FIDANTE PARTNERS

Augmentum Fintech

First mover in listed fintech

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Key details	
Bloomberg code	AUGM LN
Share price	101.75pps
Last NAV	99pps
Premium/(discount)	2.8%
Market cap	£95.6m
Net assets	£93.1m

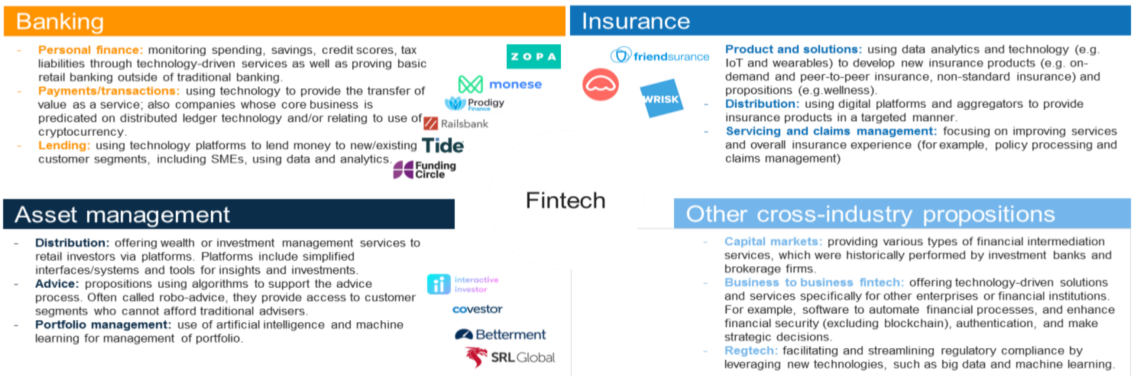
Source: Company, Bloomberg. Data as at 4 June 2018.

Introduction and summary of investment opportunity

Technological advances over the last couple of decades have already fuelled significant and permanent changes to how businesses in certain sectors operate. Good examples of this are provided by the retail and travel sectors. Physical shops are under pressure from the likes of Amazon as increasing numbers of customers are choosing to make their purchases online, while travel agents are fast disappearing from our high streets as more and more customers prefer to carry out holiday searches and make bookings from the comfort of their own homes. The finance industry has yet to go through this phase of its development and typically still has many structural and operating inefficiencies, which can lead to a poor, and costly, customer experience. For example, opening a new bank account or getting a consumer loan with a traditional bank can be a cumbersome process, while overseeing your investment portfolio can be expensive and time-consuming if you have to visit your financial advisor several times a year.

Fintech companies are starting up with the aim of disrupting and disintermediating the traditional finance industry by providing efficient, low cost and personalised services. The progress made in technology can help companies achieve this in a number of ways, for instance by using powerful analytics to help scale the product offering, or by using artificial intelligence to predict customers' requirements. Most of the companies that are emerging are currently small in scale and can only be accessed via venture capital investments, which typically have high growth potential but also come with significant risks. This means that investments into the fintech space should ideally be made via funds that are diversified across a range of fintech companies and are managed by a team experienced in identifying opportunities, carrying out the necessary due diligence, and managing the risks.

Fig 1: Fintech opportunities



Source: Value of Fintech, KPMG, October 2017.

There are a number of ways to define the sectors in which fintech companies operate[1], one of which is the broad categorisation used by Augmentum Capital. In this categorization, fintech companies are broken down into banking, asset management, insurance and other cross-industry propositions. Banking services which are ripe for improvement include personal finance, making and receiving payments, and lending. The asset management industry, which is typified by high fees, poor returns and inefficiencies, could see improvements coming from how services are accessed by customers, how advice is given and portfolio management. Enhanced data analytics may help drive evolution in the insurance industry, in terms of the products offered

[1] Investors who are interested in a comprehensive introduction into the fintech space in general are referred to our report 'How Fintech revolutionises our industry', published on 14 March 2018.

(for example, providing on-demand, real-time insurance cover), distribution, and servicing and claims management. Finally, new types of cross-industry businesses are emerging that were simply not possible before, due to the necessary technology not being available, one example being the facilitation and streamlining of regulatory compliance. The opportunities are abundant across each of these sectors.

Though some fintech businesses have been operating for several years, their overall market penetration is still small. One example is peer-to-peer lending. The Peer to Peer Finance Association has recorded exponential growth in disbursals in the UK between 2010 and 2017, but these types of loans still only represent less than 2% of consumer and business loans. And this is just one small part of the financial services universe. There are a number of reasons to believe that Europe offers an attractive environment for fintech businesses, including the existence of a well-developed financial services sector, and forward looking European governments that are committed to backing innovative financial businesses, supported by progressive regulation. Furthermore, venture capital valuations are lower in Europe than, for example, the US, due to there being less competition for the best deals. Finally, there is in Europe a large and growing funding gap between those companies receiving early stage (seed) and later stage (pre-IPO) funding, meaning that there is a relative lack of funding for the vital intermediate development phase that is usually provided by venture capital.

Augmentum Fintech ('AUGM', or 'the Company') was listed on the London Stock Exchange on 13 March 2018 and aims to generate capital growth over the long term by investing in fintech businesses in the UK and Europe that are fast growing and/or have high future growth potential. It invests in early stage (but not seed stage) and later stage fintech businesses in scalable sectors, the focus being on banking, asset management, insurance, and cross-industry opportunities. The management team comprises Tim Levene, Richard Matthews and Perry Blacher, each of which has extensive experience in fintech, either founding and running businesses or investing in them. The management team is backed by a four-person advisory panel of experienced fintech investors and entrepreneurs which includes Edward Wray, co-founder of Betfair.

Tim Levene and Richard Matthews founded Augmentum Capital and launched their first fund, Augmentum I LP, in 2010 with the sole backing of RIT Capital Partners. A total of £32.1m was invested in the equity of seven companies, five of which are in AUGM's seed portfolio (BullionVault, Interactive Investor, Seedrs, SRL Global and Zopa). Thus, at launch, the Company owned an attractive portfolio (valued at £33.3m as at 31 December 2017) of seasoned investments with good growth potential that would be impossible for investors to access by other means. Once fully invested (which is expected within 12 months of admission), the portfolio is expected to comprise 15-20 holdings.

AUGM has initially appointed Augmentum Capital as its investment adviser. Once the necessary authorisation has been obtained from the FCA (expected by September 2018), Augmentum Capital will no longer be the investment adviser and the Company will become internally managed, with Augmentum Fintech Management, a wholly owned subsidiary of AUGM, appointed as the Company's new portfolio manager. The key individuals currently responsible for investment management will become principals and employees of, or advisors, to Augmentum Fintech Management.

The management team and the advisory panel, are highly aligned to the goals of the company, retaining around £6m worth of investment in the Company.

