



The t1ps Smaller  
Companies EIS Fund **2**

## Beating a low Benchmark

Most EIS Funds appear to be complete dogs. We took over the management of 3 funds last summer from a manager who (deservedly) had gone bust. Almost half the investments made were - in less than three years - complete write offs. Others were (barely) walking wounded. The amazing thing is that when we correspond with the poor folk who were suckered into these schemes by glossy marketing we find that they have invested in other EIS Funds with big name providers which have fared even worse.

And so it is with some pride that after 14 months of running the t1ps EIS 1 Fund and with a second fund now being invested we report back on some pretty decent results. Our vision of creating a portfolio of solid fundamentally decent businesses which offers tax efficiency plus some serious capital growth is being delivered. As of now the weighted average return of EIS 1, excluding the 20% tax breaks is 16.22%. If we allow for the tax efficiencies we are ahead by 40.00%. Not bad! But these are longer term investments and so we think that the best is yet to come.

We deploy our cash where we see value, i.e. companies that were operating efficiently, either profitably or we believed would be in the near term, and had strong long term growth prospects. As you can clearly see we have, on a short term view, already been rewarded for our astute stock selection. Our good performance so far prompted us to make the t1ps EIS Fund an annual event! As of late December 2010 we are very pleased and excited to announce that t1ps EIS 2 closed. EIS investing is a great opportunity for real value investing as we can identify great businesses, invest, and then hold for the long term! Having already selected five of our investments we are just as excited about EIS 2 as we are about the progress we are making with EIS 1. This is because we have already quantified what the potential returns could be over the long term. As we write the gain on EIS 2 after just a few months is 48.07% excluding tax breaks and 78.40% with tax breaks - we have to date made 5 investments.

The key with EIS Funds, and what a good deal of "professional" managers seem to fail to understand, is that while the tax breaks are a big part of the incentive in regards to investments into these Funds, that should not be a license to abandon proven principles of value investing. So we do NOT sprinkle your cash - as do many EIS managers - on a portfolio of blue-sky 100-1 shots in the hope that 1 big winner will offset a bunch of disasters.

In regards to our investment strategy, as you will see in the companies profile section below, that EIS 1 and 2 have a couple of overlaps. The reason behind this is that the underlying fundamentals justifying these investments a year ago remain the same. We see real upside in the two companies which currently cross over the gap between EIS 1 and 2. The strategy which we always follow and have not altered with EIS 2 is; identify materially undervalued business with strong balance sheets, visible earnings, strong management teams and promising futures, invest, then hold. If you really believe in a company you should invest more in it rather than diversifying into a weaker play.

After delivering such impressive returns with our first two funds you may ask will there be a third? The answer is yes. We anticipate that EIS2 will be fully invested within a few weeks and therefore plan to launch a third EIS Fund in early April. **If you would like to receive information on that fund launch please email your name and address marking the mail EIS3 to [spiros.kurtidis@t1psim.com](mailto:spiros.kurtidis@t1psim.com)**

Thank you for your support to date.

**Tom Winnifrith**

t1ps EIS Fund (17/02/2011)					
Sector	Holdings	Stock Name	Start Value without Tax Credit	Start Value with Tax Credit	Current Value
Healthcare	2,880,000	Sutherland Health Group	£72,000	£59,760	£79,200
Retail	2,000,000	The Beautiful Group plc	£144,000	£83,000	£144,000
Entertainment	2,000,000	Intandem Films	£80,000	£66,400	£110,000
Services	22,222,222	Resources In Insurance	£100,000	£83,111.11	£131,111
Services	300,000	Webb Capital	£75,000	£62,250	£64,500
Investment	2,500,000	RAM Investment Group	£100,000	£83,000	£115,750
Retail	12,853	Commercial Tyre Solutions	£99,996.34	£82,953.26	£99,996.34
<b>Total</b>			£626,996.34	£520,474.37	£728,682
<b>Increase in Value without Tax Credit:</b>					16.22%
<b>Increase in Value with Tax Credit:</b>					40.00%

t1ps EIS Fund 2 (17/02/2011)					
Sector	Holdings	Stock Name	Start Value without Tax Credit	Start Value with Tax Credit	Current Value
Services	1,240,000	@UK	£62,000	£51,460	£240,250
Services	1,550,000	RAM Investment Group	£62,000	£51,460	£60,062.50
Entertainment	1,833,333	Intandem Films	£110,000	£91,300	£100,833.31
Leisure	7,294,117	Metroelectric	£62,000	£51,460	£62,000
Support Services	124,000	Frontier IP	£62,000	£51,460	£66,960
<b>Total</b>			£358,000	£297,140	£530,105.81
<b>Increase in Value without Tax Credit:</b>					48.07%
<b>Increase in Value with Tax Credit</b>					78.40%

