SYMVAN TECHNOLOGY EIS FUND

Symvan Capital Limited

	Positives	Issues
Why Invest	**Strategy:** To invest in a portfolio of technology companies, with an emphasis on B2B SaaS using a Lifecycle investment approach.	**Track record:** With Symvan only having been invested since 2015, there are a limited number of exits to date.
The Investment Manager	**Team:** Symvan brings a team with strong corporate finance and investment experience, supported by advisers with technical knowledge.	**Team size:** The investment team size is small, although adequate for its current level of activity.

Nuts & bolts

- **Investing:** Deployments take place on a quarterly basis, with interim deployments on an ad-hoc basis.
- **Diversification:** Portfolio of between eight and twelve companies.
- **Valuation:** Will be a mixture of last transaction price and a market valuation based on enterprise value and relevant multiples.

Fees

- **Fees:** All fees charged to the investee companies, with the exception of the performance fee.
- **Performance fee:** 20% on gains over a return of total capital invested.

Risks

- **Risk mitigation:** Symvan's Lifecyle approach aims to mitigate risk by looking to support a company from md-seed to Series A, including direct-company and board support, mapping out and planning its funding requirements and strengthening management teams.
- **Target return:** The target return for the fund is £2.85 for each gross £1 invested over five to seven years. Successful companies are likely to yield a return in excess of that figure; however, there is a real risk of loss in any single investment.

	Manager information	Manager contact

Analyst

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Manager information

- ***Scheme assets:*** *£14.4m*
- ***Scheme target:*** *n/a*
- ***EIS assets:*** *£26.2m*
- ***Total FUM:*** *£26.2m*
- ***Fund launch date:*** *2015*

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Factsheet

Symvan Technology EIS Fund	
Product name	Symvan Technology EIS Fund
Product manager	Symvan Capital Limited
Investment adviser	n/a
Tax eligibility	EIS
Target return	£2.85 for each £1 invested
Target income	None
Type of product	Discretionary portfolio service as an unapproved Alternative Investment Fund
Term	Five years-plus
Sectors	Technology
Diversification:	
Number of companies	8-12
(Expected) Gini coefficient	0.08-0.13

Fees	Amount	Paid by
Initial fees:		
Investment fee	6% (excl. VAT)	Investee company
Annual fees:		
Annual administration and monitoring fee	2% (excl. VAT) of investment	Investee company
Corporate director fee	£10,000 (payable once)	Share options/warrants – see *Fees* on page 10
Exit fees:		
Performance fee	20%	Investor share of proceeds above a £1.00 return on a fund basis
Advisor fee facilitation		Yes
Advisor fee amounts		As agreed with investor
HMRC Approved fund		No
Advance Assurance from HMRC		Yes
Reporting		Semi-annually
Minimum investment		£20,000
Current funds raised		£11.4m
Fundraising target		None given
Closing date(s)		Quarterly tranches
Expected exit method		Trade sale, sale to private equity, IPO or other exit opportunity

Source: Symvan, Hardman & Co research

Fund aims

The Symvan Technology EIS Fund is an unapproved Alternative Investment Fund established as a discretionary managed portfolio service, focused on investing in a portfolio of technology companies across a variety of business areas. The target return is £2.85 for each £1 invested in five or more years. There is no income target.

Summary of risk areas

Note: *There are generic risks from investing in EIS or unquoted companies, in addition to the specific ones commented on below. Comments on relative risk refer to other EIS investments and not to wider investments.*

Investments

Portfolio risk

Each investment will be into a technology company, with a focus on B2B SaaS. The target is for investors to receive shares in up to eight to twelve companies. Companies will be post-seed to Series A. Each investment is likely to perform independently of the others, with idiosyncratic risk dominating market risk.

The target return for the fund is £2.85 for each £1 invested, which seems appropriate for the high-risk investment that each company represents.

Sourcing and external oversight

Symvan takes a more proactive sourcing approach than many, with most investments being into companies it has approached, although there are referrals from within its network too. The Lifecycle approach envisages funding support through several rounds, and a proportion of investments will be follow-ons to SEIS or existing EIS investments. Its track record suggests it is sourcing adequate deal flow to reach its portfolio targets.

External oversight comes from the two independent members of the Investment Committee, with additional input from advisers, if required.

Ongoing support and monitoring

As per many (S)EIS managers, Symvan usually takes a board position or ensures a suitable appointment, although, sometimes, it accepts observer rights only. The Lifecycle approach includes significant involvement in supporting companies, so there is ongoing dialogue with investee company management. Symvan is also developing something of an eco-system, with cross-company support too.