SWOT analysis

Strengths	Weaknesses
▪ Possible near-term valuation catalyst(s) for seed portfolio, for example the rumoured Zopa fundraising. ▪ The management team, together with the advisory panel, has extensive experience making fintech/venture capital investments and creating value at the invested companies. ▪ The management team has strong relationships within the industry and are close to the management of companies seeking venture capital funding. ▪ AUGM's investment objective and policy allows it to target early stage fintech opportunities, potentially exploiting the best risk-adjusted opportunities. ▪ Augmentum Capital has a good track record running their first fintech fund. ▪ AUGM has strong backing from the management team and the advisory panel, providing alignment with shareholders. ▪ The investment trust structure, with its 'permanent capital' attribute, is better suited to the invested companies' needs than the more common GP/LP structure, because early stage companies can stay 'private for longer'. ▪ AUGM follows a growth strategy in one of the few genuine growth sectors, which is in line with investors' preferences in the current environment.	▪ One large investment, Zopa, is expected to drive NAV performance in the near term. ▪ Relatively large exposure to cash in the early stages of the Company's life will have an impact on NAV performance. ▪ Limited liquidity in the trading of AUGM's shares.
Opportunities	**Threats**
▪ As the only listed investment company investing solely in fintech, AUGM has first mover advantage and may potentially be able to capture the best opportunities. ▪ Well-developed pipeline of investment opportunities, in a range of diversifying sectors, gives confidence that further investments will be made such that AUGM will be substantially deployed within 12 months of admission. ▪ There are a wealth of fintech investment opportunities in the UK and Europe, in part due to the funding gap that exists been seed and later stage funding.	▪ Potential over-crowding in the fintech sector over time, leading to increased competition and pricing, making new investments more difficult while maintaining a disciplined investment approach. ▪ Current expectations of future growth of fintech companies, for example in terms of market share, are not met.

Source: Fidante Capital.

Portfolio overview

At admission on 13 March 2018, the Company acquired the initial portfolio which was valued at £33.3m as at 31 December 2017 and comprised five main investments. The initial portfolio holds minority equity stakes in each of these companies, ranging from 5-10%.

Fig 2: Initial portfolio

Trading name	Val. (£m)	Stake (%)	Of net assets (%)
Bullion Vault	8.4	10.7	9.0
Interactive Investor	3.0	3.8	3.2
Seedrs	1.9	4.0	2.0
SRL Global	1.5	9.5	1.6
Zopa	18.5	7.4	19.9

Source: Company. Valuation as at 31 December 2017. Stakes are fully diluted. Proportion of net assets at admission.

Overview of portfolio companies

BullionVault (invested in 2010) – This company, established in 2005, is the world's largest retail precious metals investment and trading platform. It allows retail investors to hold and transact in investment grade bullion gold and silver. Around $2bn worth of bullion is stored on the platform, which has more than 70,000 users from 175 countries. BullionVault earns revenues from commission, custody fees and interest receipts, and the difference between the buying and selling prices of gold and silver.

Through this investment, AUGM also owns an interest in **Whisky Invest Direct**, which was founded in 2015 and gives retail investors access to maturing, in-the-barrel whisky as an asset class. This company, currently valued at zero and investing in a high-returning asset class, is expected to be spun-out from BullionVault at some point in the future as these two companies are not natural bed-fellows.

Interactive Investor (invested in 2014) – Established in 1995, Interactive Investor is now the second largest online broker in the UK after Hargreaves Lansdown. It provides execution-only products and services to facilitate trading and investing in shares, funds, ETFs and investment trusts, earning a flat quarterly fee. More than one million unique users visit the company's website every month. Since 2014, Interactive Investor has grown its assets under administration from c. £3bn to c. £20bn. Interactive Investor recently acquired the much larger company, TD Direct UK, with JC Flowers, amongst others, providing capital for this acquisition (JC Flowers is the largest shareholder).

Seedrs (invested in 2015) – Europe's leading equity crowdfunding platform, this company has funded over 600 deals and has had over £320m invested on its platform. The investment was made alongside Woodford Patient Capital Trust. 2017 was the best year so far for Seedrs, with a total of £125m invested into campaigns on the platform. In June 2017, the company launched its Secondary Market, which allows the secondary trading of shares in private companies funded through the platform.

SRL Global (invested in 2010) – This company provides a platform that allows large family offices, endowments and pension funds to monitor, measure and to manage their investments across their invested sub-managers.

Zopa (invested in 2012) – This company was established in 2005 as the world's first peer-to-peer lending platform. At the time of the Augmentum Capital investment, the 12-month previous loan disbursals were less than £50m; since then they have grown at a CAGR of 61% and reached c. £1bn in 2017 (in aggregate, over £3bn has been lent to UK customers). Zopa has 60,000 active individual investors lending through the platform, with over 277,000 approved borrowers. Institutional backers include Bessemer Venture Partners, Arrowgrass, Northzone and Wadhawa Global Capital. The company plans to launch a bank in 2018 after obtaining its banking licence, and rumours have circulated in the media that the company is considering a further funding round.

Valuation

The company's net asset value will be calculated semi-annually and be based on the sum of the values of each portfolio investment, together with other assets such as cash and less any liabilities. The AIFM (Frostrow Capital) will determine the value of the non-publicly traded investments in accordance with the IPEVCA guidelines, which will then be put to the company's audit committee for approval.

Fig 3: Portfolio valuation methods

Trading name	Method	Listed comparables
Bullion Vault	Multiple	Goldmoney
Interactive Investor	DCF	Hargreaves Lansdown, E*Trade
Seedrs	Subscription share price	n/a
SRL Global	DCF	MSCI, Intuit, State Street and BoNY Mellon
Zopa	DCF	Aldermore, Barclays and RBS

Source: Augmentum Capital.

For each company in the portfolio of AUGM we have created our proprietary valuation model based on the portfolio methods shown in Fig. 3. Our valuation model allows us to perform scenario analyses for the different portfolio investments.

BullionVault

We value BullionVault on the basis of a Price/Book-ratio (PB-ratio) multiple approach. In our base case scenario, we assume that BullionVault will be valued at a PB-ratio of 2.4, which corresponds to the three-year average PB-ratio of listed competitor Goldmoney once a 15% valuation discount is taken into account for the illiquidity of the stake in BullionVault. This also is the multiple used in the valuation as at 31 December 2017. In our base case, we assume an organic growth rate of the business (i.e. book value growth without capital increases) of 12.5%, which corresponds to the organic growth rate of Goldmoney over the previous three years. In this base case, the expected valuation of the AUGM stake in BullionVault will be £12.2m in three years, an upside of 42% over the current valuation and a potential uplift on the total portfolio net assets of 3.8%.

In our pessimistic scenario, we assume that BullionVault will only be able to achieve organic growth of 7.5% and that the PB-ratio will drop to 2.0 in reflection of this lower growth outlook. In this case, we expect an upside of 4% to the current valuation, or a potential uplift to the portfolio net assets of AUGM of 0.3%.

Finally, we calculate an optimistic scenario, with a superior growth rate for BullionVault of 25% per year for the next three years and a corresponding multiple expansion to a PB-ratio of 3.0. In this optimistic case we see an upside on the stake of 144% for a potential net asset uplift of 12.8% on the AUGM portfolio. Fig. 4 summarizes the assumptions and main results of our three valuation scenarios for BullionVault.

