29 November 2023

BLACKFINCH SPRING VCT

Blackfinch Investments Limited

VCT Specialist: Technology

Source: Refinitiv

Market data	
EPIC/TKR	**BFSP**
Price (p)	**89.5**
12m high (p)	89.5
12m low (p)	85
Shares (m)	27.0
Mkt cap (£m)	24.2
NAV (£m)	25.4
NAV/share (30 Sep'22, p)	93.85
Discount to NAV	-4.6%
Country/Currency	UK/GBP
Market	LSE

Objective

Founded in 2019, Blackfinch Spring VCT will invest in technology and technology-enabled companies that are scaling up.

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Manager data	
VCT assets	£25.4m
Offer size	£20m + £10m
EIS & VCT assets	£93.7m
Total FUM	£751m
Launch date	2019

Diary	
Early bird ends	26 Jan'24
Tax year close	3 Apr'24
Offer closes	21 Aug'24

Analysts

Brian Moretta
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Why invest

Positives	Issues
▶ **Strategy:** Exposure to a portfolio of scale-up, technology-enabled companies, with good management and large markets.	▶ **No dividend yet:** This VCT was launched in 2019 and is targeting a first dividend in 2024.

Fund manager

Positives	Issues
▶ **Team:** There is a diverse range of experience in the team, with a clear strategy and well-designed processes.	▶ **Track record:** The Ventures team is still relatively new and has a limited track record.

Nuts & bolts

- **Offer:** To raise £20m, plus a £10m overallotment, with a closing date of 3 April 2024 for the 2023/24 tax year, and final close on 21 August 2024.
- **Diversification:** As of September 2023, the VCT had 23 active investments, but Blackfinch has an active deal pipeline, and this is improving steadily.
- **Buybacks:** At a 5% discount to NAV, subject to available reserves and board approval.

Fees

- **Fees:** Fees and expenses totalled 3.27% in FY'22, including a 0.5% rebate to shareholders (primarily to pay advisory fees).
- **Performance fee:** 20%, subject to a 130p minimum return.

Risks

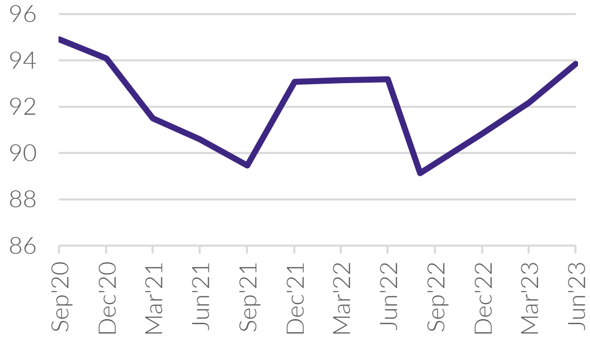
- **Target returns:** A target return of 2.5x for individual investments suggests that the strategy is high-risk investment.
- **Companies:** Growth-stage, technology-enabled companies at the start of scale-up. There will be a spread of company returns, as the successful investments will do very well, but those that fail may do so completely.

Financial summary and valuation

Year-end Dec	2020	2021	2022	1H'23
NAV/share (p)	94.08	93.08	90.85	93.85
Dividend paid (p)	0.00	0.00	0.00	0.00
Yield	0.0%	0.0%	0.0%	0.0%
Return		-1.1%	-2.4%	3.3%

Source: Hardman & Co Research

Performance – NAV per share



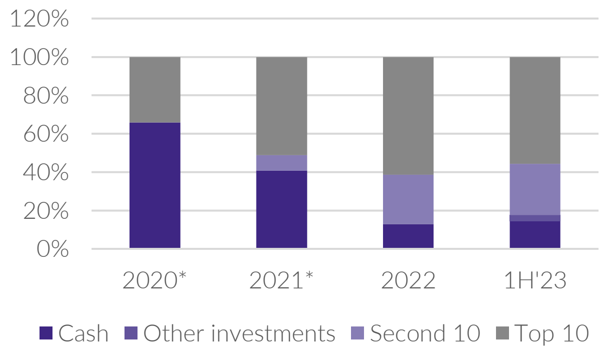
- As a new VCT, Blackfinch has experienced drag from initial expenses and cash drag, although this is decreasing
- Over the past 12 months, NAV has increased 0.7%, better than the sector average

Dividends and yield

- No dividends paid yet

n/a

Asset allocation



- Cash drag has reduced over time
- Top 10 investments are now comparable with other VCTs while cash is better than average

**Fewer than 10 investments in 2020 and less than 20 in 2021. Source: Company data, Hardman & Co Research*

Factsheet

Blackfinch Spring VCT	
Product name	Blackfinch Spring VCT
Product manager	Blackfinch Investments Limited
Product advisor	n/a
Tax eligibility	VCT
Target return	2.5x on portfolio companies
Target income	5% dividend yield from FY'24, plus specials when appropriate
Type of product	Venture Capital Trust
Term	Evergreen
Sectors	Technology
Diversification:	
Number of companies	23 (September 2023)
Equivalent level investments	18.2

