Foresight group

February 2016

VCT RESEARCH REPORT
FORESIGHT VCT 'O' SHARES

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.

RICHARD TROUE – HEAD OF INVESTMENT ANALYSIS

OFFER SUMMARY	
Fund:	Foresight VCT 'O' Shares
Amount seeking:	£30 million
Minimum investment:	£3,000

An investment in this VCT offers exposure to some investments which are more mature and could be closer to sale, while the team is also positive on the new investment opportunities they are seeing. This could result in early dividends, plus exposure to exciting new investments, although there are no guarantees.

OUR VIEW

This VCT originally had a technology focus, but has gradually been transformed into a more diversified, generalist VCT, investing across a variety of sectors. The team managing the portfolio has plenty of experience and has managed this transition reasonably successfully.

PHILOSOPHY

The team looks to back small, but established businesses with the aim of helping them boost growth and develop rapidly. They aim to maintain a core of mature investments which could generate good dividends, and achieve the occasional 'big winner' to boost returns, though this is higher risk.

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 VCT's 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.

CHANGES TO VCT LEGISLATION

Investors should be aware that a number of changes to the rules governing VCTs have recently been made. The new rules in effect impose 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. Some of Foresight's investments have tended to be in younger companies and they have not engaged in the types of deals that are now prohibited to the same extent as some other VCT managers. Their approach should be less affected by the new rules, although £30 million is a lot to raise when there could be more competition to secure the most attractive investments as other VCT managers adapt to the changes. Further details of the legislative changes can be found on the VCT section of our website: www.hl.co.uk/vct

PORTFOLIO CONSTRUCTION

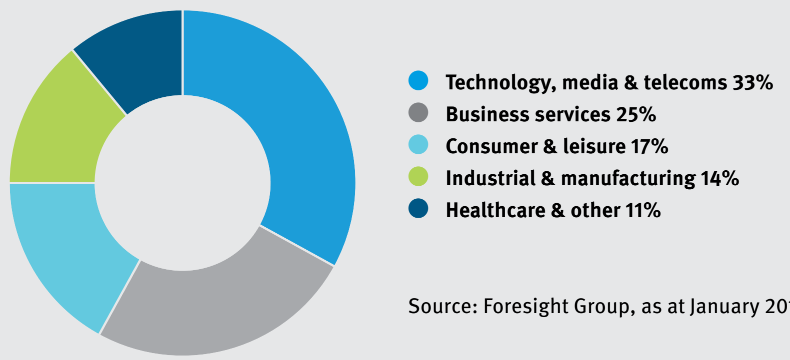
Rather than have a bias to a particular sector the team looks for businesses which share a number of characteristics. They prefer companies with an established product or service, which are generating earnings of between £500,000 and £2m a year. They look for those in a strong competitive position, from which they could be able to grow the business rapidly.

The success of many smaller companies is highly dependent on the management team though, so strong and robust leadership is an important consideration. The team then takes a hands-on approach, aiming to work closely with management in the following areas:-

- Reviewing and implementing the business strategy
- Recruiting and incentivising management and board members
- Planning for growth, expansion, or new products and services
- Additional fundraising
- Mergers, acquisitions and ultimately planning for the sale of the business

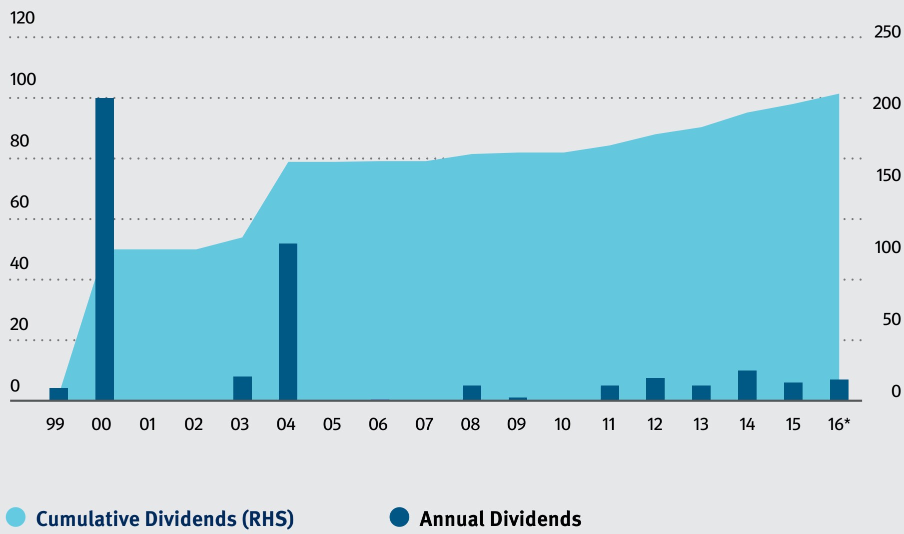
The VCT currently provides exposure to 27 companies and the latest sector breakdown is shown in the chart below:-

FORESIGHT VCT – SECTOR BREAKDOWN



Source: Foresight Group, as at January 2016

FORESIGHT VCT 'O' SHARES – DIVIDEND HISTORY (PENCE PER SHARE)



Past performance is not a guide to the future.
*Source: Foresight Group *2016 dividend of 7p per share to be paid in April 2016.*
Dividends are variable and not guaranteed.

COMPANY CASE STUDY

Blackstar Amplification – designs and manufactures guitar amplifiers which are sold internationally. Its products are available in over 3,000 stores worldwide and the company has a number of new products launching over the next 18 months. Foresight invested £2.5 million and their investment is currently valued at just over £5 million, while the company's revenue has grown to £8.6 million a year from £5.12 million so far.

PERFORMANCE & DIVIDENDS

The team aims to maintain a steady stream of dividend payments to investors over the long term, though please remember dividends are variable and not guaranteed. Their current target is to pay a dividend of 5p per share a year. Previously, dividends paid were impressive but inconsistent and we prefer the approach of aiming to deliver more consistent returns. Following the sale of successful investments the board might look to increase dividends on an ad-hoc basis, either by raising the interim / final dividend; or through the payment of special dividends.

The chart on the previous page shows the annual and cumulative dividends paid by the Foresight VCT 'O' share class since launch.

ABOUT THE MANAGER

Foresight was founded in 1984 and has a long track record of investing in unquoted companies across the UK. While their origins were in technology investing they have broadened their remit to include other types of unquoted businesses and infrastructure investments, including those in the renewable energy sector. Today, Foresight has in excess of £1.8 billion assets under management.

Foresight's 10-strong Private Equity Team manages this VCT. It contains a mixture of experienced individuals from a variety of financial services backgrounds, including those who have been with Foresight a number of years and more recent additions. While it will take time for the expanded team to demonstrate they can work successfully together the addition of more resources to bolster the team should prove positive for investors.

CHARGES & FEES

The initial charge is 5.5%. Hargreaves Lansdown is offering a discount of 3% off the initial charge. For applications accepted before 29 February 2016 there is a further discount of 1%. Existing investors in any VCT managed by Foresight are entitled to a further 0.5% discount. The following net initial charges therefore apply (discounts are paid in the form of additional shares):-

	Before 29 February 2016	After 29 February 2016
Existing investors	1%	2%
New investors	1.5%	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 buy back shares at a discount to NAV of up to 10%. This is subject to certain conditions. Please refer to the prospectus for further details.

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 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 reinvested, paid by cheque or into your bank account. Please see the relevant section of the prospectus and application form for further details.