VCT RESEARCH REPORT

OCTOPUS APOLLO VCT

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HEAD OF INVESTMENT ANALYSIS

Generalist

Generalist VCTs primarily invest in unquoted companies in a wide variety of sectors and stages of development.

"This is the more conservatively managed of the Octopus VCTs, which aims to be at the lower risk end of the VCT spectrum, but also deliver lower returns than the others."

This report is not a substitute for reading the prospectus, and any decision to invest must be made purely on the basis of the prospectus.

Risk factors
VCTs are substantially higher risk than mainstream equities. They invest in smaller companies, which can be prone to failure.

VCT shares are difficult to buy and sell – the market price may not reflect the value of the underlying investments. The value of the shares will fluctuate, income is not guaranteed and you could get back less than you invest. Tax and VCT rules can change and tax benefits depend on your circumstances. If a VCT loses its qualifying status investors may have to repay any tax rebate. The prospectus will give fuller details of the risks.

Their place in a portfolio
We feel VCTs should account for no more than 10% of an equity portfolio. They must be held for five years in order to retain the tax relief, but a ten-year view would be better as dividends are the primary source of returns as the VCT portfolio matures. VCTs are only suitable for sophisticated long-term investors with significant portfolios. They are unlikely to be suitable for investors who may need access to their money in the short term, or for whom loss of the investment will cause hardship. We assume you will make your own assessment of your expertise and the suitability of a VCT for your circumstances. If you have any doubts you should seek expert advice.

OFFER SUMMARY

Funds	Octopus Apollo VCT
Amount seeking	£30 million
Minimum investment	£5,000

OUR VIEW

This is the more conservatively managed of the Octopus VCTs, which aims to be at the lower risk end of the VCT spectrum, but also deliver lower returns than the others. We like the focus on robust management teams running established businesses and the aim of offering some capital shelter while paying attractive dividends.

The Apollo VCTs launched in 2006 and a number of mergers have taken place to consolidate the range into one VCT. Octopus is also planning to merge another VCT (Octopus VCT 2) into Apollo during January 2016. This will create a bigger, more diverse VCT and costs should fall. We would like to see how performance fares following the merger, and the recent changes to the VCT regulations discussed below, before becoming more positive.

PHILOSOPHY

Investing in smaller companies is as much about backing people as products and services. A management team can make or break a company's fortunes and the Apollo team focuses on established management teams, ideally running businesses with more predictable sales and revenues. They then structure their investments to generate an attractive income while offering some capital shelter.

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WHO SHOULD CONSIDER GENERALIST VCTs

Generalist VCTs are relatively broad-based, usually investing in a range of unquoted companies across a wide variety of sectors. Some target companies which are already established and profitable, while others have a bias towards very small businesses at an early stage of their development. Most aim to provide steady dividends to investors with the potential for higher payments if and when they sell successful investments. They also aim to maintain or steadily grow capital over the long term.

Investors should ensure they are comfortable with an individual VCTs approach before investing. We believe building a portfolio of different VCTs is sensible as the diversification reduces risk. Starting by selecting those focusing on more mature, established companies; and then adding higher risk VCTs targeting early-stage companies to an already diverse portfolio could be wise. While you must hold the VCT for five years to benefit from the tax relief, we believe 10 years plus is a more realistic time horizon.

PORTFOLIO CONSTRUCTION

All types of business are considered regardless of the industry in which they operate. The overall aim is to hold a broad range of companies operating in a variety of sectors. The team looks for businesses displaying some or all of the qualities below:-

- An established and successful management team
- Annual profits of at least £1 million
- High levels of repeat business
- A broad customer base with high levels of retention
- A competitive advantage

Part of the investments made by the VCT are often in the form of loans to the company. The interest from the loans and the capital repayment are relatively predictable and can be used to fund dividends to VCT investors. Loans are often secured again assets the business owns, such as property or machinery, which can be sold to recover some losses if the company struggles.

The VCT will also invest in the company's shares, which offer the potential for some capital appreciation if the value of the share has risen when the investment is sold. It is the combination of debt and equity investments that allows the VCT to target some capital shelter, attractive dividends, and the potential for capital growth over the long term.