Fees	Amount	Paid by
Initial fees:		
Initial fee	2.5%	VCT
Arrangement fee	3.5% (typical)	Investee company (depends on deal size)
External diligence fees		
Annual fees:		
Annual advisory fee	2.5%, discounted to 2%	VCT – see page 13 for more details
Adviser ongoing charge, Execution-only intermediary ongoing fee, Direct Investor ongoing fee	Up to 0.5%	
Directors' fees/monitoring fees	£12,000-£24,000	Investee company
Administration services	Higher of 0.3% of NAV and £60,000 (no VAT)	VCT
Exit fees:		
Performance fee	20%	Investor – aggregate returns over 130p

Advisor fee facilitation	Yes
Advisor fee amounts	As agreed with investor
Advance Assurance	Yes, for each investment, or opinion from a tax specialist
Reporting	Quarterly valuations and reports every six months as of 30 June and 31 December
Buybacks	At 5% discount to NAV
Fundraising:	
Minimum investment	£3,000
Current net assets	£25.4m
Fundraising target	£20m, plus £10m overallotment
Closing date(s)	26 January 2024 (early bird), 3 April 2024 (tax year)

Source: Blackfinch, Hardman & Co Research

Fund aims

The Blackfinch Spring VCT will give investors exposure to a range of growth-stage, technology-enabled investments. It is targeting a dividend yield of 5% from FY'24, with special dividends, if realisations permit.

Summary of risk areas

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

Investments

Portfolio risk

Each investment will be providing risk capital to an unquoted, early-stage, technology-enabled company ready to scale up. Although diversification is improving and top holding concentration is in line with the sector, as a newer VCT, it still has fewer holdings than is the case for its peers; however, this is improving quickly. The intention is to get to new investments being less than 5% of NAV. This would improve diversification substantially.

The target average return of 2.5x capital suggests a high-risk approach, and seems appropriate for the strategy.

Sourcing and external oversight

Although Blackfinch Ventures is a relatively new operation, much work has been done on establishing sourcing, with the clever use of technology. The run rate for potential investments looks adequate, and has now been sustained for a while. Half of the Investment Committee is external to Blackfinch, with one of the internal members being from outside the Ventures team, and has a variety of backgrounds.

Ongoing support and monitoring

Blackfinch dedicates part of its investment team to supporting and monitoring companies after investment. As well as taking observer rights, a Venture Partner is appointed to the board of each investee company. There is ongoing KPI monitoring too. While it is still somewhat early to assess how well this will work in practice, the signs are that investee companies believe they are getting the right support.

Exits

With only one successful exit from the EIS Portfolios so far, there is limited data for the team yet. As is normal for the sector, the primary focus is expected to be trade sales.

Manager

Team

The Blackfinch Ventures team is small but brings a range of experiences. The head of the team, Dr Reuben Wilcock, has very strong entrepreneurial experience. Although some key man risk may remain, that has been much reduced in the past couple of years by additional recruitment, including three senior managers. The rest of the team has significant venture capital investing and entrepreneurial experience. Blackfinch has plans to grow the ventures business, and is recruiting as it scales up.

Track record

Although Blackfinch has been present in the EIS market for a number of years, the Ventures operation is relatively new and, consequently, has a limited track record. So far, it has had one successful exit (2.6x MoIC) and four failures, one of which was in the VCT. Investments in the VCT show an aggregate unrealised gain of 16%. Over the year to 30 June 2023, the VCT's NAV increased 0.7%. This compares with the Generalist VCT sector average of -3.2%, showing some realisation of potential.

VCT performance

	2020	2021	2022	1H'23
NAV per share	94.08	93.08	90.85	93.85
Dividends	n/a	n/a	n/a	n/a
Total return		-1.1%	-2.4%	3.3%

Source: Hardman & Co Research

Regulation

Product

While some investments may get Advanced Assurance, Blackfinch obtains the opinion of a tax specialist on each investment. Having crossed 80% invested in the past year, the VCT is now approved.

Manager

The manager of the fund is Blackfinch Investments Limited. It is FCA-registered (number 153860), with appropriate permissions. Submissions to Companies House appear to be up to date.

Risk analysis/commentary

Although Blackfinch is a new entrant into the VCT market, it has made significant progress in its first three years. It has invested substantially in its investment process, especially the technology side of it, and it has continued to improve this over time. The short history makes it hard to assess how effective these processes are in practice, but the limited performance to date is good, and it has sourced investments that look to be of the types promised.

While many other VCTs are also making technology investments, the Blackfinch Spring VCT does not bring the baggage of historical strategies. This may give purer exposure, although that difference will diminish over time.

Investors need to be aware that they will be investing risk capital into early-stage technology companies. The use of Venture Partners means that a more specialist director is being added to investee companies, and this takes some of the pressure off the small scale of the existing Blackfinch team. This should be good for the investee companies, although it is, again, too early to assess properly.

Blackfinch co-invests alongside the VCT. Although the amounts are small relative to Blackfinch as a whole, this does add to the credibility of the processes being followed.

Individual investments in the VCT are likely to follow the usual venture capital pattern: those that succeed are likely to produce exceedingly good returns, while those that do not may return little. While the current number of investments is limited, Blackfinch has made a lot of progress since the first funds were received, and it seems to be on course to address this reasonably quickly. It is too early to assess the VCT's ability to deliver its dividend target, but investors should look for continued, prompt investment of existing funds to get it on course.