Exits

The expectation is that most exits will come through trade sales, but other normal exit routes, such as IPOs, are possible. One of the exits to date involved the receipt of tokens, suggesting a willingness to innovate.

Manager

Team

The Symvan team brings strong corporate finance and investment experience. It is small but comfortably adequate for its scale of operations and investment. There is also a strong advisory team, giving appropriate technical advice where required.

Track record

Since Symvan launched its first funds in 2014, it has invested £14.0m into 30 companies, with £10.4m of that into 19 companies through the EIS Fund. There have been two failures (both SEIS) and two exits into unquoted instruments (one from EIS Fund). The unrealised aggregate movement to date is an uplift of 37%.

Regulation

Product

Advance Assurance will be sought from HMRC prior to each company investment.

Manager

The Fund Manager is Symvan Capital Limited. It is FCA-registered (number 685262) with appropriate fund management permissions. Submissions to Companies House appear to be up to date.

Risk analysis/commentary

Although Symvan's age means that it does not yet have an extensive track record, it does have an experienced team with a well-defined investment process. The Lifecycle approach is not unique within the sector, but does suggest a clear understanding of what developing companies need and what Symvan can supply to help them. There is an understanding that selection is a two-way process.

Symvan has shown a good ability to source and deploy assets. The use of tranches will give investors visibility over timing of tax relief. With half the Investment Committee being external, there is good oversight of the Symvan team's decision-making process.

Diversification within the fund is limited, although typical of EIS funds. We note that there may be a good proportion of follow-on investments within the fund, which may affect serial investors. We also note Symvan's willingness to work with investors to help mitigate that, suggesting a good investor-service ethic.

The focus area of B2B SaaS is a popular one within the venture capital area, although few specialise in it. Its popularity is for well-justified reasons, which should enhance the fund's attractiveness. As usual, individual companies that succeed are likely to give excellent returns, but those that do not may return little or nothing. This EIS should be considered in the context of an investor's entire portfolio.

Overall, while the investments in the fund inevitably carry risks, Symvan brings experience and a well-structured process to potentially exciting investments.

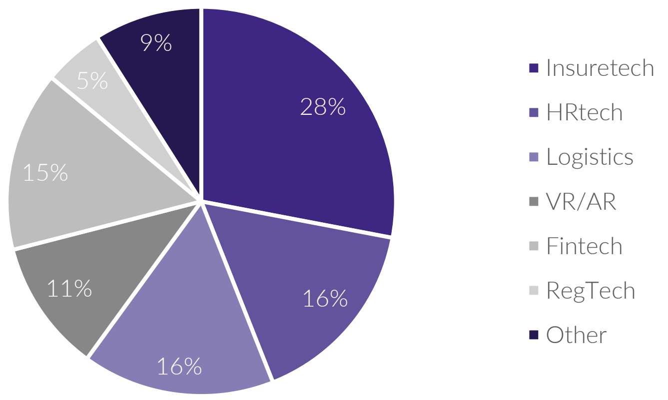
Investment process

Deeper dig into process

Symvan is a technology investor whose investment philosophy is summarised in its Lifecycle approach. In essence, this approach involves investing in and supporting companies from seed to Series A funding rounds, with the EIS Fund investing from post-seed onwards.

Symvan's new investments are now focused on B2B SaaS companies, although it invested more broadly in its early days and continues to make limited investments in other business models. Within this focus, it aims to give investors exposure across a range of sectors. Symvan expects that future exposure will be similar to historical patterns.

Breakdown of existing EIS Fund sector investments



Source: Symvan, Hardman & Co Research

Within these areas, Symvan will include companies that use technologies such as AI/machine learning and blockchain. However, it is clear that it is not looking to be amazed by some great technology, but rather wants to see a good application of it.

Symvan is looking for companies that have reached an inflection point in their development. Very few new investments will be pre-revenue, with EIS Fund companies mostly having established product/market fit, be starting to gain market traction and ready to scale-up.

Beyond that, the Lifecycle approach also includes consideration of future funding needs and how that will be found. Exit planning is also included, with consideration of whether an exit in five years is realistic.

The aim is to find high-growth companies, but Symvan's process places greatest emphasis on finding the correct management. Its approach is a deeper, not wider, one, with extensive interviewing of management in the diligence process.

Symvan prioritises two areas when assessing management teams: their ability to execute and the mutual compatibility between them and the Symvan team. While both of these will involve judgement, and company management is trying to make itself look its best during the process, the aim of the deep diligence is to make this assessment as objective as possible. Typical management teams will also have appropriate experience, of both the industry and the problem they are solving, as well as the technology that they are using.

