

# KID River Capital EIS AI Fund



## Product

|                          |  |
|--------------------------|--|
| Name                     | River Capital EIS AI Fund ("Fund")   |
| PRIPS Manufacturer       | River Capital Management Ltd (the "Manager", "We", "Us" Company Registration Number: 03099944)   |
| Contact Details          | +44 (0) 151 236 4040 ; <a href="http://www.rivercapitaluk.com">www.rivercapitaluk.com</a> ; Suite 6c, The Plaza, 100 Old Hall Street Liverpool, L3 9QJ |
| Competent Authority      | Authorised & Regulated in the UK by the Financial Conduct Authority (FCA) FRN: 180891  |
| Document Production Date | October 2022   |

## Purpose

This document provides you with key information about this investment Fund. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains & losses of this product & to help you compare it with other products.

## What is this product?

**Type:** Enterprise Investment Scheme ("EIS") fund, which is a discretionary managed service structured as an Alternative Investment fund ("AIF"). There is no specified maturity date.

**Objective:** To generate capital gains and to provide investors with the tax advantages associated with EIS investments principally derived from investing in early-stage artificial intelligence ("AI"), machine learning, data-science and data-rich businesses. The Fund will have a geographical bias towards investing north of London and Cambridge. The value return on an investor's portfolio will depend on the performance of the underlying investments. There are no other appropriate pricing benchmarks or proxies.

**Intended investor type:** Those categories of prospective investors outlined in the Investment Memorandum, including professional clients, a client of an authorized firm, an eligible counterparty, a certified high net worth individual or a certified or self certified sophisticated investor.

Under FCA rules you have 14 days after the date of the Fund's letter of acknowledgement to withdraw your application to the Fund. After that date your application will be deemed to have been accepted.

### Risk Indicator:



## What are the risks?

We have classified this Fund as a 6 out of 7 under PRIIPs categorisation guidelines because the Fund is priced on a less regular basis than monthly and there are no other appropriate pricing benchmarks or proxies. This means the Fund is a high-risk product and rates the potential losses from future performance at a high level.

The risk indicator assumes you keep the Fund for 7 years. Cash will be returned as the underlying Investee Companies are sold ("Exit"), which may take significantly longer than 7 years. There is no mechanism for cashing in or redeeming the Fund at a stage earlier than the Exit of the underlying Investee Companies. You should carefully consider the fact that you cannot cash in early and that cash flow returns are driven by the underlying Exits before you invest. You may get back less than you invested.



Investing in the Fund will expose you to investments in unquoted equities of early-stage companies. Early-stage companies carry an inherently high degree of risk.

They often rely on a few key individuals to drive their valuation, are likely to raise further capital causing dilution of existing investors, are unlikely to pay dividends, and can fail entirely causing total loss of investment. Furthermore, unquoted equities are highly illiquid meaning it may be difficult to sell or realise the investments or obtain reliable information about the value of the underlying investee companies.

EIS tax reliefs are subject to legislative changes.

This Fund does not include any protection from future Investee Company performance and the principal of your investment is not guaranteed. The performance of your investment will depend on how the Investee Company performs, the timing of individual investments and Exits in the underlying early-stage companies, and how long you keep the Fund.

More information on risk may be found in the Risk Factors section of the Investment Memorandum.

## What could I get in return?

River Capital Management is targeting a 2x return on capital over a 7-year period. This includes all the costs of the Fund itself but does not include any costs that you pay to an advisor. The figures do not include any tax reliefs you may receive, nor do they take into account your personal tax situation. Your personal tax situation may affect how much you receive back. This is based on 15 investments by the Fund in eligible Investee Companies, where 5 investments fail (returning no capital), 4 investments are sold returning the initial capital only (1x), 4 Exit returning 3 times capital and one Exits returning 10 times capital. These return multiples are consistent with Exits seen in the sector, but cannot be guaranteed.

## What could affect my returns positively?

More company Exits, earlier and at higher associated valuations, will drive higher returns. In particular, returns are driven by a small number of large Exits, so a single very large Exit may materially positively impact returns. This will be driven by Investee Company performance, economic conditions, particularly for AI and Data Driven companies, the skill of the River Capital Management and the state of the Mergers, Acquisitions and Initial Public Offering market. The Manager intends to invest in 3-4 EIS eligible Investee Companies in each Soft Close (the admission of Investors into the Fund as defined in the Investment Memorandum). Investing in several Soft Closes to build a portfolio larger than 3-4 Investee Companies provides additional diversification. This increases the number of your underlying Investee Companies likely to achieve good Exits.