VCT history

Unlike many VCTs, Blackfinch Spring VCT has a simple history. It was created in 2019, and was the first, brand-new VCT for several years. As such, it does not have any legacy investments made under old rules.

Investment process

Deeper dig into process

Blackfinch is looking to invest in technology-enabled businesses. It seeks companies that are focused on research and development and innovation, giving an emphasis on those where the technology is creating the value. The team looks for high growth with reasonable exit timescales and a large (greater than £1bn) market. There are two main criteria that Blackfinch uses:

- The company should be ready to scale up. This goes beyond simple evidence of product-market fit, with meaningful market traction being required, and annual revenues of, typically, £0.5m or more. It means an ability to control new customer acquisition and being able to supply the metrics to demonstrate this. Companies should have demonstrated an ability to meet previous milestones too.

- Blackfinch is also looking for a strong management team. Motivation, alignment of interests and a strong work ethic are all seen as important. The decision-making process involves repeated contact with company management, much of which is recorded to allow other members of the team to review as necessary.

Within technology, there are no sector preferences, with the only desire being to avoid companies in regulated industries. This means, for example, that there will not be many medtech investments. The intention is to give investors exposure to a spread of technology areas.

Blackfinch has noted evolving preferences. Prior to 2020, it was more open to having some investments that were "all or nothing" in nature, while, since then, there has been more focus on companies with some downside protection. Nevertheless, it still looks for potential for a 10x return, if all goes well.

It should be noted that the criteria are slightly different from the EIS Portfolios product. The VCT is generally looking to invest at a later stage of development, broadly around Series A stage; although, there may be some overlap, and investment may be made from both in the same round. The target average return on individual investments of 2.5x is, appropriately, slightly lower than that of 3x for the EIS.

Blackfinch, as a whole, has moved towards ESG-compliant investments, and the Ventures team is no exception. It looks for investments to have clear ESG values, with a senior member of the team taking responsibility for assessing the credentials. While not as aggressive as impact funds, this strategy should reassure investors in a market that appears to finally be moving in that direction.

The targeted stage of development is common among VCTs, particularly those with a technology focus. While the formal criteria are limited, the team gives a good understanding of what it is looking for in a potential investment.

Current portfolio

As of the June 2023 interim results, the investment portfolio consists of 22 active companies, which are listed in *Appendix 3* of this note. This represents decent progress from the 17 companies at the time of last year's report, with some other companies having received further follow-on investments.

Blackfinch Spring VCT portfolio concentration, June 2023

		Valuation (£000)	Prop'n. of NAV
Unlisted investments			
Largest holding	Illuma Tech	2,063	8.1%
Top 5		8,132	32.1%
Top 10		14,111	55.7%
Top 20		20,883	82.4%
Number of active investments	22		
Total investments		21,683	85.5%
Cash/other current assets		3,672	14.5%
Net assets		25,355	100.0%

Source: Blackfinch, Hardman & Co Research

A significant challenge for a new VCT is that new funds raised can give significant cash drag until invested. Blackfinch has managed this well, taking it down from 29% a year ago to 14% now, despite raising more money. This is significantly better than the average VCT, which is a notable achievement and removes one of the impediments that new VCTs have for investors.

The concentration, while at the upper end of that of its peers, is within the range seen elsewhere. Although we would expect diversification to improve with further investments, we are now seeing valuation movements that offset this. At its current rate of investment, the VCT should reach 30 investments next year.

Looking across the sectors, Blackfinch has brought exposure to several technology areas.

All investments to date are Qualifying. While further new funds have two years to reach the threshold of 80% in Qualifying investments, the VCT exceeds that level already and does not have any qualification issues.

Examples

Hardman & Co does not assess any portfolio investments but describes these to illustrate what investors may get exposure to.

Blackfinch suggests Up Learn and Oculo as good examples of recent investments that illustrate its thesis. For both companies, the VCT invested alongside the EIS fund as Blackfinch's first investment. This allowed a larger cheque size than would be suitable for either on a standalone basis.

Up Learn supplies online material, focused on students studying for A Levels, with the aim of producing A or A* results. The material is science based, offering a combination of interactive video lessons, quizzes and practice papers, with a progress tracker.

The company has more than 15,000 customers to date and estimates that 97% of clients achieve A or A* results. It has a money-back guarantee if this is not achieved. It has penetrated schools directly. As a platform accessible to all socio-economic backgrounds, there is a social benefit too.

Oculo Technologies blends 360° photography and computer vision to produce digital models of construction projects. Cameras are mounted on hard hats so images can be created by walking round a site. The aim is to compare the actual progress being made with the plans to ensure that construction is being done correctly and to specification.

The technology allows remote viewing and aims to provide a definitive state of progress. This should allow better collaboration, and reduce the costs and risks of mis-steps and disputes.

Sourcing deals

The Blackfinch team is split, with part of the team having specific responsibility for sourcing potential investments. Assessments are made alongside candidates for the EIS Portfolios. The VCT will invest in a mixture of companies that are new to Blackfinch and follow-on investments into companies that have received EIS investment. Over time, Blackfinch expects that the VCT will have a more distinct deal flow. The aim is to make 5-10 new VCT investments a year plus follow-ons.

