

VCT RESEARCH REPORT

OCTOPUS TITAN VCT

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NOV 2014



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ANALYSIS

**Generalist
Generalist VCTs
primarily invest
in unquoted
companies in a
wide variety of
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of development.**

**In the true
spirit of
venture capital
investing the
Octopus Titan
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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 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.

OFFER SUMMARY

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

OUR VIEW

In the true spirit of venture capital investing Octopus Titan VCT targets companies at an early stage of their development. Those investing in this offer will gain 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.

Octopus launched five Titan VCTs in total, but in November 2014 they were merged to create a single VCT. The rationale behind the merger was to reduce costs and simplify matters for investors, as well as creating a larger, more diversified portfolio.

The first Titan VCT launched in 2007 and the team has had some early successes, resulting in attractive dividends for investors so far, although there are no guarantees this will continue. The team responsible for the VCT is experienced and well resourced. We like their approach, but would like to see the strong performance continue for longer following the merger before becoming more positive.

WHAT ARE GENERALIST VCTs?

Generalist VCTs are relatively broad-based, usually investing in a range of unquoted companies across a

YPlan allows users to discover and purchase last-minute event tickets from their device.



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. 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

To back talented people, regardless of the sector or type of business they operate. The Octopus Investments Ventures Team, which manages this VCT, 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.

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.

YPlan (Leanworks Ltd) is an example of the type of business the team targets. It is a mobile ticketing application for smartphones and tablet computers. It allows users to discover and purchase last-minute event tickets from their device. Octopus first invested in July 2012 and helped launch the app in London during November 2012. It has since been downloaded over 1,000,000 times and been rolled out in New York, Las Vegas, San Francisco and Edinburgh.

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 of 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 considered as candidates for further investment. The VCT currently provides exposure to 45 companies across a diverse range of sectors.

PERFORMANCE & DIVIDENDS

The VCT targets a return of £2 for each £1 invested over a five-year period (before tax reliefs); though there is no guarantee this can be achieved. To date the majority of dividends have been paid following the sale of successful investments. Individual payments have been high, but inconsistent. The aim going forward is to pay a regular dividend of 4p per share a year, rising to 5p a

share within two years. Special dividends could also be paid following the sale of successful investments.

The table below shows the dividends paid by each of the five VCTs prior to the merger: -

		2008	2009	2010	2011	2012	2013	2014*
Octopus Titan VCT 1	NAV (p)	89.9	96.1	94.9	91.5	121.9	95.2	92.2
	Dividends paid (p)	N/A	1.0	1.0	1.5	2.5	36.5	2.5
Octopus Titan VCT 2	NAV (p)	89.9	96.1	94.9	91.5	121.9	95.2	92.2
	Dividends paid (p)	N/A	1.0	1.0	1.5	2.5	36.5	2.5
Octopus Titan VCT 3	NAV (p)	92.2	100.1	96.7	92.9	116.4	91.5	92.8
	Dividends paid (p)	N/A	N/A	N/A	N/A	1.0	30	2.5
Octopus Titan VCT 4	NAV (p)	N/A	N/A	93.8	89.0	87.7	100.7	106.7
	Dividends paid (p)	N/A	N/A	N/A	N/A	N/A	1.0	2.0
Octopus Titan VCT 5	NAV (p)	N/A	N/A	N/A	92.6	88.2	88.5	93.5
	Dividends paid (p)	N/A	N/A	N/A	N/A	N/A	N/A	N/A

*Source: Octopus Investments. *To 30/04/2014

In addition to the above Octopus Titan VCTs 4 & 5 announced special dividends of 15p and 10p per share respectively, which will be paid to shareholders on the register as at 27 October 2014 now the merger has gone ahead.

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 seven-strong 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 over 100 'Venture Partners' – which consists of successful entrepreneurs and business leaders, including ex.FTSE 100 chairmen and chief executives – co-invest alongside the VCT and provide their expertise throughout the life of the investment.

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. The following net initial charges therefore apply (please note discounts are paid as additional shares):-

	Net initial charge
Existing & previous Octopus investors	2.50%
New investors	3.00%

The annual management charge is 2% and there are other expenses. There is also a performance fee, 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 up to two months 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.