Fig 4: Valuation scenarios for BullionVault

	Optimistic case	Base case	Pessimistic case
Current valuation	£8.4m	£8.4m	£8.4m
Book value growth over next 3 years per annum	25.0%	12.5%	7.5%
Ending PB-ratio	3.0	2.4	2.0
Ending valuation	£20.9m	£12.2m	£8.9m
Multiple on current valuation	2.4x	1.4x	1.0x
Upside	144%	42%	4%
Uplift on AUGM NAV	12.8%	3.8%	0.3%

Source: Fidante Capital.

Interactive Investor

The company is currently valued based on last round pricing and a discounted cash flow (DCF) model. The discount rate of 11.34% was derived by the AIFM using a CAPM model. We use the same discount rate for our DCF model. We also use a three-stage DCF model where cash flows grow for the first three years with an initial growth rate derived from most recent growth rates achieved by the company. During the last three years, Interactive Investor has grown its assets under management by 88% per annum - partly through acquisitions – and become the second largest online broker in the UK. In our base case scenario we assume that Interactive Investor will be able to achieve an average annual growth rate half as high (40%) while keeping the return on assets under management constant. In the second stage of our DCF model, we assume that between years 4 and 10 the annual earnings growth will slow down from the initial fast growth, towards the average expected long-term growth of listed peers Hargreaves Lansdown and E*Trade (22% per annum). In the third stage of our DCF model, we assume that from year 11 onwards this long-term growth rate remains constant.

The discount rate for future earnings and cash flows was derived by the AIFM based on a CAPM model and we adopt the same discount rate of 11.34%.

This base case scenario for our three-stage DCF model provides a fair value for the AUGM stake in Interactive Investor of £5.17m, an upside of 72% from the current valuation. This would provide an uplift on the net assets of AUGM of 2.3%.

In our pessimistic scenario we assume Interactive Investor will grow earnings at 35% in the next three years and then face a steep growth reduction to 15% in stage 2. From there on, earnings are assumed to grow at this rate forever, which implies a long-term growth rate one third below the average analyst estimates for competitors E*Trade and Hargreaves Lansdown.

Finally, our optimistic scenario assumes an initial earnings growth rate of 45% that slows down to 32% over time. In this case we see a valuation upside of 261% for a potential uplift of the AUGM net assets of 8.4%. Fig. 5 summarizes our valuation assumptions and projected valuations.

Fig 5: Valuation scenarios for Interactive Investor

	Optimistic case	Base case	Pessimistic case
Current valuation	£3.0m	£3.0m	£3.0m
Earnings growth years 1 to 3	45.0%	40.0%	35.0%
Terminal growth after year 10	31.6%	22.0%	14.5%
Ending valuation	£10.8m	£5.2m	£2.5m
Multiple on current valuation	3.6x	1.7x	0.8x
Upside	261%	72%	-16%
Uplift on AUGM NAV	8.4%	2.3%	-0.5%

Source: Fidante Capital.

Seedrs

We use the subscription share price as basis for our valuation and assume no upside or downside on this. This is in-line with the valuation of the AIFM. Thus we assume a fixed valuation of the stake in Seedrs of £1.9m.

SRL Global

We use the same three-stage DCF model we used to value Interactive Investor but use the discount rate determined by the AIFM based on a CAPM model of 12.65%. In our base case scenario, we assume an initial growth rate of 20% that declines to a terminal growth rate in stage three of our model of 12.2%. This terminal growth rate corresponds to the average long-term growth rate expected by analysts for the four listed competitors MSCI, Intuit, State Street and Bank of New York Mellon. In this base case scenario, we estimate a valuation upside of the stake in SRL Global of 125%, for a potential uplift of the AUGM portfolio value of 2.3%.

In our pessimistic scenario we assume an initial growth rate of 15% declining to a terminal growth rate of 10.3%. In this case we calculate an upside to the current valuation of 34%, or 0.6% on AUGM's net assets.

Finally, our optimistic scenario assumes an initial growth rate of 25% and a terminal growth rate of 13.5%. In this optimistic case, we estimate a valuation upside for the stake in SRL Global of 263% for a potential uplift in AUGM net assets of 4.2%. Fig. 6 again summarizes our valuation assumptions and projected valuations.

Fig 6: Valuation scenarios for SRL Global

	Optimistic case	Base case	Pessimistic case
Current valuation	£1.5m	£1.5m	£1.5m
Earnings growth years 1 to 3	25.0%	20.0%	15.0%
Terminal growth after year 10	13.5%	12.2%	10.3%
Ending valuation	£5.4m	£3.4m	£2.0m
Multiple on current valuation	3.6x	2.3x	1.3x
Upside	263%	125%	34%
Uplift on AUGM NAV	4.2%	2.0%	0.5%

Source: Fidante Capital.

Zopa

We use our three-stage DCF model with a discount rate determined by the AIFM based on a CAPM model to be 11.1%. In order to determine terminal growth rates we use the average of analyst expectations for long-term earnings growth for the listed comparables Aldermore, Barclays and RBS.

Loan disbursals of Zopa have grown by 61% per annum since 2015. In our base case we assume an initial growth rate for the next three years of half that, with somewhat lower profit margin, for an annual initial growth rate of 25%. The terminal growth rate for our base case is assumed to be 10.3%, which is the average expected long-term growth for the listed competitors. In this base case scenario we estimate an upside to the valuation of the Zopa stake of 95% for an estimated uplift in the AUGM net asset value of 18.7%.

In the pessimistic scenario we assume an initial growth rate of 20%, declining to a terminal growth rate of 3.8%. We also assume that the rumoured capital increase that would put the valuation of Zopa at £400m will not materialize. In this case we expect basically stable valuations at current levels.

Finally, the optimistic case assumes that Zopa can grow initially at half the growth rate of the last two years while maintaining its profit margins. In the long run this growth rate declines to 14.3% for a potential upside on the valuation of Zopa of 243%. This would imply a potential uplift in the AUGM net asset value of 47.8%. Fig. 7 summarizes our valuation assumptions and projected valuations.

Fig 7: Valuation scenarios for Zopa

	Optimistic case	Base case	Pessimistic case
Current valuation	£18.5m	£18.5m	£18.5m
Earnings growth years 1 to 3	30.0%	25.0%	20.0%
Terminal growth after year 10	14.3%	10.3%	3.8%
Ending valuation	£63.4m	£36.1m	£18.9m
Multiple on current valuation	3.4x	1.9x	1.0x
Upside	243%	95%	2%
Uplift on AUGM NAV	47.8%	18.7%	0.5%

Source: Fidante Capital.

Portfolio valuation

We value the overall portfolio of AUGM as the sum of its parts. With the current cash holdings of £59.8m assumed to offer no return, we calculate the upside to the net asset value of the portfolio in the absence of any new investments in the three scenarios we have outlined above. Of course, as cash will be invested in coming months, the return potential will increase. Fig. 8 summarizes the potential upside for the AUGM portfolio under these assumptions in the optimistic, pessimistic and base case scenarios.