Although the team has a network that it uses for sourcing deals, Blackfinch also takes a very proactive approach to sourcing potential investments. In particular, it tracks accelerators and incubators, looking to approach interesting companies before they require funds, and hoping to gain preferential access as a consequence. The Head of Ventures previously ran an accelerator, which has helped build relationships in this area.

Use is also made of a research platform, which gives some visibility across the whole market. This tool is used to generate companies that may be approached proactively. Blackfinch also invites applications through its website, *LinkedIn* and other direct approaches, but notes that these tend to be of lower quality.

While there is no intention to bring a geographical focus, Blackfinch is finding that its location in Gloucester means that it tends to be more attractive to those outside the South East. Nevertheless, it will invest across the whole country.

From a standing start in 2018, Blackfinch is assessing over 1,000 potential leads a year. It has noted that, as its networks become more established, the quality of the deal flow has improved over the past couple of years. It is also well-enough developed to start making follow-ons into the existing EIS and VCT companies, which should boost deal flow.

The VCT made 17 investments in 2022, of which six were new co-investments with the EIS and one was a follow-on from EIS investments. All bar one of the VCT follow-ons were also joint with the EIS. While the lead total covers both the VCT and EIS products, at that rate of generation, it seems likely that Blackfinch can source enough investments for both.

Decision-making

Blackfinch has established a seven-stage investment process (including post-investment monitoring). Although the Ventures team is relatively new within Blackfinch, it is clear that significant time and investment have been spent on putting a process in place. Having subsequently evolved this in 2021, Blackfinch now has an established process. Underpinning this is a technology platform that is used to manage all the stages of investment.

Each stage is subject to a “pass”, “hold” or “progress” decision. Holds are for companies that may be of interest but need to make further progress before being suitable. Daily team meetings are held, at which the pipeline is discussed and decisions for the early stages made.

Prospects are subject to an initial filtering by a senior team member before being added to a long list. This filtering looks at whether the business has a tech focus, is not too early- or late-stage, meets ESG criteria and is VCT-/EIS-eligible.

Companies on the long list are assigned to a member of the pipeline team. The team gathers standard information, which is collected under standard headings on the system. The team member also has a half- to one-hour recorded video conference call with the company management.

Roughly half of the companies progress onto a shortlist, often after obtaining more information, as required. Companies on this list get a pitch session.

The pitch seems to be at the heart of the Blackfinch process. Founders are instructed to give a 15-minute pitch, which will be followed by a deep-dive discussion. The sessions are scheduled to allow them to run on for as long as necessary – usually it takes more than three hours. When Blackfinch started, the whole investment team participated, but this has evolved to multiple people, with at least two senior team members present. With Blackfinch conducting around 120 of these sessions a year, this part of the process represents a significant commitment of resources. The sessions are recorded to allow review by the team or the Investment Committee.

They are followed by further investigation of relevant metrics, company performance and financials.

Investment Committee

The Investment Committee then has its first involvement. This stage is managed in an interesting way. The investment team presents a range of deals to the Committee in which it is happy to invest but that are of a greater amount than can be invested in. The input from the Committee forces the team to actively select, with the aim of getting to the very best deals. Selection is guided by a blind ranking of companies.

When issuing term sheets, Blackfinch usually uses standard documentation, which it has developed internally. The exception is when there are earlier investors who may not like existing terms being changed. The team notes that this documentation is being improved upon on an ongoing basis. The terms are largely normal for the sector, with one exception: founders are expected to re-vest their shares over the four years after investment is received. This is an interesting way of reaffirming their commitment to the company.

The due diligence stage covers the usual areas, including technical, team, financial, tax, market and competitor analysis. Blackfinch notes that this process has got deeper over time, with increased reference calls. This includes building relationships with other professional investors in the company who can give further insight, particularly when they have been invested for some time. A tax specialist is used to review VCT/EIS eligibility in case anything has changed or been missed in Advance Assurance.

Increasingly, the technical diligence is happening remotely, using a technical expert from Blackfinch's network. The investment team also speaks to the employees of the company. Where there are co-investors, they are usually engaged with at this stage.

A key part of the Blackfinch approach is the use of Venture Partners. These are highly experienced people, with significant sector, technical or business experience. Initially, Blackfinch looked to bring them in after the investment was made, but it is now involving them at an earlier stage, so that they can assist in the diligence process. Final agreement from the Investment Committee is then required, before progressing to the next stage.

Full Form documentation includes any final negotiations, as well as signing papers and making the investment. Blackfinch estimates that it can go through the process in four to eight weeks, but this depends on the company and the diligence required.

Any follow-ons will undertake a slightly different process. The previous diligence and ongoing contact reduce the depth of investigation that is required. Depending on the length of time, some items, such as technology or disclosures, may be checked again. The Investment Committee paper tends to be much shorter than for brand-new investments, although it may reference other material, if required.

Overall, the decision-making process seems well-structured, with an unusual systematic use of technology, and it more than satisfies best practices within the sector. The Venture Partner addition is not unique but does complement more standard processes.

Typical investments

Generally, the team wishes to be leading rounds and have control over the timetable. Blackfinch also makes a small, direct co-investment into each investee company.

