VCT RESEARCH REPORT

AMATI VCTS TOP-UP OFFER 2015-16

www.hl.co.uk
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HEAD OF INVESTMENT ANALYSIS

AIM

As the name suggests, AIM VCTs invest predominantly in companies listed on AIM or which are about to list on AIM. AIM is the junior market of the London Stock Exchange.

The Amati VCTs are managed by a small but experienced team which has a preference for investing in well-managed, high-quality companies.

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

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 offer document 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	Amati VCT and Amati VCT 2
Amount seeking	£7 million
Minimum investment	£3000 in each VCT or a minimum aggregate investment of £5000 (£2500 in each)

OUR VIEW

AIM provides a wealth of under-researched opportunities, but the work required to uncover them is significant. This is why we believe it is worth investing with an experienced team. Amati is headed by Dr Paul Jourdan and the VCTs are managed in conjunction with Douglas Lawson and David Stevenson. All three are experienced small and medium-sized company investors and we believe they will achieve good returns for long-term investors. That said, potential investors should take note of the recent changes made to the VCT legislation, discussed on page 2.

WHO SHOULD CONSIDER AIM VCTs

London's Alternative Investment Market (AIM) is often where young, growing companies choose to list their shares. Some successful, well-known and large businesses, such as online fashion retailer ASOS, are also listed on AIM. This creates opportunities to invest in established and profitable, as well as new and exciting, businesses. It is higher risk as not all will succeed. AIM VCTs could be considered by investors seeking tax-efficient exposure to smaller companies alongside a well-diversified portfolios of mainstream investments and other VCTs.

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Both Amati VCTs are managed using the same approach. All types of business are considered for investment, but there is currently a bias to industrial and technology firms.

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. AIM VCTs are likely to have a reduced universe of companies to invest in; and are likely to target companies at an earlier stage of their development, which is higher risk. There could also be more competition to secure the most attractive investments. The rules apply to investments made from November 2015 so any changes to existing portfolios will be gradual.

During times of change and uncertainty we prefer a cautious approach and it is encouraging to see Amati seeking a conservative amount of money they believe can be invested successfully. We will keep in close contact with AIM VCT managers and would like to observe how they cope with the recent changes.

Further details of the legislative changes can be found on the VCT section of our website: **www.hl.co.uk/vct**

PHILOSOPHY

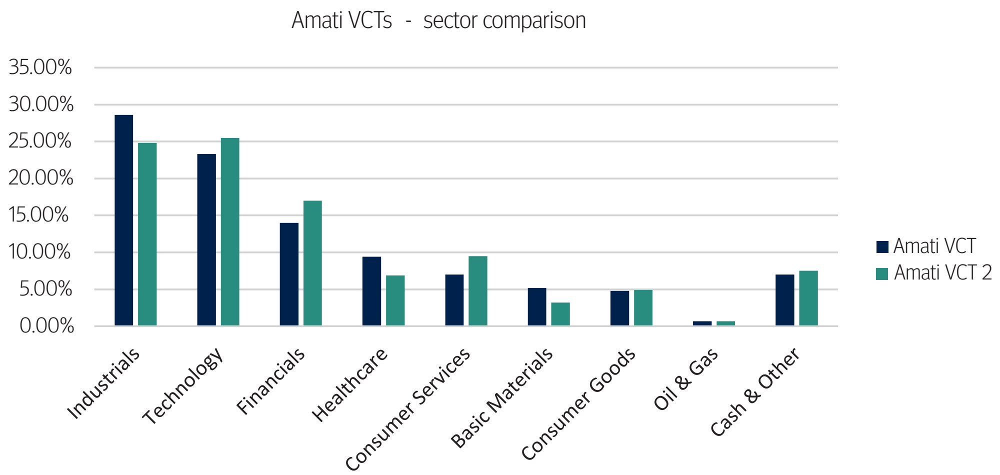
Both VCTs are managed using the same strategy. Paul Jourdan and his team seek well-managed, growing businesses operating in areas where it is difficult for competition to sweep in and take market share.

PORTFOLIO CONSTRUCTION

The team seeks companies which share a number of positive attributes, while at the same time avoiding those with certain negative characteristics:-

Seek companies with:	**Avoid companies with:**
Consistent, growing revenue	Lumpy, irregular income
Competitive advantage	Aggressive accounting which flatters revenue and profits
Pricing power	Consistently reporting 'exceptional' costs
Strong balance sheet	Competitive threats
Well-incentivised management with good track record	Significant liabilities (debts, leases, pensions etc.)