Overall, Hardman & Co finds the investment process to be well articulated. Symvan has found its niche and can now demonstrate its credibility within it. The number of companies receiving follow-on funding demonstrates that Symvan is putting its Lifecycle approach into practice. The focus on investing at the scale-up inflection point is common in technology EIS, but this supports the thesis. As usual, discipline in its execution remains key.

Sourcing deals

Symvan takes a proactive approach to sourcing deals. Although it gets the usual random approaches, it finds that these are rarely of interest, and more investments come from where it has approached the company.

However, it does take introductions from its network, and finds these to be a useful source of deal flow. The team cites lawyers, corporate advisors, incubators, accelerators, HNW individuals and VCs all as sources of introductions. There is an active curation of the team's network, part of the proactive approach mentioned above.

Although Symvan is open to investing across the country, in practice, it has a bias towards London and the SE. Approximately two-thirds of investments are from this region, although the proportion is not much more than the national averages.

The target is to deploy across eight to twelve companies at the end of each quarter. Given that several of these will be adding to rounds from earlier tranches, or follow-ons from earlier investments, the number of brand-new companies that will be required is significantly less than this figure. Given that, and Symvan's record to date, we believe it has the capability of sourcing adequate new investments.

Decision-making

The decision-making process follows a similar pattern to that of most EIS managers, with some emphases that fit Symvan's requirements.

The assessment starts with a member of the team reviewing a business plan or pitch deck to see if the company meets the fund's basic investment criteria. If it does, this is followed by an initial meeting with the management team. The focus at this point is on assessing the management, as well as learning more about the business. Symvan receives around 60 new business plans each month for EIS and SEIS funds, of which five to six typically get an initial review that can lead to a meeting.

The next stage is to get input from advisors. The focus is on acquiring a view on the company's technology and the market in which it is operating. This also includes an assessment of any key risks that management has not taken account of. Approximately 20% of companies proceed beyond this stage.

From here, the process has two parts in parallel. Meetings with company management and their teams continue. Symvan has expressed a preference for meeting with teams in different situations. This includes interviews with key employees and site visits. Customer interviews are also used to validate the technology and check that it really solves the problem.

Under the COVID-19 restrictions, Symvan is not able to pursue these meetings as it usually would. The new investments in late 2020 were into companies that the Symvan team had been able to meet prior to completion, but there was an emphasis in this period on existing portfolio companies. There is some adaptation, with increased use of references, but Symvan is aware that there may be changes required if the situation continues for a lengthy period.

At the same time as investigating management, Symvan will be scrutinising the finances and forecasts, the outcome of which is used to introduce the investment terms and get them agreed in principle. This will also be used to prepare Heads of Terms, which, once agreed, will lead to detailed due diligence and preparation of the investment agreement.

The diligence process also has a particular emphasis on the members of the team. While this includes the usual AML and bankruptcy checks, Symvan also performs thorough checks on backgrounds and industry reputations (it is aided in this by an investee company whose technology is designed for these tasks).

It is worth noting that Symvan sees due diligence as an ongoing process. The Lifecycle approach means it expects many of the companies in which it invests to receive further investments from its funds, and continues to assess management teams and their progress accordingly. Symvan also observes that several opportunities have been rejected, even after terms have been agreed, suggesting diligent diligence.

The Investment Committee is sent a detailed report on potential investments, and has access to all the diligence information. There is usually a dialogue or clarification required for the external members before a final decision is reached.

The investment agreement contains rights that are fairly typical for the sector, including vetoes over corporate changes that may otherwise adversely affect investors.

Several of the investments will be follow-ons from existing investments; at the time of writing, only two of the eleven companies in SEIS Fund 3 had not received a subsequent investment. The first round of investment from the EIS fund is often a co-investment with one of Symvan's SEIS Funds, a reflection on the £150,000 per company limit of the latter. Symvan will help serial investors in its funds to enhance diversification by managing follow-ons.

Investments are usually made in quarterly tranches, which means companies often receive investment over several quarters, rather than in one lump sum. This illustrates the relevance of the ongoing diligence.

The size of typical investments into each company will be between £250,000 and £2m, although Symvan may take a portion of larger rounds. Co-investments with external investors tend to be at slightly later stages. Symvan has a strong preference for leading such rounds, to ensure that it gets the terms right.

Governance and post-investment monitoring

All companies need to have received Advance Assurance from HMRC before an investment will be made.

Valuations and reports will be sent to investors every six months, with measurement dates of 30 June and 31 December. Symvan's valuation methodology is based on IPEV Guidelines, with the aim of being prudent and consistent. Valuations are typically a mixture of latest transaction price and an adjusted enterprise value and market multiples.