With the current size of the VCT, investments, typically, will be up to £1.5m; the lower size of existing investments reflected the size at the time. There is an intention that those that are making satisfactory progress will get follow-ons in due course to raise their weight, and we have seen this in several investments. The intention is to grow the initial investment to £1m-£2m, as the VCT grows its capacity, with new investments making up less than 5% of the portfolio.

While the VCT is aimed at a later stage of company development than the EIS Portfolios product, there is an overlap, and both may look to invest in the same round. There is an allocation policy in place that balances the priorities of both. Generally, allocations will be *pro rata* to undeployed funds, although there are exceptions for pre-existing investments and short-term timing requirements. Blackfinch expects this to become rarer over time.

Exits

Exits are expected to be via the usual routes, with trade sales dominating. Blackfinch guides investors to expect two to seven years for realisations.

Governance and monitoring of investments

VCT

Advance Assurance may be sought from HMRC on investments prior to completion. All investments will be reviewed by a tax specialist, regardless of whether Advanced Assurance has been received or not. Currently, it uses its panel of lawyers for this advice.

All custody and administration is handled internally by Blackfinch.

The NAV will be calculated quarterly, using IPEV guidelines, which is more frequent than for some other VCTs. Under this, companies will usually be held at cost for at least three months after investment, unless there is another round. After three months, the valuation will usually be based on metric multiples from comparable companies. These are audited by BDO. The usual listing requirements are an Interim Report as of 30 June each year (usually published end of August) and an Annual Report as of 31 December (usually published mid-April).

Investments

As indicated above, Blackfinch will find a Venture Partner to take a board position with the company. It is expected that the Venture Partner will support the company through mentoring and guidance. The choice is made through working out where the company's gaps are – so directors can add value to the investee company. In practice, some have fitted so well that they have become further involved with the company. Blackfinch has started doing six-monthly reviews of the Venture Partners, with some being shuffled around, if appropriate.

Although the directors are clearly Blackfinch's representatives, Blackfinch does not delegate its rights to them. Blackfinch also takes information and observer rights. It expects to receive monthly financial figures, which are compared against those forecast in the company's model. If there is significant deviation, then there will be follow-up with the company.

A member of the team attends all the board meetings, usually remotely. These are expected to be the main route of communication, although there is also *ad hoc* contact and direct support. Over the past couple of years. Blackfinch has beefed up its portfolio team to ensure adequate internal resources to provide this support.

Blackfinch aspires to be the first port of call for help. It has found that some investments have been sceptical on this at outset, but seem to have been converted, which suggests that the approach is working. It has also become more proactive about addressing problems, usually drawing upon its network for additional support, when required. Recently, the Blackfinch team has been providing some sales support to companies and has been running workshops, where appropriate.

An in-house, cloud-based dashboard system has been developed to support monitoring. At the time of investment, 5-10 KPIs are contractually agreed with each company, and these will be monitored at least monthly, alongside the financial information.

Blackfinch has also negotiated a range of offers and discounts with relevant service companies, including for banking, SEO, CRM and recruitment.

Given the areas in which Blackfinch is investing, it seems likely that many investments will require follow-on funding. There is the intention to do some within the VCT, where good progress has been made and the investment criteria are still satisfied.

ESG

Since our first product review for the, then new, Ventures team in 2020, Blackfinch has strongly positioned itself within an ESG framework. To a large extent, this was formalising what it was already doing. The Ventures team has built in an ESG aspect almost from inception.

The Ventures team works on the basis that it wants everything to make a positive difference, although that could be an economic benefit. Diligence includes an ESG assessment on its criteria. This includes identification of risks with an acceptance that these may not always be mitigated. Blackfinch is aware that the companies it will invest in are unlikely to have fully fledged ESG policies, so they see the attitude of the founders as key.

Several companies have been rejected at later stages in the investment process, because they have not been able to live up to appropriate ESG criteria. After investment, Blackfinch continues to monitor companies and insists on, at least, an annual report on each investee company's ESG status and progress. The team also works actively with companies to make sure that they have the right values.

While we would characterise this process as being closer to compliant/ESG neutral than impact, Blackfinch was relatively early in establishing a constructive policy.

Track record

Companies

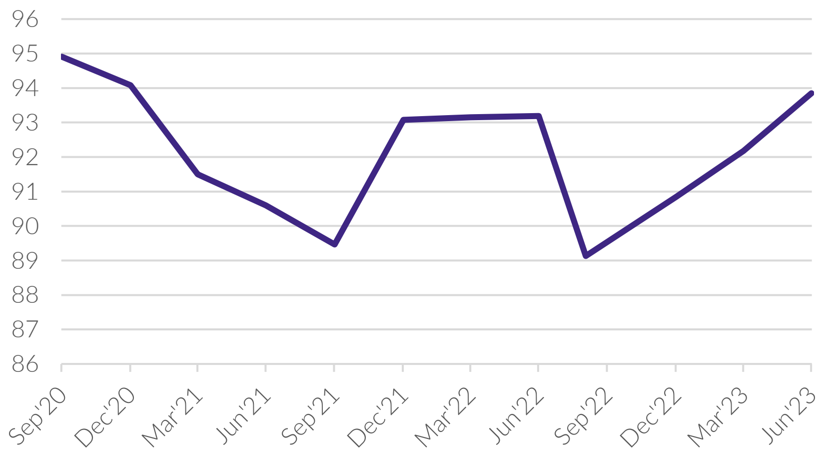
This is still a relatively new offering by Blackfinch, with the Ventures team having started in 2018. The latter has invested over £45m in its EIS Portfolios product, as well as £20m for the VCT. We note that the growth in the former product should mean increased opportunities for the VCT to do more follow-on investments. Blackfinch has raised significant funds for other EIS schemes, but these were different in nature from the current offerings. Consequently, the track record is still somewhat limited. Hardman & Co has been supplied with data as of October 2023.