Fig 8: Valuation scenarios for AUGM

	Optimistic case	Base case	Pessimistic case
Cash holdings	£59.8m	£59.8m	£59.8m
Current investments	£102.5m	£58.7m	£34.2m
Total	£162.3m	£118.5m	£94.0m
Uplift on AUGM NAV	74.3%	27.3%	1.0%

Source: Fidante Capital.

Potential valuation triggers

Portfolio valuation updates would be expected following earnings reports from any of the portfolio companies, and following any corporate actions, which could include funding rounds, spin-outs and exits (perhaps via an IPO or a trade sale).

As already indicated, Zopa may be considering a further funding round with the aim of raising £50m, for a total valuation of more than £400m (according to a report from Sky News in April 2018). If this, in our view, very likely funding round materializes, the pessimistic case for Zopa we have outlined above would immediately become obsolete. Assuming a £400m valuation for Zopa would imply a roughly 40% upside on the valuation of the existing stake, or a 7.9% uplift on the net asset value of AUGM.

Interactive Investor is performing well, but here the majority shareholder is a private equity manager, JC Flowers, who will manage the schedule of any corporate action of this sort. Also as indicated previously, Whisky Invest Direct is expected to spin out from BullionVault, which could lead to a valuation increase from its latest valuation in AUGM's accounts (zero).

Other than that, not much can be surmised with respect to corporate actions, except for the fact that any exits (IPOs) will be some time off, given the stage of development the portfolio companies are at currently. However, there is always the possibility that AUGM may sell existing stakes to other venture capital and private equity investors. American venture capital firms are starved for attractive investment opportunities and might start to look for lower priced European opportunities. According to Augmentum Capital, Series A financing rounds were valued 46% lower in the EU compared to the US, and Series B financing rounds were valued 62% lower in the EU compared to the US, in 2015/2016. This means that there is still significant upside for the valuations of new deals or sales of existing venture capital and private equity stakes in Europe.

Proven track record

In addition to the relevant experience gained while at previous firms, Augmentum Capital ran, from 2010, a fund investing in fintech companies, Augmentum I LP, which was solely backed by RIT Capital Partners. A total of seven investments totalling £32.1m were made by that fund between February 2010 and September 2015. One of those investments, Phoenix (an algorithmic trading business), was sold to another fund also managed by Augmentum Capital in late 2016, while another investment, Borro (made in February 2011), did not progress along the expected path and subsequently entered liquidation. Including both Phoenix (with the performance since the transfer to the other fund) and Borro (IRR -32%), the gross IRR generated by the investments to the end of 2017 was 19%. The highest IRR over the period from investment (December 2012) to the end of 2017 was seen at Zopa (48%). The experience with Borro has been useful in refining how the management team assesses new investment opportunities.

Fig 9: Valuations as at 31 December 2017

Trading name	Date	Cost (£m)	Multiple	IRR
Phoenix (pre-transfer)	Feb-10	9.1	4.2x	34%
SRL Global*	May-10	2.5	0.6x	-6%
BullionVault*	Jun-10	6.2	1.4x	5%
Borro	Feb-11	7.9	0.0x	-32%
Zopa*	Dec-12	2.5	7.4x	48%
Interactive Investor*	Jan-14	2.4	1.3x	7%
Seedrs*	Sep-15	1.5	1.3x	11%
Total		**32.1**	**2.2x**	**17%**
Phoenix (post transfer)	Nov-16	21.2	1.5x	53%
Total		**32.1**	**2.6x**	**19%**

Source: Company. Valuations as at 31 December 2017. Multiple and IRR are gross. Phoenix sold to another fund managed by the management team in 2016. *Investments in the initial portfolio.

Investment strategy explained

Investment stages

There are, as Augmentum Capital see it, four categories of investment opportunities. These are:

Series A and Series B investments. These are early stage investments in fintech businesses that have passed the seed capital stage and have delivered at least a proof of concept. While Augmentum Capital does not invest at the seed stage, the company management does meet and track seed stage businesses in order to secure access to funding rounds once these companies come of age. This way, Augmentum Capital is able to secure stakes at lower valuations than during a more widespread fundraise.

Value/down rounds. In the past two years, high growth fintech companies have often raised capital at significant valuations that rely on continued excessive growth. Augmentum Capital capitalizes opportunistically on companies that have disappointed expectations, and may need to restructure their capital base and raise additional capital at lower valuations. The management team sees opportunities in this area to unlock value that has been built using capital already deployed in previous funding rounds.

Secondary stakes. These arise as LP funds have to sell assets once they have entered their harvesting periods. Traditional venture capital funds typically do not invest in these secondary stakes despite their often compelling nature.

Most of the deal flow seen by the management team falls into the first two of these categories (Series A and B investments), while the latter two are more opportunistic in nature.

AUGM aims to make initial investments in the £2-5m range, which might grow to £10m+ if the performance is good. The management team is aware of the concentration risk, however they also do not want to make a larger number of investments with capital commitments smaller than £2m.

Process

As a result of their wide network of industry contacts, the management team gets to review around 300 leads per annum. A large proportion (around 90%) gets rejected after an initial review for a variety of reasons, such as the company not being at the right stage of its development, not operating in the fintech space, or the business model not being fully understood by the management team.

The main criteria the management focuses on in the assessment of Series A and Series B investments are:

- A strong founder team: The management's preferred investment opportunity has a three-person founder team with a product-oriented, a technology-oriented and a commercially-oriented member of the team. The management team seeks to avoid single-founder propositions, particularly where that founder has voting control of the business. In the view of the management team, the founder team's ability to execute on the proposed idea is crucial.
- Disruptive businesses: The management team is looking for businesses that aim to challenge the status quo and take a fresh approach to addressing customer needs.
- Compelling economics: The management team tries to assess how the business will ultimately become profitable. It is critical that the lifetime value of each customer is higher than the cost to acquire the customer.
- Market opportunity: The management team seeks clarity that the scale of the business opportunity is such that the investment can deliver significant returns in the long run.

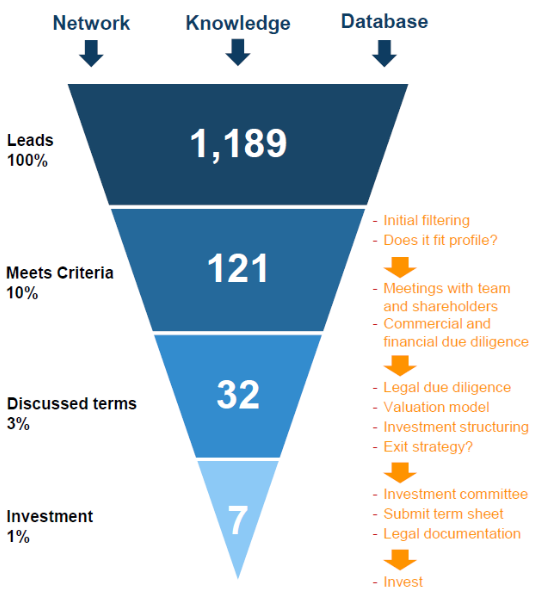
One or several meetings are then arranged with the founder and wider management of the surviving c. 10% of companies which meet these high-level criteria. Concurrently, commercial and financial due diligence is carried out by the management team.