Like many managers, Symvan ensures board representation. At a minimum, this is observer rights (for more mature companies), but, more commonly, will be either Symvan appointed as a corporate director or an individual appointed on its behalf. The target is to ensure at least quarterly formal board meetings, plus ad-hoc meetings as required. Symvan gives support and mentoring in good corporate governance.

Symvan also encourages regular dialogue, as it sees the board meetings as rarely sufficient in themselves. Two members of the investment team are assigned to support each investment. A key part of this process is a good information flow, and Symvan uses an internal, confidential, CRM to track information and maintain contact with companies. Company management teams are encouraged to interact, even on trivial points, to avoid them escalating going forward.

When we first spoke with Symvan a few years ago, it had an ambition of creating an eco-system where investee companies could also cross-support each other. Its growth since then has allowed this to develop. Symvan can now cite specific examples of portfolio companies working together on projects or contract bids, such as the participation of CyStellar and Custodiex in Sweetbridge's EMEA's Innovate UK/Digital Catapult consortium.

Appropriately, Symvan also uses a couple of technology tools, which it employs to monitor both investee companies and their competitors. The latter may give an early insight into any sector issue.

Interestingly, Symvan finds itself more involved in its EIS investments than in the SEIS ones, which is the converse of some managers. This is a reflection of its view on its SEIS funds as an incubator/accelerator for the EIS fund. It has found that some companies drift away from support, particularly when they get further external investment, which will reduce pressure on Symvan's resources.

ESG

Symvan does not have any formal ESG policy, but considers it as a risk factor when making investment decisions. It observes that there is increasing awareness amongst its portfolio companies, including a couple that are becoming B-Corps.

Exits

Symvan has an expectation that most exits will take place in five to seven years, although only a handful of investments have reached that duration so far. The team stresses that it is looking to build companies that are successful in the long term, which may be attractive to an acquirer along the way, rather than looking for quick wins.

The main anticipated exit routes are through a trade sale or sale to a PE firm, although IPOs or other routes are possible.

Track record

Hardman & Co has been supplied with data as of 31 December 2020.

Since Symvan launched its first fund in 2014, it has invested £14.0m into 30 companies, with £10.4m of that into 19 companies through the EIS Fund. Its investments have also raised another £21.5m of external money.

Its relative youth has limited the number of exits, with four to date across all funds, one of which was in the EIS Fund. Of these, two were successful, both trade sales, and two failures. Both successful exits remain unrealised, as consideration was received in shares or tokens that are not liquid (although we understand there are plans to change this for the tokens). The two failures both returned a small amount.

Across the investments, the aggregate valuation including the exits is £19.2m, an uplift of 37%. Of the current portfolio, eighteen companies are showing uplifts and nine are showing writedowns.

Overall, the track record shows signs of promise, although we will look for more exits to illustrate that the promise is being realised. Symvan has seen some recent interest in its portfolio, which suggests progress could be made on that in the near future.

Fees

The fees for the EIS are set out in the table on page 3 and, other than the performance fee, are payable by the investee companies. These are straightforward, other than as noted below:

- **Corporate director:** Symvan receives a one-off payment in the form of warrants or share options for the director position. These are over £10,000-worth of shares at the same price as the funding round.
- **Performance fee:** This is charged on a fund rather than a company basis, and is payable on returns over aggregate subscriptions.

Unless otherwise noted, the fees and charges are quoted excluding VAT. Where investee companies have sufficient VATable revenue, the VAT can be offset, but where a company is pre-revenue or unsuccessful, this may not be the case.

Fundraising targets

Symvan does not give an explicit fundraising target for the Fund. It has averaged over £4m p.a. in the past couple of years. The Fund is evergreen, but it operates with quarterly tranches. Money raised in the period is usually deployed at the end of that quarter. Exceptions are in consultation with investors and are usually to aid diversification, especially with previous fund investors.

The minimum subscription is £20,000 per investor.

On average, EIS3 certificates were issued 44 days after deployment.

Fund manager

Symvan has been supplying corporate finance services since 2010, and started its (S)EIS fund management activities in 2014. It has been focused on technology investments throughout this period. Founded by Kealan Doyle and Nicholas Nicolaides, it has seen steady growth over this time. It has three technology SEIS funds, and has recently added an interactive entertainment version in conjunction with Origin Venture Partners. The single EIS fund is evergreen.

While the investment team has grown, it remains small but adequate. The external Investment Committee members and advisers provide additional support. We note that there has been additional, specialist, resource to do much of the sourcing and diligence for the new SEIS fund, which will avoid straining Symvan's resources. The Investment Committee for the EIS fund has four members, which are those listed below, excluding Michael Theodosiou. It has two external members, which should help with checks and balances.