So far, the Ventures team has had five exits, of which one was successful. This is typical in a venture capital portfolio where, unfortunately, the failures usually arrive before the successes. Of these, one liquidation (Movebubble) was in the VCT. The successful exit was for a 2.6x multiple. One of the liquidations returned a small amount.

As *Appendix 3* shows, within the VCT, there are 11 investments (out of 22) showing unrealised uplifts with no writedowns, for a 16% increase in the investment portfolio, which is 13% of NAV. This represents progress from the 9% uplift in last year's report. The EIS portfolio is showing an unrealised uplift of 9% on £39m of investments.

VCT shares

Blackfinch Spring VCT published NAV per share (p)



Source: Hardman & Co Research

The NAV performance to date is also limited. The first year of the VCT was affected by setup costs. Since then, it has generated some performance: the NAV per share increased 3% in the year to June 2022 and 0.7% in the subsequent 12 months. Given the economic backdrop, this is a credible performance: the average generalist VCT showed a decline in NAV over the same period.

The fall in 3Q'22 was due to the falls in the multiples of comparable companies. The VCT's higher cash level and portfolio immaturity at that point may have been a slight advantage. Despite the challenging market backdrop, there are signs that Blackfinch has invested sensibly and that the portfolio is making progress.

VCT financials

Blackfinch Spring VCT financial results

£m	FY'20 (16 months)	2021	2022	1H'23
Income statement				
Realised gains/losses	0	-0.549	0	0
Unrealised gains/losses	0	1.172	0.438	1.336
Investment income				
Manager fees	-0.068	-0.243	-0.427	-0.303
Other expenses	-0.203	-0.283	-0.337	-0.209
Net profit	-0.271	0.097	-0.326	0.824
EPS (p)	-7.50	1.00	-1.82	3.36
Balance sheet				
Investments	1.26	6.96	16.78	21.68
Cash	2.47	4.97	2.69	3.93
NAV	3.68	11.76	19.27	25.36
NAV per share (p)	94.08	93.08	90.85	93.85
Number of shares (m)	3.91	12.63	21.21	27.02

Source: Hardman & Co Research

We note that another 557,000 shares have been issued since June. Given that the VCT is relatively immature, there is little comment to be made. Blackfinch has made steady progress, with cash reducing from 67% of NAV at the end of 2020 to 14.5% in the most recent figures.

Uninvested cash will be held overnight at banks and invested in money markets. Now that interest rates have increased, these may start to generate some investment income, but we expect this to be relatively small.

Dividends and buybacks

No dividends have been paid to date, and the short history means that no distributable reserves have been accumulated yet. The target is for a 5% dividend yield from FY'24. With a positive return over the past 2.5 years, progress is being made towards that goal, although it is too early to assess whether it will be reached. We do note that rapid asset growth may lead to cash inflows diluting the early investments. Steady inflows could make the dividend target easier to achieve, and Blackfinch has probably been closer to the latter.

The stated buyback policy is at a 5% discount to NAV. This will also depend on available reserves and board approval. As yet, no shares have been bought back, which is no surprise given the VCT is less than five years old and holders would have to repay the initial tax relief if they sold their shares.

Fees

The fees are set out in the Factsheet on page 3 but have some items that may be clearer with a little explanation.

Initial fees

The initial fee is net of adviser charges, and less any applicable discounts. The latter may include the early-bird discount or the loyalty discount. Execution-only clients may get an uplift in the number of shares of up to 3%, if there is no payment to the intermediary.

Annual fees

The effective annual advisory fee is 2%, as 0.5% p.a. is rebated to investors. The investor can use the rebate to pay the ongoing fees or direct investor ongoing premiums, with any money left over being used to buy the investor more shares in the VCT. This is a technical adjustment, as payments to advisers can only be made by the manager, and not the VCT.

Where the VCT is following on an EIS investment, the directors' and monitoring fees will usually be payable only once. Blackfinch can envisage circumstances, typically with large investments, where two directors could be appointed.

Performance fee

This is payable at 20% in any given year, subject to exceeding the high watermark. It is defined as the higher of 130p per share or the highest performance value per share in any preceding accounting period. It is payable on the performance value per share, which is defined as the total of:

- NAV;
- all performance fees previously paid or accrued; and
- cumulative dividends paid prior to the reference date, including those that are ex-dividend.

These figures are all adjusted for the number of shares in issue as of the relevant dates. The 130p threshold means that earlier investors are likely to get a benefit relative to later investors. The 130p per share is a 39% premium to the latest NAV.

Expenses

The total expenses of the offer are estimated at 5.5% of the gross proceeds, including the initial fee.

