

# VCT RESEARCH REPORT

## OCTOPUS AIM VCTS

**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	
<b>Fund(s):</b>	Octopus AIM VCT & Octopus AIM VCT 2
<b>Amount seeking:</b>	£20million
<b>Minimum Investment:</b>	£5,000
<b>Split:</b>	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.

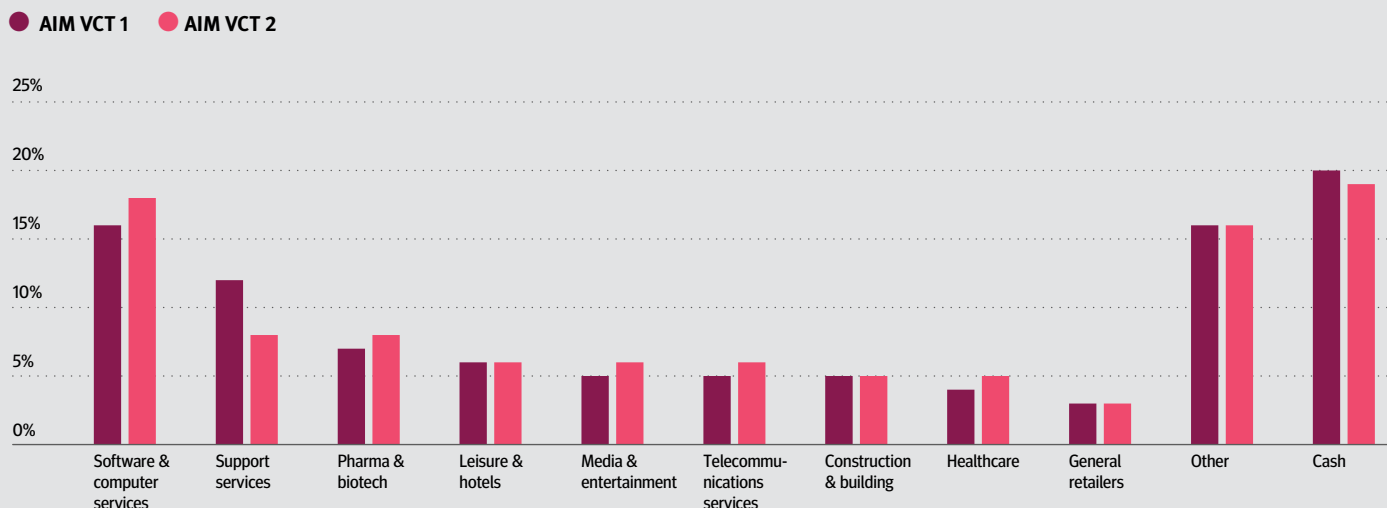
### PHILOSOPHY

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.

### WHO SHOULD CONSIDER AIM VCTS / ROLE IN PORTFOLIO

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

## OCTOPUS AIM VCTS - SECTOR BREAKDOWN



Source: Octopus Investments, as at 30/09/2015

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.

### 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 would like

to observe how managers adapt. Octopus is raising a significant sum and there is less certainty this can be successfully invested in the shorter term following the rule changes. Further details of the legislative changes can be found on the VCT section of our website: [www.hl.co.uk/vct](http://www.hl.co.uk/vct)

### PORTFOLIO CONSTRUCTION

There is a bias towards mature, profitable businesses, but also exposure to companies at an earlier stage of their development. Approximately 85% of the VCT's holdings by value are expected to make a profit in the current year. An investment split across both VCT's will provide exposure to around 70 companies. Investments are spread across a broad range of sectors, but with a bias to software and computer services (above).

### COMPANY CASE STUDIES

- **Animalcare Group** – develops, markets and sells specialised products and medicines to vets. The company sells products in the UK, Republic of Ireland and across Europe. Over the next five years it plans to accelerate its growth by developing more enhanced generic products.
- **Breedon Aggregates** – the UK's largest supplier of aggregates (materials and minerals used in the construction industry). It currently owns 41 quarries, 22 asphalt plants and 51 ready-mixed concrete and mortar plants.

- **Brooks Macdonald** – a wealth management group which manages more than £7 billion of funds. It has offices across the UK and Channel Islands, and has demonstrated good growth in clients and assets, as well as expanding its range of funds.