The VCTs hold a diversified selection of businesses across a range of sectors. There are currently 59 investments in each VCT, but there are some differences between them. These are mostly a result of historic differences as the portfolios are now managed using the same approach and tend to co-invest in the same companies where possible.



Source: Amati Global Investors, as at 30 September 2015

Each VCT also holds an investment in the TB Amati UK Smaller Companies Fund, which is managed by Paul Jourdan and the team.

COMPANY CASE STUDY

Bilby is an example of a recent investment. It is an established property services business, focused on the installation and maintenance of gas heating systems, among other things. Its customer base is almost entirely local authorities and housing associations, all within London & SE England. Bilby's services are non-discretionary and driven by legislation. The business has grown organically since its formation in 1977, and the purpose of the listing on AIM in March 2015 was to support a buy and build strategy in a fragmented market.

PERFORMANCE & DIVIDEND

	Amati VCT	**Amati VCT 2**
Annual dividend target:	5-6% of NAV	5-6% of NAV
Payment frequency:	Semi-annually	Semi-annually

Unlike mainstream smaller company funds which aim to maximise capital growth, the majority of returns from an AIM VCT come from tax-free dividends. These are generated partly from the dividends paid by companies held in the portfolio and partly by paying out gains from successful investments.

Paul Jourdan has managed Amati VCT since launch in 2005 and took over management of Amati VCT 2 in March 2010. Both VCTs have delivered respectable returns when compared with the FTSE AIM All Share Index and when dividends are taken into consideration. The table on the next page shows the dividends in pence per share paid by each VCT over the past five calendar years and during 2015 to date. Please remember dividends are not guaranteed and past performance is not a guide to the future.

PERFORMANCE & DIVIDENDS

	Amati VCT	Amati VCT 2*
2010	5.5p	0p
2011	3p	7.11p
2012	7p	5.63p
2013	5p	6.25p
2014	5p	6.75p
2015	3p	3.5p

Source: Amati Global Investors to 31 October 2015 *takes account of the share consolidation which took place on 09 November 2011. Past performance is not a guide to the future.

ABOUT THE MANAGER

Amati: Amati is a specialist investment manager based in Edinburgh. They focus on investing in small and medium-sized companies in the UK, which are higher risk than larger counterparts. Amati has approximately £86 million under management across the two VCTs and the TB Amati UK Smaller Companies Fund. The business is wholly-owned by its staff.

Team: The investment team consists of Paul Jourdan, Douglas Lawson and David Stevenson. Paul Jourdan and Douglas Lawson created Amati through a buyout of Noble Fund Managers in 2010 and they were joined by David Stevenson, from Cartesian Capital, in February 2012.

Research: Most research is done in-house. The team concentrates predominantly on the prospects for individual companies, rather than economic factors or second guessing the direction of the stock market. That said, they do look for opportunities in under-researched areas, or sectors which have fallen out of favour with investors. During the calendar year to 31 August 2015, the team screened 54 AIM traded qualifying investment opportunities (of which 39 successfully raised funds) and invested in 5. Derivatives may be used to help offset the risk of investing in smaller companies however this also involves an element of risk.

CHARGES AND FEES

The initial charge is 3%. There is a total discount of 2% available, reducing the initial charge to 1%.

The annual management charge is 1.75% for both VCTs and there are also other expenses. Performance fees are no longer payable in respect of either VCT which is unusual in the VCT industry and we view it as a positive. Full details can be found in the offer document and investors should ensure they are comfortable with the charging structure and risks before investing.

SHARE BUY BACK POLICY

The VCTs have an active share buyback policy and there is an aim to limit the discount to NAV at which the shares trade. However, this limit is not set at a specific level. Please refer to the offer document for further details.

HOW TO APPLY

To apply please read the offer document and fill out the application form at the back. The offer document 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 offer document, 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 weeks following the acceptance of your application. Shares will be issued according to the NAV of the VCTs adjusted for the cost of the offer.

Dividends will be paid by cheque, but you can elect for them to be paid into your bank account or participate in the dividend reinvestment scheme. Please see the relevant section of the offer document and application form for further details.