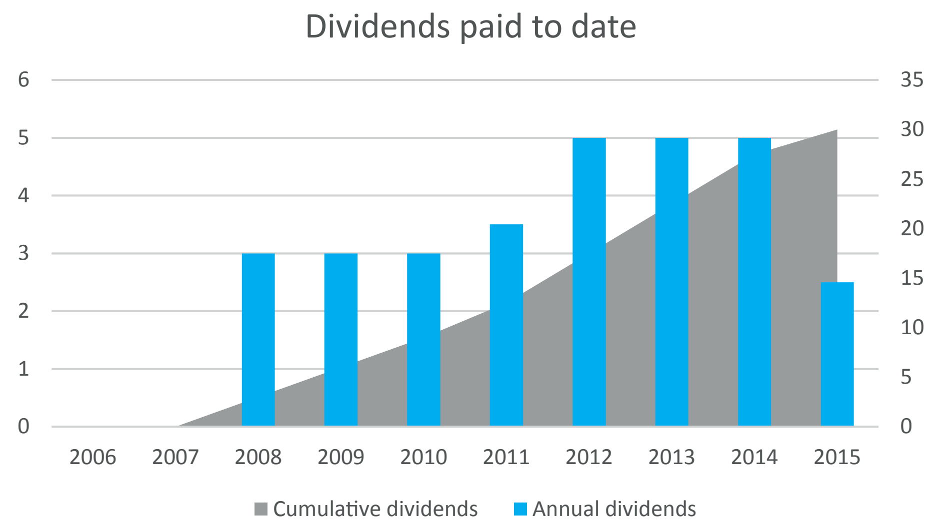
COMPANY CASE STUDY

The team believes two of their strongest areas of expertise are healthcare and renewable energy. They note that in recent years various measures have been put in place by the Government to encourage investment in renewable energy in the UK, while the country's aging population is also likely to increase demand for healthcare.

With this in mind the managers remain positive on the prospects for their investment in Countrywide Healthcare Supplies, which specialises in supplying healthcare and cleaning products, as well as furniture and bedding, to the care home industry. These are all essential products and services that can't easily be cut back on during harder times. The Apollo team was attracted by the company's recurring revenue, focus on customer service, and high level of repeat business.

PERFORMANCE & DIVIDENDS

The first Apollo VCT only launched in 2006 so the track record is relatively short. In the early years VCT returns tend to be subdued. This is because it takes time to invest the portfolio and for these investments to start generating value, before being sold. To date a total of 30p per share has been paid in dividends and the annual total has built up to 5p per share, which is the target going forward. The chart below shows the annual and cumulative dividends paid so far. Please remember dividends are variable and not guaranteed and past performance is no guide to the future.



Source: Octopus Investments, as at July 2015

ABOUT THE MANAGER

Octopus has over £5.4 billion assets under management on behalf of over 50,000 investors. They run smaller companies funds, VCTs, and other tax-efficient investments across a range of strategies, including growth, income generation and capital preservation.

The eight-strong team behind Octopus Apollo VCT is headed by Grant Paul-Florence. The team has a broad range of experience, both within venture capital, private equity and financial services, as well as other industries. As well as conducting their own research to find investment opportunities the team has built a strong network of contacts which is useful for sourcing potential deals.

As well as providing funding to businesses the team will also provide advice and support to help the company grow and reach its potential.

CHANGES TO VCT LEGISLATION

Potential investors should be aware that in November 2015 some changes were made to the legislation governing VCTs which effectively imposes stricter limits on the investments which may be made by VCTs. As with any legislation the full details are complex. The most significant changes include VCTs no longer being able to invest in companies more than 7 years old; the prohibition of certain types of transaction; and VCTs cannot invest more than £12 million in any one company.

The amended rules will affect different VCTs to different extents, depending on the manager's approach. The Octopus Apollo team is confident they will continue to find companies which meet their investment criteria. However, there could be more competition to secure these investments as other VCT managers also adapt to the new rules, making it harder to deliver attractive returns. Further details of the legislative changes can be found on the VCT section of our website: www.hl.co.uk/vct

CHARGES & FEES

The initial charge is 5%. Hargreaves Lansdown is offering a discount of 2.5%, which is available to all investors. Octopus is offering a further 0.5% discount as a 'loyalty bonus' to existing and previous investors in any Octopus VCT. For applications received and accepted before 08 January 2016 there will also be an 'early bird' discount of 2%. The following net initial charges therefore apply (please note discounts are paid as additional shares):-

	Before 08/01/2016	From 08/01/2016
Existing & previous Octopus investors	0 %	2 %
New investors	0.5 %	2.5 %

The annual management charge is 2% and there are other expenses. There is also a performance fee, full details of which can be found in the prospectus. Investors should ensure they are comfortable with the charging structure and risks before investing.

SHARE BUY BACK POLICY

The aim is to offer share buybacks at a discount to NAV of up to 5%. This is subject to certain conditions and the approval of the VCT boards.

HOW TO APPLY

To apply please read the prospectus for the offer and fill out the application form at the back. The prospectus is available to download from the Hargreaves Lansdown website or by calling 0117 900 9000.

The signed application and a cheque for the amount you wish to subscribe should be returned to Hargreaves Lansdown. The cheque should be made payable to the VCT, as indicated in the prospectus, but the application and cheque must be returned to Hargreaves Lansdown in order for you to benefit from our discount.

We will acknowledge your application and your share certificate and tax certificate will be sent once the shares have been allotted. Shares are allotted periodically and allotment could take a number of months following the acceptance of your application. Shares will be issued according to the most recently announced NAV per share of the VCTs, adjusted for the costs of the offer.

You can elect for dividends to be paid by cheque, into your bank account, or participate in the VCT's dividend reinvestment scheme. Please see the relevant section of the prospectus and application form for further details.