institutional investors, wealth management firms, family offices and private investors which helps them to make better investment decisions. Our high-calibre senior advisers have many years of experience in the investment industry at Investment Director or CIO/CEO level and our analysts employ market-leading, proprietary methodologies and technology to support their work and provide our clients with deep insight into the markets in which they operate and the managers and funds therein.

The cornerstones of our research and advice are our independence, our collaborative team approach and our commitment to a robust governance process.

Investment Advice:

A distinctive characteristic of our service is our truly unbiased view. MJ Hudson Allenbridge is privately owned and independent. Our senior advisers provide you with independent advice while our focus is entirely on investment-related and governance issues. We do not sell any asset management products, our focus is purely to provide advice and solutions to our clients. Our clients include corporate and local government pension schemes, sovereign wealth funds, endowments, charitable organisations and wealth management firms. In all, we advise more than £68bn of assets. MJ Hudson Allenbridge also provides a range of analytical and due diligence services to institutional investors, across a wide spectrum of assets. We specialise in complex alternative investments, including hedge funds, private equity, real estate and structured products. However, we understand that, for our clients, the alternative investment portfolio is merely part of a larger picture and our approach is always to consider the whole in context. We believe that portfolios of alternative investments should always be constructed in full consideration of not only the entire asset allocation but also the liabilities.

Tax-Advantaged Investments:

MJ Hudson Allenbridge provides a dedicated research service devoted to independent commentary on UK tax-advantaged investments. We have been analysing and advising on tax-advantaged products since 1985 and have received acclaim for our hard-hitting reports. Our comprehensive research subscriptions and bespoke panel solutions on tax-advantaged investment products are used by 100s of subscribers across the country. We offer a full range of independent in-depth reviews across Venture Capital Trusts (VCTs), Enterprise Investment Schemes (EISs), Seed Enterprise Investment Schemes (SEISs), Business Relief (BR) and AIM Inheritance Tax Services. Our service covers the majority of all such products in the market, including regular fund updates, so that you are always up to date, as well as covering new entrants, to ensure we can offer the widest market viewpoint possible. We believe that better performance is achieved through better research which, for us, comes from a good governance process, diverse views and a process free of conflicts of interest.

Please visit **www.mjhudson-allenbridge.com** for more information.

8 Old Jewry, London EC2R 8DN, United Kingdom | +44 20 7079 1000 | london@mjhudson.com | mjhudson-allenbridge.com