## What could affect my returns negatively?

The Fund managing to Exit fewer Investee Companies, later and at lower associated valuations, will drive lower returns. Given that returns are driven by a small number of large Exits, failure to achieve any very large Exits or simply fewer Exits returning 3 times capital may materially negatively impact returns. This will be driven by Investee Company performance, economic conditions, particularly for AI and Data Driven companies, the skill of the Manager and the state of the Mergers, Acquisitions and Initial Public Offering market. Investing in an insufficient number of Soft Closes to provide reasonable diversification may overexpose you to a small number of Investee Companies and may reduce the number of your underlying Investee Companies likely to achieve good Exits.

Under severely adverse market conditions, the Mergers, Acquisitions and Initial Public Offering market may be such that no Exits are achievable. The holding period may therefore increase materially, your underlying Investee Companies may become distressed and either fail or need to fundraise at materially lower valuations, meaning the percentage of the Investee Companies you hold may be significantly reduced. Under such conditions, your returns may be significantly negatively impacted and you may get back much less than you invested.

## What are the costs?

The Reduction in Yield (RIY) shows what impact the total costs you pay will have on the Investment return you might get. The total costs take into account one-off, ongoing and incidental costs. The amounts shown here are the cumulative costs of the Fund itself, for three different holding periods. The figures assume you invest £10,000, although the Fund's minimum investment is £25,000. The figures include VAT. The figures shown include all the costs of the Fund itself but do not include any costs that you pay to an advisor. The figures do not include any tax reliefs you may receive, nor do they take into account your personal tax situation. Your personal tax situation may affect how much you receive back. The figures are estimates and may change over time. The variable cost component included in the figures is the Performance Fee, the size of which will depend on successful Investment outcome.

### Costs over time & cost composition

The table below shows:

- the impact each year of the different types of costs on the investment returns you might get at the end of the recommended holding period; and
- the meaning of the different cost categories.

| Per £10,000 invested                                  | If you cash in after 1 year | If you cash in after 4 years | If you cash in after 7 years |
|---|-----------------------------|------------------------------|------------------------------|
| Total Costs (inclusive of a variable performance fee) | £550                        | £3,382                       | £4,565                       |
| <b>Impact on return (RIY) per year %</b>              | 5.5%                        | 8.0%                         | 5.1%                         |

Full costs are set out in the Investment Memorandum.

|                      |  |               |
|----------------------|--|---------------|
| One off costs        | Entry Costs                                  | 3.0%          |
| Ongoing annual costs | Management Fee<br>Custody Fee                | 2.0%<br>0.25% |
| Incidental costs     | Performance fees<br>Custodian dealing charge | 20%<br>0.25%  |

20% Performance Fee charged to an investor on returns in excess of 110% their subscription

## How long should I hold the Fund and can I take money out early?

It is not possible to cash out, sell or divest early from this Fund. There is no fixed maturity date and you should be prepared to leave the Investment intact for the recommended holding period of 7 years or longer. The underlying Investee Companies are highly illiquid and not readily realisable. You may not be able to sell them early or may lose money if you do so. Tax reliefs are only available to Investors who hold each qualifying underlying investment for 3 years.

## What happens if River Capital Management is unable to pay out?

River Capital Management participates in the Financial Services Compensation Scheme (FSCS), established under FSMA, which may provide compensation to eligible Investors in the event of the failure of the firm. However, please note, should the Investee Companies fail, the investor's investment is not covered by the FSCS. Payments under the designated investment business scheme are limited to a maximum of the first £85,000 of the claim. Further information is available on the FSCS website.

## How can I complain?

Should an Investor have a complaint regarding the Fund or any aspect of Our service, they should contact Us on [complaints@rivercapitaluk.com](mailto:complaints@rivercapitaluk.com) in the 1st instance. We will investigate the complaint & provide a written response. We have established FCA-compliant procedures for the consideration of complaints. If We cannot resolve the complaint to the satisfaction of the Investor, eligible complainants may refer their complaint to the Financial Ombudsman Service (FOS, [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk), 0800 023 4567). The FOS will be responsible for determining whether a complainant is eligible under the FCA Handbook rules. More detail may be found at <https://rivercapitaluk.com/complaints/>

## Other relevant information

Please refer to the website (<https://rivercapitaluk.com/>) & the Investment Memorandum for full details regarding the Fund, including risk factors and EIS taxation relief.