VCT RESEARCH REPORT

PROVEN GROWTH & INCOME VCT

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HEAD OF INVESTMENT ANALYSIS

Generalist

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

Fund	ProVen Growth & Income VCT
Amount seeking	£20 million
Minimum investment	£5,000

OUR VIEW

We like the approach of identifying young, growing companies at an earlier stage of their development. The VCT management team has a lot of experience in

this discipline, while they are also experts in the digital media sector, and the VCT has a bias to this area. The portfolio is reasonably mature so early dividends are a possibility, with the potential for them to be boosted from time to time following the sale of successful investments.

The earlier stage companies and exposure to the digital media sector differentiates this VCT from some peers, but it is higher risk. It could complement other generalist VCTs as part of a diversified portfolio. We rate the team highly and believe they are capable of delivering attractive long-term returns. This is one of our favoured VCT offers this year.

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

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Target companies usually have an established product or service with some evidence of success and should be capable of growing turnover rapidly.

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

The team looks for companies crossing the divide between being a start-up and establishing themselves in their market. Target companies usually have an established product or service with some evidence of success and should be capable of growing turnover rapidly.

COMPANY CASE STUDY

Chargemaster, which is a designer and manufacturer of charging equipment for electric vehicles, is an example of a recent investment. The ProVen team is positive on the company for the following reasons:-

- A high-calibre management team with over 25 years' experience in the vehicle industry
- A number of partnerships with vehicle manufacturers, including BMW, Ford, Nissan and Renault
- The company has developed charging solutions for the home, office, street and car parks
- They are the market leader in a rapidly growing market, with over 3,000 charging units deployed across Europe so far

Smaller investments are often made initially with the team happy to make follow-on investments if the company proves successful. Money invested by the VCT is generally used to improve sales and marketing initiatives, for UK and international expansion, to bolster management, and for the development and launch of new products and services. The expected investment horizon is around 4 years which might seem short, but the team aims to get the business to a position where it is growing strongly and sell it on while it still has excellent prospects.

The table below shows the amount invested and proceeds from the sale of recent investments:-

Year of sale	Company	Investment	Sale proceeds
2014	Eagle Rock	£0.7m	£1.1m
2013	Espresso	£1.9m	£3.3m
2013	Fjordnet	£2.0m	£6.6m
2013	Tossed	£0.6m	£0.9m
2011	Steak Media	£0.6m	£3.4m
2011	Saffron Digital	£0.7m	£3.9m

Source: Beringea

Past performance is not a guide to future returns, and some investments have been written off at zero value. Sale proceeds include interest and dividends received.

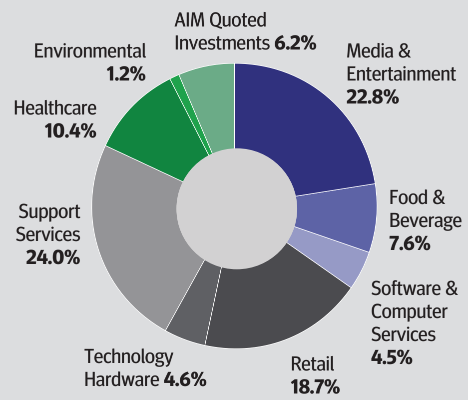
PORTFOLIO CONSTRUCTION

Digital media has infiltrated almost every sector of the economy in recent years. While the VCTs used to have a bias to digital media companies specifically, today they invest in a broader range of companies, many of which have digital media at their heart or are using digital media to fuel their growth.

Given their experience in the digital sector the team is more comfortable seeking rapidly-growing and higher risk companies in this area, where they believe they can add significant value for investors. In other sectors they tend to focus on more mature businesses.

