

VCT RESEARCH REPORT

OCTOPUS AIM VCTS

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SEP 2014



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AIM
AIM VCTs
primarily invest
in companies that
are listed or are
about to list on
the Alternative
Investment Market.

This report is not a substitute for reading the prospectus. 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 AIM VCT & Octopus AIM VCT 2
Amount seeking	£20m
Minimum investment	£5,000
Split	Investors can choose to split their investment 60/40 between AIM VCT and AIM VCT 2; or place 100% into either VCT



OUR VIEW

The Octopus AIM VCTs are managed by a large and experienced team. Performance has been good over the past couple of years and investors have seen a decent flow of dividends, though these have varied with stock market conditions. Like many AIM VCTs longer-term performance has been inconsistent and we would like to see a longer run of strong performance before becoming more positive.

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 portfolio of mainstream investments and other VCTs.

Investments are spread across a broad range of sectors, but with a bias to software and computer services.



PHILOSOPHY

The team aims to deliver consistent dividends and some capital growth over the long term. An emphasis is placed on building strong relationships with management teams and backing those with the most promise for the long term.

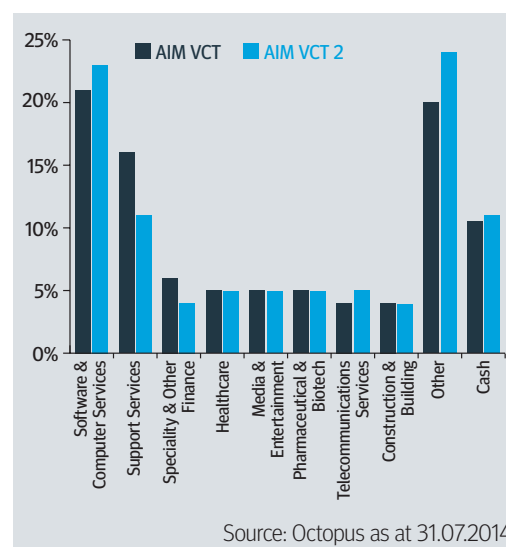
COMPANY CASE STUDY

Advanced Computer Software, the healthcare & business software company, is an example of a typical investment. Both VCTs first invested in July 2008 at 17p per share:-

- Talented entrepreneur / management was the main attraction – the Octopus team had backed Vin Murria's previous venture
- The company has developed its healthcare operations and acquired other businesses, opening up sales with private, commercial customers
- Debt has been paid down, profits and earnings are expected to grow going forward
- Profits have been taken, but the company remains one of the largest holdings in the VCTs and the share price is now around 114p

PORTFOLIO CONSTRUCTION

There is a bias towards mature, profitable businesses, but also exposure to companies at an earlier stage of their development. Approximately 90% of the VCT's holdings by value are expected to make a profit in 2014. There are 60 individual companies held in AIM VCT 2, with AIM VCT holding an additional 4 companies. Investments are spread across a broad range of sectors, but with a bias to software and computer services:-



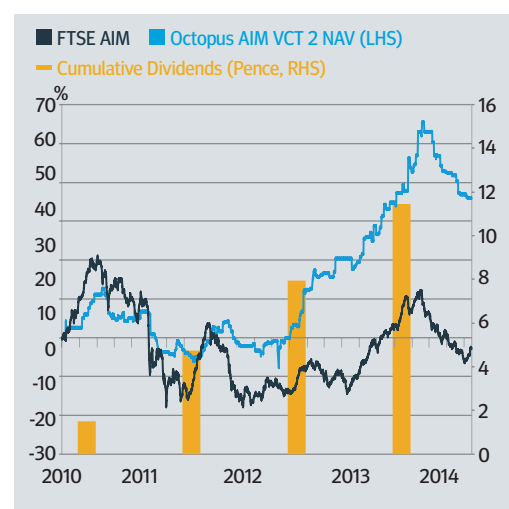
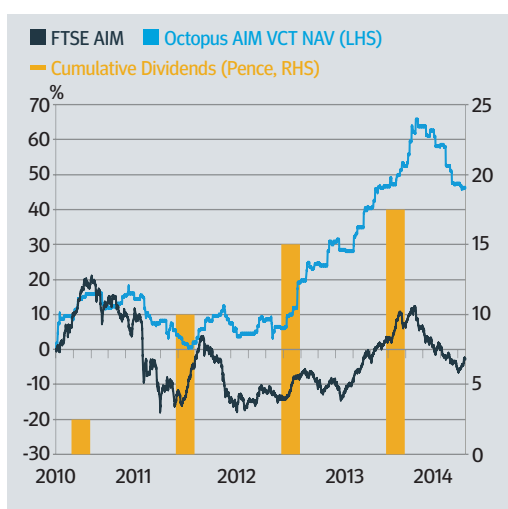
PERFORMANCE & DIVIDENDS

Over the long term Octopus AIM VCT has performed better than Octopus AIM VCT 2, but this is mostly a function of historic differences between the portfolios. In recent years the portfolios have become more aligned and both VCTs now tend to invest in the same companies, though position sizes vary. Looking ahead the performance of the VCTs is expected to be similar.

