Investors should be aware that investing in unquoted companies is high risk and, consequently, an investment may not be suitable for all investors. Each fund or individual investment will have different risk profiles, however, the below risks (whilst not being exhaustive) are considered to be those most generic to unquoted companies. Investors should always make their own appraisal of the risks of any given investment with reference to the relevant offering document. Additional risks and uncertainties, not presently known, or which are currently deemed immaterial, may also have an adverse effect on such investments.

Investment Risk Factors

Capital at Risk

Investing in small, unquoted companies is high risk. Such companies, by their nature, pose a greater investment risk than other more established companies. Investors may not get back the full amount subscribed, and could lose all invested capital.

Target Returns and Past Performance

Past performance is not a reliable indicator of future results. Any stated target returns are for illustrative purposes only and no forecast (guaranteed or otherwise) is implied or should be inferred. The value of investment may go down as well as up.

Illiquidity

There is no market in unquoted companies' shares, which means that the investments within or without a fund will not be readily realisable. The realisation of such investments may take longer than any proposed investment term and may not happen at all. Investors should consider these investments to be of a long-term nature.

Exit Timing and Control

Smaller companies can grow in value, but as an investor you will not be able to realise the value from that growth until it is possible for the Fund Manager to sell the shares. It can sometimes be difficult to find a buyer for a smaller company, even if it has been successful in its chosen market. Furthermore, holdings within or without a fund will almost always be a minority shareholding, meaning that Fund Manager will lack the ability to direct an exit or other company behaviours.

Valuation

Valuation of smaller, unquoted companies is difficult, with no readily tradeable market to draw current price information from, and last traded price often being relatively distant and not necessarily representative of fair value. Desirable information regarding the value or the risks that these companies face may not always be available, including relevant market comparators or benchmarks. In addition, there is no guarantee that the valuation of shares will fully reflect their underlying net asset value, or that the shares can be sold at that valuation.

Dilution

Investing in smaller, unquoted companies carries the risk of the possible dilution. As companies seek additional funding to drive growth, new shares might be issued to new investors. Consequently, investors' ownership percentage could decrease, impacting potential future gains. In addition, investors' returns may be impacted if a company has to raise additional funds at a point of business stress, with terms less favourable to existing investors.

Taxation Risk Factors

Taxation

Tax benefits and allowances depend on personal circumstances and can be subject to changes in legislation. Investors should only invest if they accept there is no guarantee that companies they invest in will secure EIS/SEIS status or that such relief may not be subsequently withdrawn.

Relief Levels

The levels and bases of reliefs from taxation may change or such reliefs may be withdrawn and no liability for any loss or damage is accepted. The tax reliefs referred to in this document are those currently available to UK resident taxpayers and their value depends on investors' individual circumstances. Tax law is complex, and investors should seek independent tax advice.

Filing

EIS Income Tax Relief available to you is subject to you making the proper filing of returns/claims with HMRC within the required time frame and reliefs may be lost if the necessary steps are not taken. In addition, timing of some documentation required for returns/claims are dependent on external parties over whom Investors will have no control.

Tax Status

There are circumstances in which an investor could cease to qualify for taxation advantages potentially available with an investment. Likewise, there is no guarantee that the investment will qualify for such taxation advantages, or if they do so initially, that their status will be maintained. A failure to meet the qualifying criteria could result in adverse tax consequences for Investors.

Trading Risk Factors

Smaller Company Risk

Smaller companies can experience significant and sudden increases or decreases in value. They often serve small, niche markets or face the challenge of gaining a foothold in a larger, well-established market. Smaller companies can be less resilient to economic shocks and have higher dependency on key personnel. They can also be vulnerable to sudden changes in the nature of their industry sectors, or competition from bigger companies and new market entrants. Outside factors such as the economic climate, market conditions and a change in regulatory environment may all adversely impact on a smaller company's performance more acutely than they might impact more established companies.

Key Person Risk

Unquoted companies typically have small management teams and are highly dependent on the skills and commitment of a small number of individuals and the ability of the company to continue to attract and retain highly skilled and qualified staff. The loss of a key individual can have a significant effect on a company's business. The directors cannot give assurances that they or members of the management team will remain with a company.

Macroeconomic

The company may be negatively affected by wider geopolitical and economic developments. For example, increased input costs to the businesses from the weakening of the British pound versus other currencies making import prices rise, or changes to immigration policies restricting the availability of foreign labour and pushing up prices, and any possible economic consequences may negatively affect the disposable income of domestic consumers. Political instability, domestic or foreign, or international conflicts may also disrupt operations in global markets or have an effect on the investment infrastructure of the UK or prosecution of a company's business strategy.

Technical

Companies introducing new technology or products into existing or new markets may present additional risks. Companies that are very early stage and often pre-revenue can have with limited proof of concept. There is a large degree of technical risk to moving from early proof of concept to full proof of concept: estimating the time and cost required to bring to market is difficult; the market may not develop in the manner in which it is expected; the strategy of the company may not align with market demand; the technology they are pioneering may prove more challenging than anticipated; and new regulations may adversely impact the company's development.

Intellectual Property

The company may possess intellectual property, specifically patents, in their technology area. This cannot take into account filings that are not yet publicly available and so there is the possibility of intellectual property from other organisations limiting the commercial scope of the products/technology. The technology may also not be wholly owned by the company but transferred in via a licence, therefore there is a degree of risk on the licensor to uphold that licence.

Regulatory Environment

Governments, both domestic and foreign, can change rules and regulations and this may put additional cost into a company, or create a competitive disadvantage.

Business Plan Prosecution

There are a variety of variables which will affect the prosecution of a company's business plan. Significant headwinds in any of these areas might materially derail growth and performance plans. These include, but are not limited to: market dependency (over-reliance on a customer or group of customers), competition (new entrant or existing competitor rally), funding (inability to raise required investment rounds), consumer behaviour/product market fit (failure to generate required traction in marketplace), supply chain (over-reliance or key link failure in supply chain), product liability and litigation (legal complications from product failures), cybersecurity (data breaches or cyber attacks), and reputation (negative publicity).

Force Majeure

The company may be exposed to the consequences of natural disasters, which can disrupt operations, investments and markets. Health crises, especially pandemics, can have significant impact on the viability of a company's business model. Armed conflict, domestic or foreign, can also have significant impact, directly in and around the area of conflict but also with wider, global impacts regarding economic and political stability and global trade freedom.

Reporting

Investors should be aware of the inherent risks associated with the company's reporting accuracy and timeliness. Delays in financial and operational data, uncertainties in financial projections, information asymmetry, compliance challenges, and the possibility of undetected irregularities all pose risks to the company's ability to make informed decisions.

Debt Finance

Companies may use debt finance. Whilst a company may enter into appropriate interest rate hedging arrangements, a rise in interest rates is likely to adversely affect a company's profitability. It is not guaranteed that a company may be able to secure the desired levels of debt given the current banking environment. If this happens, the businesses may need to raise more equity, or use alternative debt instruments.

Currency and Exchange Rate

If a company invests internationally, fluctuations in currency exchange rates can impact the value of foreign investments.