Overall, there is a preference for companies in industries undergoing fundamental change, driven by technology or consumer behaviour. In contrast, pure start-ups and companies which have fallen on hard times and need turning around are avoided. The VCT provides exposure to 35 investments and the latest sector breakdown is shown below:-

Sector Breakdown

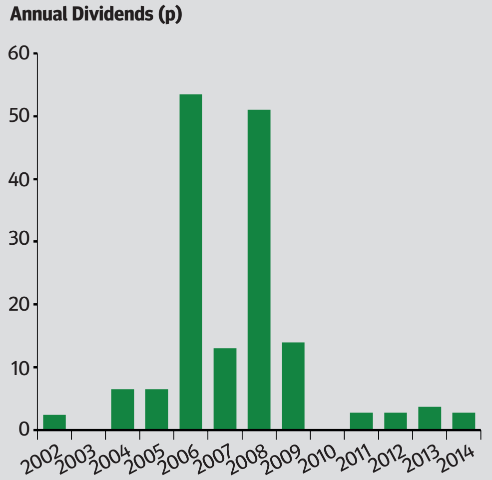


Source: Beringea as at 30/09/2014

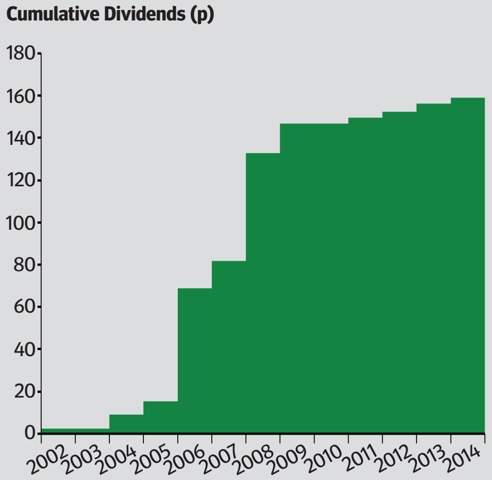
PERFORMANCE & DIVIDENDS

Historically, the VCT prioritised income and paid out all gains in any year as dividends. This resulted in an inconsistent flow of dividends, although payments have been good overall, as shown below:-

	ProVen Growth & Income
Target annual dividend	5% of NAV
Payment frequency	Semi-annually



Source: Beringea



Source: Beringea

We prefer the current aim of maintaining or steadily growing capital while paying consistent dividends that have the potential to be boosted from time to time following the sale of successful investments. This should result in a smoother flow of returns, although please note there are no guarantees the target level of return can be met.

ABOUT THE MANAGER

The ProVen VCTs are managed by Beringea. They have over 25 years' experience managing unquoted investments, including two VCTs. The team is not the largest in the sector but it has both strength and depth. Beringea also has a sister office in the US which can be a valuable resource, particularly in helping investee companies break into the US market, which can be a significant source of growth.

The core of the team consists of Trevor Hope, Chief Investment Officer with over fifteen years venture capital experience; Stuart Veale, Managing Partner with over 25 years' experience; Karen McCormick, who has a consultancy and marketing background; and Malcolm Moss (founding partner of Beringea). Recent additions have bolstered the research and analytical capabilities.

A lot of time and resource is spent getting to know the company inside out before investing. Across all types of business they look for a minimum turnover of £1 million a year, but companies won't necessarily be profitable at the time of investment. The team's aim is to work with management to grow turnover rapidly and they generally appoint a Chairman with experience in that industry to guide the company in the right direction. Beringea is currently seeing strong deal flow as well as strong performance from existing portfolio companies.

Hargreaves Lansdown is offering a discount of 3%.

CHARGING STRUCTURE AND TERMS

The initial charge is 5.25%. Hargreaves Lansdown is offering a discount of 3%, which is applied via the allotment of additional shares.

The annual management charge is 2%. There are other charges and a performance fee. Investors should ensure they are comfortable with the charging structure and risks before investing. Full details can be found in the prospectus.

SHARE BUY BACK POLICY

The aim is to limit the discount to NAV at which the shares trade to 5%, although this is not guaranteed.

Investors should remember that the shares must be held for at least five years to retain the tax relief.

HOW TO APPLY

To apply please read the prospectus 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 in order to benefit from our discount.

We will acknowledge applications and share certificates and tax certificates 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 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 paid by cheque, into a bank account, or reinvested via the VCT's dividend reinvestment scheme. Please see the relevant section of the prospectus and application form for further details.

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