The Octopus AIM VCTs are the product of various merged VCTs. The share price performance of each since October 2010, when shares were first issued following the mergers, and cumulative dividends paid are shown in the charts below.

	Octopus AIM VCT
Annual dividend target	5p per share or 5% of the average share price, whichever is greater
Payment frequency	Semi-annually
Current yield	5.18%

	Octopus AIM VCT 2
Annual dividend target	3.6p per share or 5% of the average share price, whichever is greater
Payment frequency	Semi-annually
Current yield	4.74%



Past performance is not a guide to the future and dividends are not guaranteed. Source: Lipper

ABOUT THE MANAGER

Octopus has over £3.5 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 Octopus AIM VCTs are managed by the 7-strong Octopus Smaller Companies team, headed by Richard Power. The team contains a mixture of experienced investors and younger fund managers and they manage in excess of £500 million across a number of funds.

An emphasis is placed on getting to know management teams before investing. The team seeks those with a robust plan to grow their business and increase profitability. They prefer to invest in businesses in a strong financial position and trading at an attractive valuation relative to peers.

CHARGES & FEES

The initial charge is 5.5%. 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 30 September 2014 there will also be an 'early bird' discount of 2%. The following net initial charges therefore apply:-

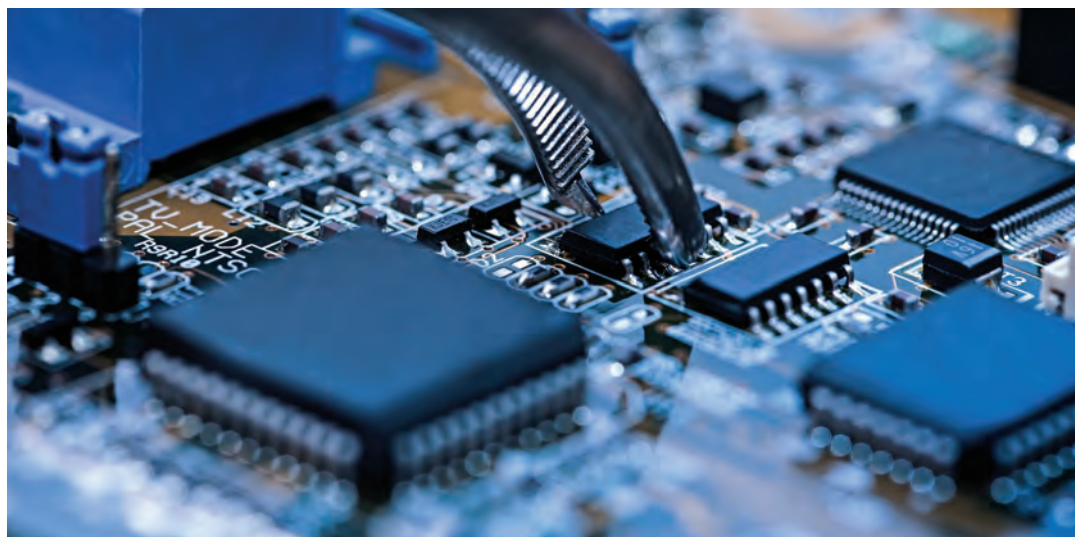
	Before 30/09/2014	From 30/09/2014
Existing & previous Octopus investors	0.50%	2.50%
New investors	1.00%	3.00%

The annual management charge is 2% for both VCTs and there are also other expenses. Unusually for VCTs there are no performance-related fees. Investors should ensure they are comfortable with the charging structure before investing.

SHARE BUYBACK POLICY

The aim is to buy back shares at a discount of approximately 5% to NAV, although this is not guaranteed.

HOW TO APPLY / WHAT HAPPENS NEXT / WHAT ELSE SHOULD I KNOW



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 HL 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 up to two months

following the acceptance of your application.

Shares will be issued according to the NAV of the VCTs adjusted for the cost of the offer. The NAVs at the time of writing are 112.4p for AIM VCT and 84.4p for AIM VCT 2.

You can elect for dividends to be paid 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.