VCT RESEARCH REPORT

MOBEUS VCTs

www.hl.co.uk
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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 investors could lose money. Tax and VCT rules can change and tax benefits depend on individual 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
VCTs 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 sophisticated, long-term investments only suitable for inclusion in significant portfolios. The general view is that they should account for no more than 10% of an equity portfolio. It is difficult to access the capital invested in the short term, and anyone considering an investment should ensure they are comfortable with this, and all other risks. We assume investors will make their own assessment of their expertise and the suitability of a VCT for their circumstances. Those with any doubts should seek expert advice.

Generalist

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

OFFER SUMMARY

Fund	Mobeus Income & Growth VCT, Mobeus Income & Growth 2 VCT, Mobeus Income & Growth 4 VCT, The Income & Growth VCT
Amount seeking	£39 million
Minimum invest-ment	£6,000

OUR VIEW

These VCTs are managed by one of our favourite teams in the industry. We like their disciplined approach and the focus on investing in a good mix of well-established companies. This has delivered good results in recent years and investors have been rewarded with attractive dividend payments, although this is not guaranteed to continue.

After a particularly strong run we believe returns could be more subdued over the shorter term as investments made more recently mature and become ripe for sale. In addition, we'd also like to see evidence the proceeds of recent fundraisings can be successfully invested. We are positive on these VCTs' long-term prospects.

WHAT ARE 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

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companies to an already diverse portfolio could be wise. While the VCT must be held for five years to benefit from the tax relief, we believe 10 years plus is a more realistic time horizon.

PHILOSOPHY

The Mobeus team focuses on investing in established businesses which are cash generative and profitable. They also scrutinise the asking price for a company closely and will not invest if it is too high. By sticking to this rigorous and disciplined approach the team believes they will deliver attractive long-term returns and it has stood them in good stead so far.

PORTFOLIO CONSTRUCTION

In the context of VCTs Mobeus tends to back slightly larger companies, though they are still very small and higher risk in comparison with mainstream investments. They look for businesses generating around £10 million turnover a year and making between £1 million and £3 million of profit.

They favour management buy-outs (MBOs), where they provide funds to help existing management buy all or part of the company from the current owners. The rationale for this is that existing management knows the company inside out and are well-incentivised to ensure it is successful.

Investments are generally made as a combination of loans to the company and by purchasing its shares. The interest from the loans and the capital repayment 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 to repay the loan. The company's shares offer the potential for some capital appreciation if the value of the share has risen when the investment is sold.

COMPANY CASE STUDY

Last year Mobeus invested £8.7 million in the MBO of Virgin Wines, which the existing management team had successfully grown into a business with turnover of £35 million a year. With the online wine market expected to grow by 10 % a year the Mobeus team believes Virgin Wines is well-placed to capitalise; with a niche range of wines and an innovative customer loyalty scheme.

PERFORMANCE & DIVIDENDS

The annual dividend target is 4p per share for each VCT, whilst also maintaining or slightly growing the NAV. The VCTs have generated a good flow of dividends in recent years, including the payment of special dividends following the sale of successful investments. Please remember past performance is not a guide to the future and dividends are not guaranteed.

An example of a recent sale is DiGiCo, a manufacturer of digital sound mixing consoles. It was sold to a new professional audio group backed by private equity investors. The VCTs originally invested £4.6 million to support the management buyout of DiGiCo in 2007 and the investment returned £25.3 million in cash over its life.

The table below shows the dividends (pence per share) paid by each VCT in respect of the past five financial years and the current period to 30 September 2014 (30 June 2014 in respect of I&G):-

	MIG	MIG 2	MIG 4	I&G
2009	5	1	3	0.5
2010	5	4	4	4
2011	6.8	4	5	4
2012	7	4.1	5.5	26
2013	7.2	4.9	6	10
2014	17	18.9	14	14

Source: Mobeus Equity Partners

CHARGES & FEES

The initial charge is 3.25%. Hargreaves Lansdown is offering a discount of 0.75% off the initial charge. In addition, Mobeus is offering a further 'early-bird' discount of 1% on either the first £15 million of applications accepted or for applications accepted before 06 February 2015, whichever is sooner. The following net initial charges therefore apply (please note discounts are paid in the form of additional shares):-

The annual management charge is 2% for MIG, MIG 2 and MIG 4; and 2.4% for I&G. There are also other expenses and performance fees for each of the VCTs, full details of which can be found in the prospectus. Investors should ensure they are comfortable with the charging structure and risks before investing.

	Before 06 February 2015 or on first £15m of applications accepted	After 06 February 2015 or after £15m of applications accepted
Net initial charge	1.50%	2.50%

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ABOUT THE MANAGER

The ten-strong investment team at Mobeus is headed by Mark Wignall. He has built a stable and well-resourced team with a clear investment strategy. They don't manage any other funds so their attention is entirely focused on these four VCTs, which have combined assets of around £230 million.

The team generates ideas from a wide variety of sources. These include cold calls made to the firm, enquiries from individuals they have previously backed and the team's own research / network of contacts. They also source a lot of deals through the strong relationships they have built with advisers, accountants, and corporate financiers.

Prior to committing to invest in a company the Mobeus team aims to get to know management as thoroughly as possible. They do this in order to demonstrate how they can work with them to achieve their goals, but this also helps them value the company and achieve the best price. They believe backing loss making companies and overpaying for a business are two of the quickest ways to lose money on an investment.

Having reduced activity during 2006 to 2007 when they felt deals were priced expensively, Mobeus are now reporting a much larger number of attractive opportunities.

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. In order to retain the tax relief the shares must be held for five years.

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 to be subscribed 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 to benefit from our discount.

We will acknowledge applications and the 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 an application. Shares will be issued according to the most recently announced NAV per share of the VCTs, adjusted for the costs of the offer.

Dividends can be reinvested (MIG 4 and I&G only), paid by cheque or into a bank account. Please see the relevant section of the prospectus and application form for further details.

Investors should ensure they are comfortable with the risks and charging structure before investing.