The VCT incurs the usual range of third-party costs, including audit fees, directors' fees and listing costs. Blackfinch has agreed to cap the running costs, plus the trail commissions payable at 3.5% of NAV, with it bearing the balance above that. In 2022, expenses, including the management fee, were 3.27% of NAV. It is safe to assume that this cap is unlikely to have an effect going forward.

While this ratio is still at the upper end of the range for generalist VCTs, we expect it to fall further as the VCT grows.

Current offer

Blackfinch aims to raise £20m under the current offer, with a £10m overallotment. There are early-bird discounts of 1.5% until 3pm on 26 January 2024, and then 1% until 3 April 2024, which is the close for the 2023/24 tax year. The offer runs until 3 April 2024, although this may be extended to 21 August 2024 at Directors' discretion. The expectation is that there will be closes with allotments at the end of each of those discount periods and first allotment on 29 November 2023.

The minimum subscription is £3,000. Existing Blackfinch investors will receive a 1% loyalty discount, applied to the offer price.

Investment manager

Blackfinch Investments Limited started over 25 years ago as Neville James Limited – a market maker in the traded endowment market. For most of the past decade, it has focused on the tax-enhanced market, with a range of EIS, BR and property-related offerings. Having been based in Malvern for many years, it recently moved to Gloucester.

Prior to 2017, Blackfinch's EIS offerings were focused on areas that are no longer eligible. Blackfinch Ventures started in 2019, looking to invest in companies that satisfy the risk-to-capital criteria. The Ventures team highlights the benefits from being part of a larger, well-established group, with good legal and IT support available.

The Investment Committee consists of the CEO, another internal member and three independent members, indicated below. The members have a wide range of experience, are mostly relatively new to Blackfinch and bring independence to their oversight.

The Ventures team now consists of nine people, with plans for two further hires in the near future. The team is now split into operations, deal flow and portfolio support. Additionally, there are 20 Venture Partners on company boards (increased from 11 two years ago), with a pool of over 100. The team has grown quickly over the past couple of years and Blackfinch believes that, after the current recruitment, will be the right size for its current scale of operations and expected near-term growth.

VCT governance and board

Blackfinch Spring VCT has now achieved the 80% target for Qualifying Investments and has moved from provisional approval to being approved.

The board members are listed below. Dr Tarizzo joined the board in August 2023, replacing Kate Jones.

Peter Hewitt – Chairman

Has an extensive career as an entrepreneur and director. Having started with his own estate agency, he led Wigmore Group from near insolvency to an exit. He has been on the boards of 13 listed companies, including three other VCTs. He is currently a Senior Advisor at Brennan & Partners, and founder/Co-Chairman of Universal Defence and Security Solutions.

https://www.linkedin.com/in/peterlrhewitt/

Dr Katrina Tarizzo – Independent Director

Has been a founding shareholder and director in many early-stage companies. She was an early director of The Share Centre, before establishing Johnston Fry Privatisations in 1994. She co-founded Eurogum, a speciality chemicals company, and later Tarisoga LLC (linescape.com) and is currently also a director of City Living PCC Limited.

https://www.linkedin.com/in/katrina-tarizzo-5226aab4/

Dr Reuben Wilcock – Head of Ventures, Blackfinch

Having gained a PhD in electronics, has been a serial entrepreneur. He co-founded Dolphin IP (fabless IP core chip design), Bar Analytics (IoT for liquid dispense monitoring) and MyJoulo (smart energy), and he founded Custom Idea (geotagging for Nikon cameras) and Future Worlds (University of Southampton accelerator).

https://www.linkedin.com/in/dr-reuben-wilcock-489a75/

Investment team

Dr Reuben Wilcock – Head of Ventures

See *above*.

Richard Harley – Senior Ventures Manager

Was a partner at Somecrazy, and co-founded Scholarpack, an edtech data and data analytics platform, in 2011. He led this to an exit in 2018. He started angel investing in 2019, and joined Blackfinch in 2022.

https://www.linkedin.com/in/richharley/

Nic Pillow – Senior Ventures Manager

Has a technology background, having started as a software developer with Aethos Communication Systems, followed by roles at Logica, Portal Software and Apertio. In 2008, he became head of Product Management for a global team at Nokia. He co-founded and was CEO for three years at Rhizome Live, a SaaS company, before joining Blackfinch in 2019.

https://www.linkedin.com/in/nicpillow/

Kimberley Hay – Senior Ventures Manager

Started in investment banking with BNP Paribas in 2014, moving to RBC after two years then joining Penfida. In 2019, she moved to NoBa capital, focusing on companies disrupting "The Future of Work". She joined Blackfinch in 2023.

https://www.linkedin.com/in/kimberley-hay-a3051862/

Richard Cook – Founder and CEO

Had short spells in banking roles at Merrill Lynch and Bank of New York, before founding Blackfinch in 2004. He has been CEO since 2009, and chairs the Ventures Investment Committee.

https://www.linkedin.com/in/richard-cook-a011a610/

Dr Dan Appleby – Senior Analyst, Investment Committee

Having gained a PhD in nanoelectronics, spent 17 months as an engineer at Intel. In 2016, he moved to asset management at Fidelity, working on various technical and quant projects. He has led research and analysis at Blackfinch since 2018.

https://www.linkedin.com/in/dan-appleby-phd/

Steven Raffe – Investment Committee, Venture Partner

After two years as an engineer at Arcam, joined StarLeaf in 2009. Initially, he worked on hardware, before moving to software engineering and progressing to Vice-President of Strategy and Alliances. In 2022, he became Commercial Director of Cambridge Future Tech and is a director of two Blackfinch portfolio companies.

https://www.linkedin.com/in/stevenraffe/details/experience/

Joe Hartman – Investment Committee

Co-founded 118MOB, which exited in 2005. He worked in M&A at BDO UK, before joining Octopus Investments, where he had various investment roles. After six years, he left to co-found Arenaroom, followed by Gray Consultancy in 2020.

https://www.linkedin.com/in/joe-hartman/.