Around 3% of the original number pass on to the next stage, in which the management team carries out broader internal discussions (with the advisory panel) and with their wider network of contacts, which may include investors in the company. If favourable feedback is received, the investment case for proceeding will be developed, together with the exit strategy. A formal proposal and an outline of the terms is then produced.

Finally, around 1% of the original number of opportunities make it through to consideration by the Company's investment committee. If passed, and the company accepts the offer as given in the term sheet, legal due diligence is then performed and the legal documentation produced, prior to going ahead with the investment.

While there is no fixed timetable, Augmentum Capital will typically require at least two to three months between a first meeting and an investment. If a company is met an earlier stage of development, the relationship can be built over years, including several update meetings, all of which forms part of the due diligence process.

Fig 10: Augmentum investment process



Source: Augmentum Capital. The numbers in the inverted pyramid refer to the actual number of opportunities reviewed during the Augmentum I LP investment period.

Post-investment management

Augmentum Capital is an active investor and the management team will require a board seat at the companies it invests in as a condition of investment. The management team of Augmentum Capital expects each member of the team to dedicate typically two days per month for each company board seat they hold, to help the investee company develop their business. Other members of the management team are encouraged to share their views and provide their input as well.

The management team of Augmentum Capital help their investee companies to find the right scale of the business management team. This includes consultation and help in recruiting senior management team members, as well as experienced directors. The focus is on ensuring the right management team is in place for each developmental stage of a business.

Augmentum Capital works with its investee businesses in defining three to six key performance drivers for each business and ensuring that the business strategy is suitable for enhancing these drivers.

The management team is focused on helping their investee businesses achieve organic growth, which may be complemented by strategic acquisitions when appropriate. Augmentum Capital also helps in the development of the business and with their entry into new markets or market segments.

The exit thesis for each investment is developed prior to making any investments. In this way, Augmentum Capital tries to commit the management, board and co-investors to a common plan. Augmentum Capital is an active participant in any exit process, and this includes involvement in the formation of the strategy, appointment of advisers and negotiating directly with potential acquirers.

Snapshot of pipeline

Through their industry relationships, the management team has identified a pipeline of potential further investment opportunities with a current investment value of more than £100m. Subject to detailed due diligence and review by the investment committee, and consultations with the advisory panel, the management team expects to move forward with a number of these opportunities over the coming months. The aim is for the net proceeds of the IPO to be deployed within 12 months of admission. There may also be additional investments in existing portfolio companies, and the management team is also re-engaging with fintech companies that had been seen previously but were not ready for investment.

Fig 11: Investment pipeline

Sub-sector	Region	Status
Pensions	UK	Company wants AUGM as an investor
Remittances	UK/ global	May invest at primary or secondary stage
Personal finance data analytics	UK	Proprietary, exclusive relationship with this market leader
SME lending	Europe	Secondary stake may become available
Insurance analytics	UK	Opportunity to pre-empt Series B funding
SME banking	Europe	Negotiating terms, aim to pre-empt the next funding round

Source: Company.

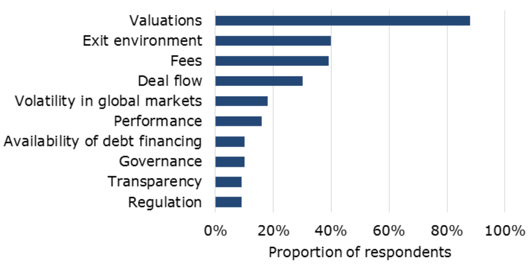
Since AUGM launched, there has been an increase in the number of leads to be assessed by the management team, due to the publicity surrounding the launch. Investee companies looking for investment are in general attracted by the 'permanent capital' nature of the Company's listed investment trust structure, rather than the traditional LP funds with their well-defined investment and harvest periods. Though not quantified by AUM, this larger number of leads may ordinarily be expected to lead to an increased number of attractive investments which could be brought into the portfolio.

Addressing potential investor concerns

Alternative investment information provider Preqin published its semi-annual 'Investor Outlook for Alternative Assets' in February 2018. In this survey of investor sentiment, they identified several positive trends for private equity and venture capital investments in general. For example, 38% of investors said that private equity investments had exceeded their expectations over the previous three years and only 5% said that the performance over the previous three years had fallen short of their expectations. 53% of investors planned to increase their allocation to private equity – the highest level in the last six years – while only 4% of investors intended to decrease their allocation. 93% of surveyed investors intended to make their next commitment to private equity investments in 2018, with many institutional investors indicating that the increase in allocation could happen rather soon. The numbers for venture capital investments were somewhat less optimistic, with only 22% of investors stating that their investments had exceeded expectations over the previous three years, but still a significant minority intended to increase their allocation to venture capital over the following twelve months.

However, there were also investor concerns when it came to committing capital to private equity funds or venture capital. The main concern was the high valuations of private equity investments, with 88% of the survey respondents identifying this as a key concern for 2018. The second main concern cited by investors was the slow exit environment, followed closely by worries about the potential negative impact of fees on the performance of LPs.

Fig 12: Key issues for private equity 2018



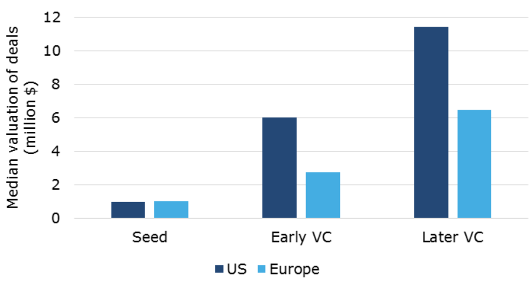
Source: Preqin, Fidante Capital.

Valuations in venture capital

Valuations for both venture capital and private equity deals have clearly risen over the last couple of years. The median step up between venture capital rounds is now 1.6x compared to 1.5x between 2014 and early 2017, according to data provider PitchBook. The median private equity EV/EBITDA multiple is currently 10.5x, up from 8.5x five years ago.

However, there are clear regional differences, with valuations in Europe significantly lower than in the US. The average valuation of early stage venture capital in Europe was about half the valuation in the US, indicating that AUGM, with its focus on European fintech investments, should be less at risk of the negative effects coming from higher valuations than those investment companies focusing more on US deals.

Fig 13: Venture capital investment valuation



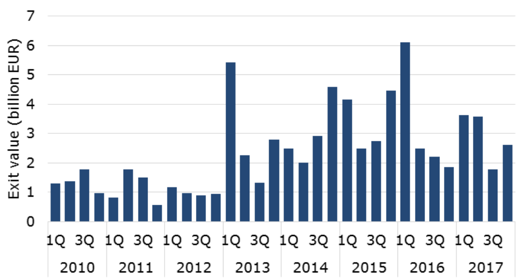
Source: PitchBook, Fidante Capital.

Thanks to the introduction of tax incentives to finance seed stage companies, there has been a shift in capital allocations towards seed stage capital and away from later stage venture capital. As a result, European seed capital deals are now about the same size as American deals. This re-allocation of capital by investors has led to a funding gap in later stage venture capital that provides some additional buffer for investors in this segment.