Please note that the Fund is not fully invested and still holds cash

## What is an EIS Fund?

The Enterprise Investment Scheme ("EIS") is a government scheme that provides a range of tax reliefs for investors who subscribe for qualifying shares in qualifying companies. There are five current separate EIS tax reliefs:

- **Income Tax Relief** - Up to £500,000 per individual may benefit from 20% initial tax relief.
- **Capital Gains Tax** - Provided the shares are held for 3 years, there is no capital gains tax (CGT) due on the proceeds.
- **Inheritance Tax Relief** - Investments qualify for IHT relief after two years.
- **Loss Relief** - loss relief applies meaning that if a share were to be worthless, the loss could be offset against income tax.
- **Capital Gains Tax (CGT) Deferral** - CGT deferral relief is also available on top of the above and is not capped at £500,000.

The information given above provides only a summary of current legislation. The rates shown above are based on current legislation which could change in the future. These tax benefits depend on individual circumstances. **If you are unsure about your tax situation you should seek professional advice from a qualified tax adviser. Tax rules and regulations can be subject to change.**

**If you are interested in the EIS Fund 3, launched in the new tax year, please email your name and address marking the mail EIS3 to [spiros.kurtidis@t1psim.com](mailto:spiros.kurtidis@t1psim.com)**

## News from the Funds

The first of the two companies which we hold in both EIS Funds is London based international film group **Intandem Films** (we also own a good chunk of the company in the SF T1ps Smaller Companies Growth Fund and this is not without good reason!). Currently capitalised at £6.4 million, EIS 1 invested in Intandem at 4p, the shares are currently trading at 5.62p today, so we are already a healthy 40.5% ahead on the year. But as we have said this is just an added bonus. We reckon that the real growth is still yet to come. Taking this into account, with the increasingly demanding pipeline of films that the company is developing it was announced on 11 January 2011 that Intandem had raised £684,000 gross of expenses via the placing of 11,400,000 shares at 6p, EIS 2 subscribed for shares at this point. We paid a 14.3% premium to the closing price a day before but this does not concern true value investors like ourselves - this is not about flipping but about buying into a long term growth story.

The company is focused on international film sales, earning commission on all sales achieved to film distributors throughout the world. The company also derives revenue through the arrangement of financing for film productions for which an executive production fee is received. On 17 December 2010 the company released a set of very promising accounts for the Year Ended 30 June 2010. The financials detailed how during the period the company had completed the disposal of the catalogue of the 5 films which had seen the Balance Sheet carrying debt, netting a profit on the sale of £3.92 million. This is after relinquishing the Balance Sheet of the associated £5.7 million loan, leaving Intandem debt free.

Prudent cost and overhead management is also beginning to be realised with the company reporting a reduced loss of £642,047 for the 12 months, down from £991,543 a year earlier. Going forward, with an announced pipeline of 20 new films for which it has been appointed as an Executive Producer and international sales company with total budgets in excess of £150 million, operational gearing should kick in to the good this year. We expect several of these films to commence production within calendar 2011. To break even Intandem needs 5-6 modest budget films booked a year and in light of developments we reckon this is on the cards for the June 30th 2011 year.

So where are we now, and where do we see Intandem going from here? Well, the nature of the film industry itself is long term with about 12 months passing in between pre-production and the delivery of the film to producers. In light of this the management focus is to develop and secure at least one film every 2 months which will guarantee a sustained inflow of cash. In the short term we expect the company to swing into profitability before long, if it is not already close to breakeven now. By next year (to June 30th 2012) we are looking for a pre-tax profit of £2 million. That equates to earnings of 1.7p. We reckon that a multiple of at least 8 is undemanding, which would equate to a target price (within months) of 13.5p.

The second company in both EIS 1 and 2, is AIM listed **RAM Investments**. We originally invested in the company via EIS 1 at 4p, and since then the company's shares have moved slightly higher to 4.25p, but today rest at 4p capitalising the company at £5.8 million. For us this is neither here nor there as the last year has been one of consolidation for the company which now has two distinct revenue generating subsidiaries. Offered the opportunity, EIS 2 backed RAM again at 4p in the placing of 25,862,500 new shares to raise £1,034,500 gross of expenses as announced on 10 January 2011.