Appendix 1 – due diligence summary

Summary of core due diligence questions		
Manager		**Validated by**
Manager	Blackfinch Investments Limited	Hardman & Co
Founded	1992	Hardman & Co
Type	Private limited company	Hardman & Co
Ownership	Blackfinch Group Limited	Hardman & Co
FCA registration	Yes – 153860	Hardman & Co
Solvency	Confirmed	Hardman & Co
PI arrangements	Yes	Hardman & Co
VCT	**Blackfinch Spring VCT**	**Validated by**
Founded	2019	Hardman & Co
Type	Public Limited Company	Hardman & Co
Year-end	31 December	Hardman & Co
Last accounts	Interims – 30 June 2023	Hardman & Co
Custodian		
Company	Blackfinch Investment Limited	Prospectus
FCA registration	Yes – 153860	Hardman & Co

Source: Hardman & Co Research

Blackfinch Investments Limited was started as Neville James Limited. It has had two other name changes – AVD Wealth Limited (2010) and Blackfinch Investment Solutions (2013) – before taking its current name in 2015.

The manager of the fund is Blackfinch Investments Limited. It is FCA-registered, with appropriate permissions for both investment management and custodian operations. The latest accounts (31 December 2022) had total equity of £3.37m, which is greatly in excess of its capital requirement.

The ultimate parent of Blackfinch Investments Limited is BF Inter Limited. This is majority-owned by Richard Cook, with Richard Simmonds also holding a significant interest. There are another three smaller, related shareholdings.

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
Company investment	£750,000
Return	Constant each year

Source: Hardman & Co Research

Calculations					
		Hardman & Co standard			Target
Gross return		**-50%**	**0%**	**50%**	**150%**
Amount (pre-tax relief)		**£100,000**	**£100,000**	**£100,000**	**£100,000**
Initial fees	**Rate**				
Initial fee	2.50%	£2,500	£2,500	£2,500	£2,500
Transaction fee (paid by company)	3%-5%	£3,000	£3,000	£3,000	£3,000
Total		**£5,500**	**£5,500**	**£5,500**	**£5,500**
Net investment within VCT		**£97,500**	**£97,500**	**£97,500**	**£97,500**
Annual fees					
Advisory and administration fees	2.3%	£8,970	£11,213	£13,455	£17,940
Other corporate costs (capped – not to Blackfinch)	1.2%	£5,616	£7,020	£8,424	£11,232
Annual fees – from company					
Director/monitoring fee	£12,000 per company	£7,800	£7,800	£7,800	£7,800
Gross fund after investment return and expenses		£34,164	£79,268	£124,371	£214,578
Exit fees					
Performance	20%	£0	£0	£0	£17,566
Net amount to investor		£34,164	£79,268	£124,371	£197,012
Gain (pre-tax relief)		-£65,836	-£20,733	£24,371	£97,012
Gain (post-tax relief)		-£35,836	£9,268	£54,371	£127,012
Total fees to manager		£22,270	£24,513	£26,755	£48,806

Note: some fees may be payable for longer, but we have used five years, in line with our standard assumptions; Source: Hardman & Co Research

Appendix 3 – portfolio

Blackfinch Spring VCT portfolio, June 2023

£000	Cost	Valuation	% of NAV	Uplift
Unlisted investments				
Illuma Technology	1,218	2,063	8.1%	69%
Transreport	770	1,711	6.7%	122%
Startpulsing	1,575	1,575	6.2%	0%
Teamed	1,280	1,403	5.5%	10%
Watchmycompetitor.com	980	1,380	5.4%	41%
Cyclr Systems	1,300	1,300	5.1%	0%
Staffcircle	1,263	1,263	5.0%	0%
Client Share	858	1,178	4.6%	37%
Brooklyn Supply Chain Solutions	1,163	1,163	4.6%	0%
Currensea	1,075	1,075	4.2%	0%
Odore	830	922	3.6%	11%
Tended	875	881	3.5%	1%
Cultureshift Communications	780	868	3.4%	11%
Recruitment Smart Technologies	780	780	3.1%	0%
Measure Protocol	680	680	2.7%	0%
Placed Recruitment	600	600	2.4%	0%
Kokoon	500	521	2.1%	4%
Spotless Water	459	516	2.0%	12%
Edozo	463	514	2.0%	11%
Tangle Software	490	490	1.9%	0%
Collective Tech	440	440	1.7%	0%
Up Learn	360	360	1.4%	0%
Total investments	**18,739**	**21,683**	**85.5%**	**16%**
Cash		3,672	14.5%	
NAV	**22,411**	**25,355**		**13%**

Source: Blackfinch, Hardman & Co Research

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