Exits during volatile markets

Another major concern for many investors is the ability to exit their investments at attractive prices. PitchBook reports that the number of venture capital exits in Europe declined in 2017 to 426 closed deals, worth a total of €11.6bn. While this is a decline from the peak of 2015 and 2016, it still is on par with the average of 2013 and 2014 and significantly above the number of deals and the deal sizes in the period from 2010 to 2012. While the number of acquisitions of venture capital investments by other private equity and venture capital firms has declined, the number of IPOs and management buyouts in Europe has remained stable, or even increased, in 2017 compared to 2015 and 2016. While the number of exits is set to decline further, the valuations achieved at exit remain high and attractive investments, in our view, are likely to continue to fetch higher prices in the coming years. In summary, we expect investors to become more selective in their acquisitions of venture capital-backed businesses, but we do not expect a lack of liquidity for high quality venture capital exits.

Fig 14: Exit value of European venture capital



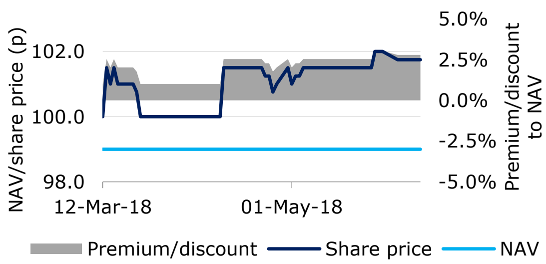
Source: PitchBook, Fidante Capital.

Company and peer performance

AUGM performance since IPO

The company's NAV at launch was 99.0pps, RIT Capital Partners having subsidised the launch costs. Since then, the share price has ranged from 100pps (the issue price) to 102.0pps, meaning that the shares have traded at premiums ranging from 1.0% to 3.0%. The next published NAV is expected to be for 30 September 2018.

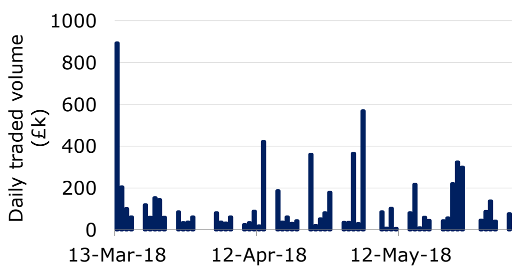
Fig 15: AUGM share price and rating



Source: Fidante Capital, Company, Bloomberg. From 12 March to 4 June 2018.

The average daily traded volume for the stock since launch to 4 June 2018 has been £121.6k per day (or 0.13% of the market cap per day). Excluding the first trading day, the average volume moves to £105.6k per day (0.11% of the market cap). The volume on 13 April 2018, the day after reports appeared in the press speculating on a potential fundraising round by Zopa, topped £400k and the share price was up 1.5pps.

Fig 16: AUGM trading volume



Source: Fidante Capital, Bloomberg. From 13 March to 4 June 2018.

Peer groups

Due to the fact that AUGM occupies a unique position within listed investment trusts there are no direct comparables. However, we have compiled three peer groups of companies that are related, given the strategy of the Company. These peer groups comprise:

- four of the more relevant listed private equity companies, one of which, Syncona, is focussed on one sector, like AUGM, albeit a different sector **(LPE)**;
- three technology equity investment trusts **(TEIT)**; and
- two listed technology investment companies **(LTIC)**, together with the FTSE All-Share Technology Index.

The companies and the index in these peer groups appear in the table below. The attributes of the associated track records that can be analysed (as AUGM has yet to publish an updated NAV post the IPO) are the share price performance, premiums/discounts (excluding the two listed technology investment companies, as these do not trade off their published NAVs), and liquidity.

Fig 17: Peer groups (make this table double width)

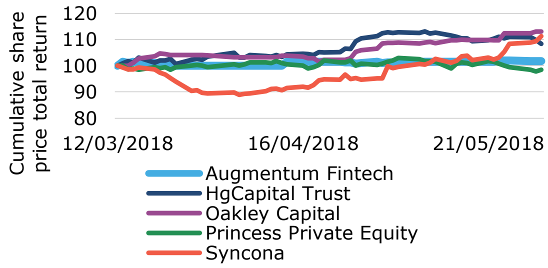
Name	Net assets (£, m)	Peer group	Strategy
Hg Capital Trust	737	LPE	Mainly European mid-market investments with technology bias
Oakley Capital	516	LPE	UK and European mid-market investments with technology exposure
Princess Private Equity	669	LPE	Diversified sector exposures, including technology
Syncona	995	LPE	Transitioning to life sciences
Allianz Tech.	410	TEIT	Invests in listed technology companies globally
Herald	1.1bn	TEIT	Invests in the smaller listed technology companies globally
Polar Capital Tech.	1.7bn	TEIT	Invests in listed technology companies globally
Draper Esprit	311	LTIC	Venture capital investor in technology
IP Group	1.3bn	LTIC	Intellectual property-based investments in technology
FTSE All-Share Tech. Index	n/a	n/a	Cap-weighted measure of technology sector performance in the FTSE Index

Source: Fidante Capital. Net assets at 31 May 2018.

Total shareholder returns

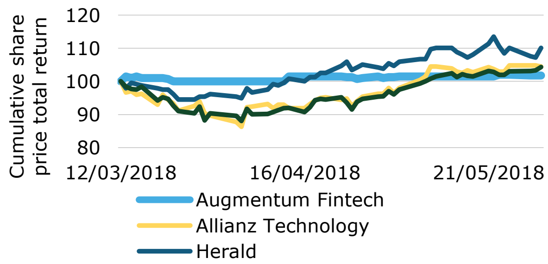
Since the launch of AUGM, Syncona, the technology equity investment trusts and the FTSE All-Share Technology Index initially experienced (share price) declines. However, since early April 2018, each of these companies, together with the FTSE index, have staged a recovery (the market index was, however, still under water by around 10% at the end of May 2018). The other companies, including AUGM, did not show this pattern of performance. The standout share price performance over this period was generated by IP Group, with its shares up circa 28% over the period. Over the 12 months to the end of May 2018, HgCapital Trust, Syncona, the technology equity investment trusts and Draper Esprit all performed well in share price terms, up 30% and more.

Fig 18: LPE total shareholder returns



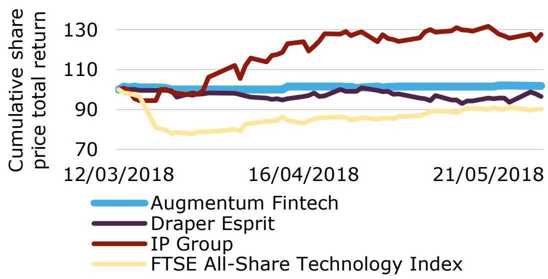
Source: Fidante Capital, Bloomberg. From 12 March to 31 May 2018. Cumulative Princess Private Equity total shareholder return is in EUR.

Fig 19: TEIT total shareholder returns



Source: Fidante Capital, Bloomberg. From 12 March to 31 May 2018.

