

VCT RESEARCH REPORT

OCTOPUS TITAN VCT

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ANALYSIS

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

In the true spirit of venture capital investing the Octopus Titan VCT targets companies at an early stage of their development.

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 Titan VCT
Amount seeking	£50 million
Minimum investment	£5,000



OUR VIEW

In the true spirit of venture capital investing the Octopus Titan VCT targets companies at an early stage of their development. Those investing in this offer will get access to these exciting and higher-risk companies as well as existing, mature investments which have been in the portfolio a number of years. This a higher octane VCT with the potential for strong gains, but with higher risks.

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 companies to an already diverse portfolio could be wise.

Swoon Editions is aiming to shake up the furniture market by offering cutting edge designs at attractive prices via the internet.



While VCT's must be held for five years to benefit from the tax relief, we believe 10 years plus is a more realistic time horizon.

PHILOSOPHY

To back talented people, regardless of the sector or type of business they operate. The Octopus Investments Ventures Team, which manages these VCTs, seeks entrepreneurs with an industry changing product or service which can be commercialised to disrupt or change the entire industry and become a household name. A common theme running through the portfolio is that many companies are embracing technological innovations to a greater or lesser extent.

PORTFOLIO CONSTRUCTION

Backing companies at an early stage of their development offers the potential to benefit significantly as the product or service gains traction and starts to become a commercial success. This relies heavily on the quality of the people running the business, as well as their product, and businesses can easily fail at this stage in their life.

Businesses are likely to be unprofitable at the time of initial investment, but the team seeks those with high gross margins and the ability to grow revenues strongly. They also look for a large addressable market, so the business can generate significant revenue whilst only taking modest market share.

The team tends to invest small amounts initially with those that meet and exceed expectations candidates for further investments, as this is where the most

successful investment could come from. The VCT currently provides exposure to 50 companies across a diverse range of sectors.

COMPANY CASE STUDY

The team typically provides capital to young businesses and takes an equity stake in return rather than providing the investment as a loan. Companies at an early stage of their development generally do not generate enough cash to repay interest on loans. This means returns for the VCTs are likely to be driven by any rise in the value of their equity stake upon a successful exit or sale of the business.

Swoon Editions – an online furniture retailer aiming to offer hand-crafted furniture at attractive prices. The team was attracted to the company for a number of reasons:-

- **A new take on an old market** – cutting out shops, warehouses and middle men is more efficient and enables products to be offered at lower prices. The online model means demand can be tested through small batches and everything is sold before it is shipped to the UK.
- **Rapid growth** – revenue has grown by around 300% in each of the past three years, while new designs are launched regularly to keep the offering to customers fresh.
- **Huge opportunity** – the UK furniture market is £11 billion in size, but only around 6% is currently bought online. Designs are sold at a fraction of the usual price, giving the company an advantage over traditional retailers.

PERFORMANCE & DIVIDENDS

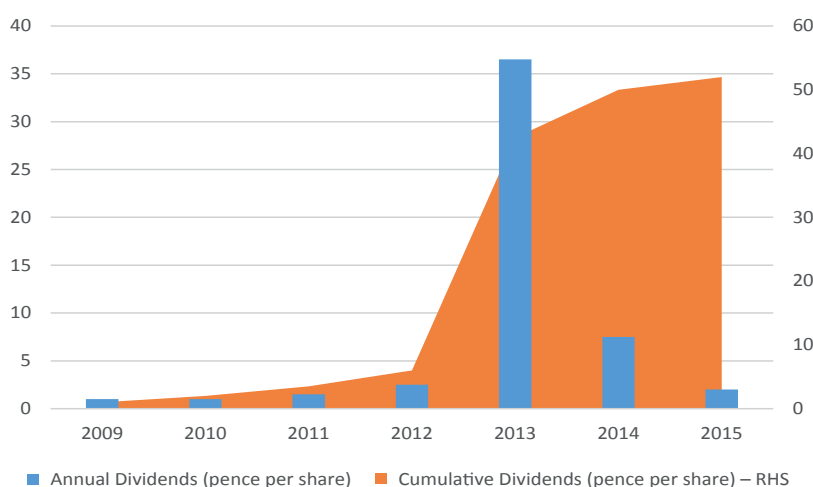
Latest Net Asset Value (NAV) per share	95.7p
Total dividends paid	52p
Total return (NAV + dividends)	147.7p
Dividend target	4p per share a year (rising to 5p from 31 October 2017)

Source: Octopus as at 31 July 2015

Octopus launched its Titan range of VCTs in November 2007 and the team enjoyed some early success from investments such as Zoopla Property Group, Secret Escapes and Graze, which delivers healthy snacks through the post. Five Titan VCTs were launched and in November

2014 Octopus merged Titan VCTs 1, 3, 4 and 5 into Titan VCT 2 to create a single VCT. The chart below shows the dividends paid by Octopus Titan VCT 2 prior to the merger, as well as dividends paid by the merged VCT since:-

Octopus Titan VCT - dividends paid since launch



Source: Octopus as at 31 July 2015

Going forward the VCT will aim to pay a regular dividend, plus special dividends following the sale of successful investments.

ABOUT THE MANAGER

Octopus: 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.

Team: The Octopus Ventures Team is headed by Alex Macpherson. Many of the team has previous experience in other industries, including running their own businesses, making them well-placed to advise and support the entrepreneurs they invest in. In addition, their network of 'Venture Partners' – which consists of successful entrepreneurs and business leaders, including ex.FTSE 100 chairmen and chief executives – co-invest alongside the VCTs and provide their expertise throughout the life of the investment.

Research: Management quality is important to the team and they will often back entrepreneurs they have worked with previously on their subsequent projects. The Ventures Team and Venture Partners work together in assessing company strengths and weaknesses, while they avoid any businesses they do not understand or where they cannot work well with the entrepreneur. The funding the team provides can be used to launch or develop the company's product or service; expand its customer base; or improve the businesses systems and processes, with the overall aim of taking a concept or idea and turning it into a commercial success.

Hargreaves Lansdown is offering a discount of 2.5%, which is available to all investors

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 16 December 2015 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 16/12/2015	From 16/12/2015
Existing & previous Octopus investors	0.50%	2.50%
New investors	1.00%	3.00%

The annual management charge is made up of a 2% pa charge and other expenses. This can also include a performance fee which can be significant, full details of which can be found in the prospectus. Investors should ensure they are comfortable with the charging structure 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 weeks following the acceptance of your application. Shares will be issued according to the most recently announced NAV per share of the VCT, adjusted for the costs of the offer.

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.