The company currently has six staff, in addition to the three directors. There are plans to add, when appropriate, and subject to future asset growth. We see the company as being adequately sized for its current scale of operations, and we are reassured by the contingent growth plans.

Key people

Kealan Doyle – CEO

After a couple of economist roles, he moved into credit trading at Merrill Lynch. He followed this with roles in derivatives at Deutsche Bank and HSBC, before becoming MD of Ascent Finance in 2002. He was head of corporate finance at Lewis Charles Securities before co-founding Symvan Securities in 2010.

Nicholas Nicolaides – Director

He started his career in corporate finance at BNP Paribas, followed by Lehman Brothers, in both cases focusing on the TMT sector. After a couple of years at Renirie Advisory, he joined Lewis Charles Securities in 2005 working on equity research, then as co-head of corporate finance. He co-founded Symvan Securities in 2010.

Michael Theodosiou – Investment Manager

He had short spell as a paralegal with Nicholas & Co and working for a startup, Unifrog, on market research before joining Symvan in 2015.

Julian Sampson – Investment Committee

An accountant, he has spent most of his career focused on compliance. Spanning 16 years, he has had compliance roles at, *inter alia*, AEGON, SG Hambros, Robert W Baird and Insinger de Beaufort. He founded Fulcrum, a compliance consultant, in 2008.

Rob Bird– Investment Committee

An expert on big data, he spent a decade running services at the University of Florida, before founding Red Lambda. In 2014, he moved to Akamai Technologies, before joining Tesla, where he is in charge of its User-Entity Behavioural Analytics Security platform.

Appendix 1 – due diligence summary

Summary of core due diligence questions		
Manager		**Validated by**
Company	Symvan Capital Limited	
Founded	2013	Hardman & Co
Type	Private limited company	Hardman & Co
Company number	08772369	Hardman & Co
Ownership	Kealan Doyle, Nicholas Nicolaides, Jizhen Wang	Hardman & Co
FCA registration	685262	Hardman & Co
Solvency	Yes	Hardman & Co
EISA member	Yes	Hardman & Co
Fund Custodian		
Company	Woodside Corporate Services	Information Memorandum
FCA registration	467652	Hardman & Co

Source: Hardman & Co Research

Regulation

Symvan Capital has three shareholders. Jizhen Wang holds 2.5%, with the balance split equally between the founders.

It has appropriate permissions for a fund manager, including managing an unauthorised AIF. The company has an adequate balance sheet as of the latest accounts (31 December 2020 – impressively prompt, with the audit under way at the time of writing), with £265,000 of equity reserves. The Symvan team is pleased to have been profitable since its founding. Submissions to Companies House appear to be up to date.

Appendix 2 – example fee calculations

This calculates the estimated total amount payable to the manager under certain assumptions.

Basic assumptions	
Term	5 years
Investor amount	£100,000
Average company investment	£500,000
VAT is reclaimed by investee companies	

Source: Hardman & Co Research
Note: Fees as on page 3. All except performance fee payable by investee company

Calculations

		Hardman & Co standard			Target
Gross return		**-50%**	**0%**	**50%**	**185%**
Amount (pre tax relief)		**£100,000**	**£100,000**	**£100,000**	**£100,000**
Initial fees	**Rate**				
Initial subscription fee (investee company)	6.00% (excl. VAT)	£6,000	£6,000	£6,000	£6,000
Total		**£5,650**	**£5,650**	**£5,650**	**£5,650**
Net investment		£100,000	£100,000	£100,000	£100,000
Annual fees					
Maintenance fee (investee company)	2.00%	£2,000	£2,000	£2,000	£2,000
Total over 5 years		£10,000	£10,000	£10,000	£10,000
Gross fund after investment return		£50,000	£100,000	£150,000	£285,000
Value of directors' fee warrants		£0	£0	£1,000	£3,700
Exit fees					
Performance	20% over £1.00	£0	£0	£10,000	£37,000
Net amount to investor		£50,000	£100,000	£144,000	£152,000
Gain (pre-tax relief)		-£50,000	£0	£44,000	£52,000
Gain (post-tax relief)		-£20,000	£30,000	£74,000	£82,000
Total fees paid (investee companies and investor)		£16,000	£16,000	£27,000	£56,700

Source: Hardman & Co Research
Notes: tax relief allows for only basic relief and makes no allowance for any loss relief or other benefits

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(Disclaimer Version 8 – Effective from August 2018)

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The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

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