Fig 20: LTIC total shareholder returns

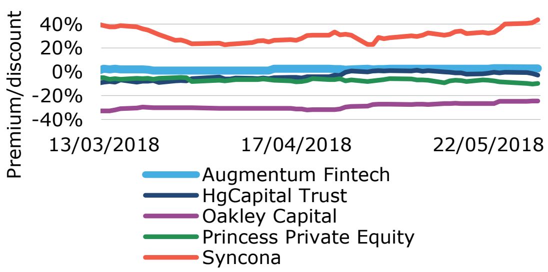


Source: Fidante Capital, Bloomberg. From 12 March to 31 May 2018.

Premiums/discounts

The listed private equity peer group can be split into three sub-groups in terms of their ratings. Firstly, Syncona has been trading at a circa 40% premium, which is up from around 17% a year ago. Oakley Capital traded at a discount of circa 25-30% over the 12 months ending 31 May 2018. Finally, HgCapital Trust and Princess Private Equity were at sub-10% discounts at the end of the period, also largely unchanged over the preceding 12 months.

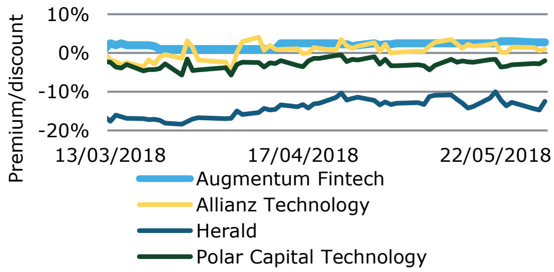
Fig 21: LPE premiums/discounts



Source: Fidante Capital, Bloomberg. From 13 March to 31 May 2018. Premium/discount calculations are based on daily share prices and periodic NAVs, which are reported after the NAV (and share price) date (for the LPE peer group).

Within the technology equity investment trust peer group, Allianz Technology and Polar Capital Technology have, since AUGM launched to the end of May 2018, traded around par, while Herald has been at a discount in the 10-15% range. Over the 12 months to the end of May 2018, Allianz Technology shares have only moved to a consistent (small) premium since early April 2018, the Herald discount has steadily narrowed over the period, and Polar Capital Technology traded at small premiums (of circa 1-3%) in July/August 2017 and from the start of October 2017 to the end of January 2018.

Fig 22: TEIT premiums/discounts

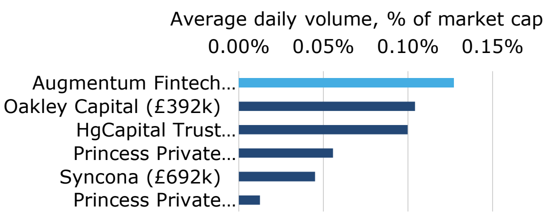


Source: Fidante Capital, Bloomberg. From 13 March to 31 May 2018. Premium/discount calculations are based on daily share prices and NAVs, which are reported daily for the day before (for the TEIT peer group).

Trading volumes

The average daily traded volume for Augmentum Fintech over the period since launch to 31 May 2018 was £121k per day. As may be expected given the Company's size, in terms of the absolute quantum of shares traded, Augmentum Fintech was placed near the bottom of the ranking amongst the listed private equity peers. However, on a relative basis, after normalising to the current market cap of the companies, Augmentum Fintech was the most liquid of these companies (0.13% of the market cap has been traded per day, on average).

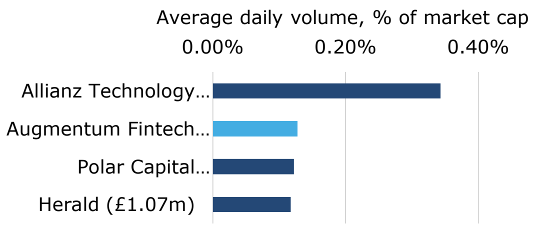
Fig 23: LPE trading volume



Source: Fidante Capital, Bloomberg. From 13 March to 31 May 2018. The percentages shown are the daily volume as a percentage of the companies' market capitalisations as at close on 31 May 2018. The numbers in the brackets are the average traded volumes in Sterling terms.

Allianz Technology was the clear leader in terms of market cap-adjusted average daily traded volume amongst the technology equity investment trust peer group. However, the average Augmentum Fintech liquidity has been comparable to the two other companies, by this measure.

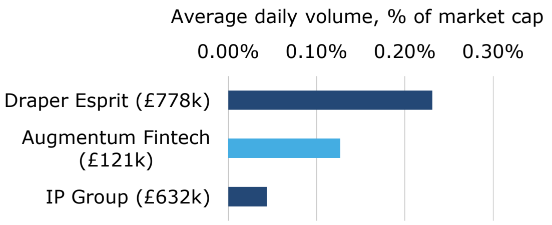
Fig 24: TEIT trading volume



Source: Fidante Capital, Bloomberg. From 13 March to 31 May 2018. The percentages shown are the daily volume as a percentage of the companies' market capitalisations as at close on 31 May 2018. The numbers in the brackets are the average traded volumes in Sterling terms.

Augmentum Fintech sits in the middle of the peer group of the listed technology investment companies, in terms of the market cap-weighted average daily traded volume over the period since 13 March 2018.

Fig 25: LTIC trading volume



Source: Fidante Capital, Bloomberg. From 13 March to 31 May 2018. The percentages shown are the daily volume as a percentage of the companies' market capitalisations as at close on 31 May 2018. The numbers in the brackets are the average traded volumes in Sterling terms.

Summary

While it is still early days for AUGM, the Company's existing portfolio provides both significant long-term upside potential for the NAV, as well as some key short-term triggers that could boost the (pro forma) NAV before the publication of the next official NAV (for the end of September 2018).

Additionally, the existing cash holdings are expected to be further invested in the near to medium term, providing further insight into the management team's growth strategy for the Company.

AUGM is clearly not a low risk investment, due to the very nature of the early-stage businesses in which it invests, but for investors seeking exposure to one of the true long-term growth stories that exist currently, we believe that it provides liquid access to an illiquid asset class via a suitably-managed structure.

Appendix

Management team

The key individuals responsible for the investment portfolio are:

Tim Levene (CEO of Augmentum Capital)

Tim began his career at Bain & Co before leaving to co-found Crussh, the chain of juice bars. In 1999, Tim became a founding employee at Flutter.com and after it merged with Betfair in 2001, he led the commercial side of the business, including launching its international business. In 2010, Tim co-founded Augmentum Capital with the backing of RIT Capital Partners. Tim has been a Young Global Leader at the World Economic Forum since 2012 and is the Digital Advisor to the Royal Foundation. He is a member of the UK Fintech Action Group and is a Global Ambassador for Innovate Finance. Tim was also elected as a Common Councillor (Independent) for the Ward of Bridge in the City of London in 2017 and sits on its Finance, Market and Investment Committees.

Richard Matthews (COO of Augmentum Capital)

Richard qualified as a chartered accountant with Coopers & Lybrand / Pricewaterhouse Coopers LLP before leaving in 1999 to join Tim as an early employee and CFO of Flutter.com, where as well as developing the business plan upon which $24m of venture funding was raised, he was a key architect of the ground-breaking peer-to0peer account management system. In 2001, upon the merger with Betfair, he left to become CFO of Benchmark Europe (now Balderton Capital, a venture capital investor in Betfair). In 2005 he became a partner at Manzanita Capital, a large US family office, and in 2010 he re-joined Tim Levene to co-found Augmentum Capital.