The justification for the cash raise was to provide funding for RAM Vision Ltd. A strong cash position

will allow RV to further the development of the Philips Iconic Screen project, announced on 13 December 2010, which has the potential to transform the company's top line with minimal impact on overheads. RV currently supplies its services to 41 shopping malls across the UK and the focus in 2011 is to ramp this up to 74 by the end of the year. The impact this will have on revenues is clear. The second of the company's subsidiaries is TrainFX, the fully approved and registered supplier of data and passenger communications for the UK railway industry. Operating within the niche market of EU rail compliance the now wholly owned subsidiary is revenue generative and developing a strong product offering and future pipeline which will see the consolidated top line materially boosted this financial year.

Financials for the full year ended 31 December 2010, expected to be released in early June of this year, will not impress. 2010 was a year of consolidation and development for the company which has resulted in the creation of two solid cash generative businesses. Accordingly, we will not be too concerned with the numbers in June, but for the full year 2011 we forecast £500,000 of profit. By full year 2012 we believe that it is very realisable that the company will then move on to deliver profits of roughly £2.5 million, equating to earnings per share of 1.7p. Having bought for both EIS Funds at 4p, that implies a forecast price to earnings multiple of 2.3p. Completely derisory.

Finally, one of the new investments for the EIS 2 Fund is AIM-traded **@UK plc**, the online eMarketplace and provider of eProcurement and eCommerce software. The company is the provider of the UK's leading internet marketplace which supplies its users (local authorities, schools, hospitals and the like) with a secure business to business platform to purchase and acquire a range of products online through a vast spectrum of suppliers, from large corporations to smaller businesses. The focus of the company is to provide supply chain management savings to the public sector (amongst other client bodies) by completely omitting the need for paper work and a massively reducing the chance of errors.

In light of this we reckon that the @UK is due to be one of a few companies that will actually benefit from the public sector spending review as the service offering delivers clients with the opportunity to operate efficiently within a tight budget framework. This was highlighted on 21 January 2011 when the company announced that throughout the second half of the full year that it had experienced a swift upturn in product enquiries with respective revenues expected to be booked this financial year. The company also now provides a new Green Marketplace for the environmentally, and carbon footprint conscious clients looking for green product alternatives.

Full year results for 2010 are due out on 23 March 2011 but at the half year stage, as announced to the market on 27 July 2010, the company reported a lowered operating loss of £460,000, derived from a tight cost management process which saw operating costs fall from £1,340,000 to £1,007,000. Net cash outflow from operating activities was also marked much lower to £179,000 a 44% reduction from the same period a year before. Having taken an increasingly positive view on the company over the last 6 months when offered to partake in the most recent placing, which was announced on 12 January 2011, we took up the opportunity.

The company placed 5,305,000 new ordinaries at a price of 5p raising a total of £265,250 gross of expenses. The funds are to be used by the company to allow additional marketing and sales initiatives to maximise developing opportunities (the company is looking to shortly add Universities to its client base) and allow the company to bid for much higher value contracts whilst providing working capital to the group as a whole. The placing was priced at a 26% discount to the prevailing market price the week before hand but in the following few weeks shares in the company have quite simply rocketed. Currently capitalised at £12 million, the shares have already more than trebled since our initial investment and are now trading at 18p. Looking forward we believe 2010 to have been a transitional period for the company and that full year 2011 results will show a much improved picture in regards to the company and its underlying operations. We are happy to hold.

**Ross Jones & James Faulkner**

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## **Risk Warning:**

Please note that EIS Funds are products which should be considered as being higher-risk investments. They are not suitable for all investors. They may be appropriate as part of a diversified portfolio, giving access to an alternative asset class, but should be considered illiquid and therefore unsuitable for unplanned or early capital withdrawals. You should seek qualified professional advice before investing. You should also remember that the tax benefits may change as they are subject to changes in tax legislation. This particular fund will be managed by t1ps Investment Management (IoM) Limited of 4th floor, 39 Athol Street, Douglas, Isle of Man, IM1 1LA. t1ps Investment Management (IoM) Limited is licensed by the Isle of Man Financial Supervision Commission of PO Box 58, Finch Hill House, Bucks Road, Douglas, Isle Of Man, IM99 1DT ([www.fsc.gov.im](http://www.fsc.gov.im)). The rules made under FSMA for the protection of retail clients do not apply. The Fund is not covered by a compensation scheme. This financial promotion has been approved for Section 21 purposes by Rivington Street Corporate Finance Limited which is authorised and regulated by the Financial Services Authority and is, a wholly owned subsidiary of Rivington Street Holdings Plc.