### PERFORMANCE & DIVIDENDS

	Octopus AIM VCT	Octopus AIM VCT 2
<b>Annual dividend target</b>	5p per share or 5% of the average share price, whichever is greater	3.6p per share or 5% of the average share price, whichever is greater
<b>Payment frequency</b>	Semi-annually	Semi-annually

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 dividends paid are shown in the charts overleaf.

## 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 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.

**Research:** 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.

The annual management charge is 2% for both VCTs and there are also other expenses. Unusually for VCTs there are no performance-related fees.

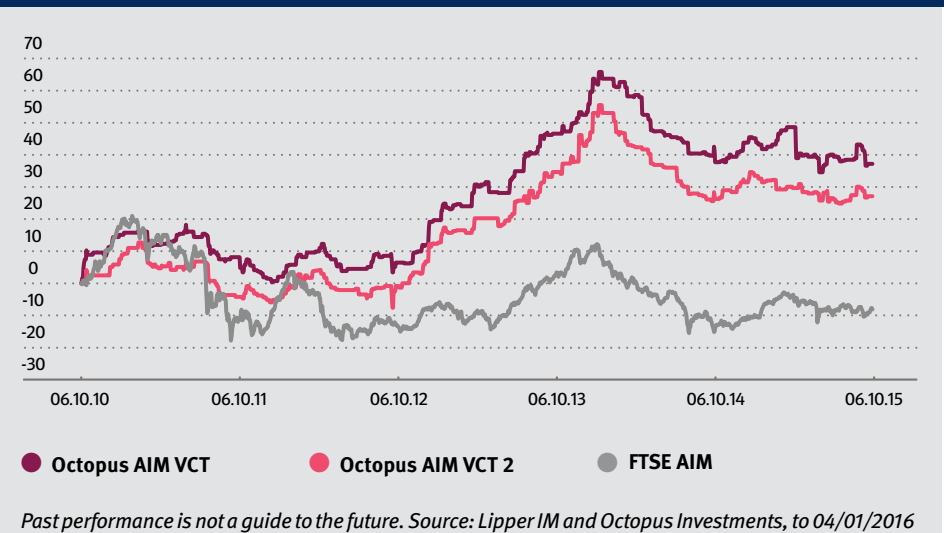
## SHARE BUY BACK POLICY

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

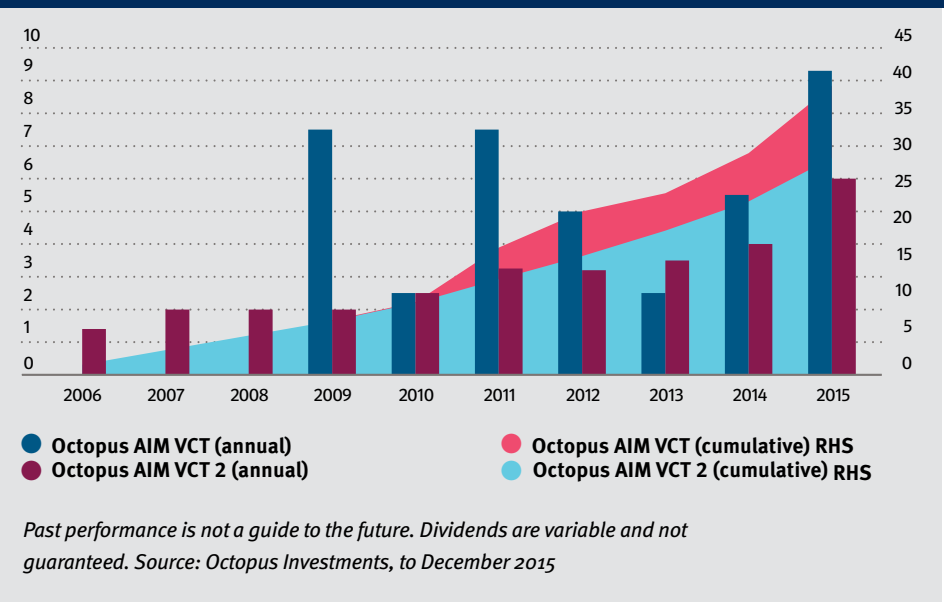
## HOW TO APPLY / WHAT HAPPENS NEXT / WHAT ELSE SHOULD I KNOW

To apply please read the prospectus for the offer and fill out the application form

## OCTOPUS AIM VCTS - SHARE PRICE PERFORMANCE (EXCL. DIVIDENDS)



## OCTOPUS AIM VCTS - ANNUAL AND CUMULATIVE DIVIDENDS PAID (PENCE PER SHARE)



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 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.