Perry Blacher (Venture Partner)

Perry started his career at McKinsey & Co in 1996, moving to Microsoft in 1998. He has spent the last decade as an angel investor in, and advisor to, fintech businesses. Perry is a fintech specialist, holding advisory or non-executive roles at Fairpoint plc, Barclays UK, Google, Onfido, Prodigy Finance, TransferGo and other businesses. He was an investor at Chase Episode 1 when they invested in Flutter.com and is a venture partner at Amadeus Capital. He was Vice President International at Zulilly from 2013 up to its IPO on Nasdaq. He was the founder and CEO of two businesses, both sold to public companies (Serum in 2002 and Covestor in 2007). He has a strong network throughout Europe and will give Augmentum Capital improved reach into fintech hubs in Berlin, Scandinavia and the Baltics.

Advisory panel

The management team is able to consult with an advisory panel of industry experts:

Edward Wray

Mr Wray co-founded Betfair in 1999. Betfair floated on the London Stock Exchange in October 2010, valued at £1.4bn. Today it is a FTSE 100 company with a market capitalisation of over £7bn. Mr Wray has twice won the Ernst & Young Entrepreneur of the Year award. Prior to founding Betfair, Mr Wray spent eight years at JP Morgan. He has an MA (Hons) in Engineering, Economics & Management from the University of Oxford.

Having stepped down from his role as Chairman of Betfair in 2012, Mr Wray currently holds directorships at Funding Circle, LMAX, Property Partner and Prodigy Finance, and is a Trustee of Nesta, The Mix and Mental Health Innovation. He also chairs the Advisory Board for The Royal Foundation's Coach Core programme. He is an active fintech angel investor.

Phillip Riese

Mr Riese has spent more than 40 years in financial services. He started at Chase Manhattan Bank where he led their merchant business. He then spent 18 years in leadership roles at American Express, retiring in 1998 as President of the Consumer Card Group and Chairman of American Express Centurion Bank, and being credited with turning around the American Express core consumer card business.

Since 1999 he has focused on investing in and developing financial services, fintech and data analytics companies globally, often serving on the board of directors or as a mentor and adviser to the CEO and management team. His portfolio has included investments in North America, Europe and Asia. In addition, he is a board member of Accion, a not-for-profit organisation that is dedicated to providing financial services to the billions of people excluded by traditional financial providers globally. He manages a portfolio of 63 financial services and companies in 26 countries around the world, and operates each to be sustainable and yield benefits to customers and returns to shareholders.

Josh Hannah

Mr Hannah is a Silicon Valley entrepreneur and investor. Most recently, he was a general partner with Matrix Partners, where he led consumer marketplace and enterprise software investments such as GOAT, Canva, Quora, TechStyle (JustFab), and Marco Polo. In 1999 he co-founded Flutter.com and he later led a merger with its competitor, Betfair.com. In 2004, Mr Hannah was involved in the purchase of eHow, a Web 1.0, how-to directory. Mr Hannah and his partner rebuilt the company and sold it to Demand Media in 2006 for a 400-times return. Mr Hannah has a current focus on cryptocurrency and blockchain investing and is a founding investor in Metastable and Polychain, amongst other similar companies.

Board of Directors

Neil England (Chairman)

Neil England has extensive international business expertise in a career spanning public and private companies varying in size from start-ups to global corporations. His executive career started in manufacturing and he has since held leadership roles in sales, marketing and general management across the food, FMCG (fast moving consumer goods), distribution and technology sectors. Mr England is a former Vice President of Mars Incorporated; Group Chief Executive of The Albert Fisher Group Plc and Group Commercial Director of Gallaher Group Plc. Additionally, he has started two technology businesses and advised on others.

In his non-executive career, Mr England was Chairman of Silverstone and four other private and private equity-backed businesses, and was Senior Independent Director of Wincanton Plc.

He is currently Non-Executive Chairman of BlackRock Emerging Europe plc, ITE Group plc and The Pallet Network Limited.

Karen Brade

Karen Brade has over 25 years of experience in project finance and private equity. Karen began her career at Citibank where she worked on various multi-national project finance transactions. From 1994 to 2004 she was at the Commonwealth Development Corporation, a leading emerging markets private equity firm, where she held a variety of positions in equity and debt investing, portfolio management, fund raising and investor development. Since 2005 she has been an adviser to hedge funds, family offices and private equity houses. She chairs the Audit Committee and is Senior Independent Director of Crown Place VCT plc, is a non-executive director of Aberdeen Japan Investment Trust plc and of Keystone Investment Trust plc.

David Haysey

David Haysey has over 35 years of experience in the investment business, working on both public and private equities, and asset allocation. He began his career as a stockbroker and has held a number of senior positions, including Head of European Equities for SG Warburg plc and Deutsche Bank AG. Between 2001 and 2005 he was CIO and co-CEO of Deutsche Asset Management's European Absolute Return business. From 2005 until 2013, Mr Haysey worked for RIT Capital Partners, where he was a board member between 2005 and 2008, and head of public equities. He joined the multi-strategy firm Marylebone Partners from its launch in 2013 as head of liquid strategies. He retired in 2017 and is now a non-executive partner and member of the firm's investment committee.

The company in brief

Fig 26: Key attributes

Attribute	
Company name	Augmentum Fintech plc
Sector	Private equity - single manager specialist
Listing	LSE (premium segment of the main market)
Domicile	Incorporated in England and Wales
Share class	GBP
Management	Initially, the Company's investment adviser is Augmentum Capital; following FCA authorisation, AUGM will become internally managed with Augmentum Fintech Management, a wholly owned subsidiary of the Company with the same employees as Augmentum Capital, appointed as the new portfolio manager; independent non-executive board
Investment strategy	To invest in fast growing and/or high potential fintech businesses based predominantly in the UK and wider Europe
Investment objective	To generate capital growth over the long term
Projected performance	Management track record in fintech: gross IRR of 19% from 2010 to 2017
Dividends	None
Capital returns	Will return annually up to 50% of the realised gains from disposals; may return capital if available cash is not expected to be substantially deployed within 12-18 months
Gearing	None for investment purposes
FX hedging	Non-GBP portfolio investments and income may be hedged into GBP
Fees	Management fee: 1.5% of NAV per annum (1.0% per annum for net assets over £250m). Carried interest: 15% of net realised profits, subject to a minimum IRR of 10%, with catch-up
Ongoing charges	Expected to be 2.2% based on a £100m IPO
Reporting	March year end; semi-annual NAVs
Discount management	Share buybacks up to 14.99% of issued share capital; if NAV less than 70pps, board will consult shareholders and carry out a strategic review
Life	Unlimited
Board	Neil England (Chairman), Karen Brade, David Haysey; all board members are independent and non-executive
Website	www.augmentumfintech.com

Source: Fidante Capital, Company.

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