

VCT RESEARCH REPORT

FORESIGHT VCT 'O' SHARE OFFER

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

OFFER SUMMARY

Fund	Foresight VCT 'O' Shares
Amount seeking	£20 million
Minimum investment	£3,000

OUR VIEW

This VCT originally had a technology focus, but has gradually been transformed into a more diversified, generalist VCT, investing across a variety of sectors. The team managing the portfolio has plenty of experience and has managed this transition reasonably successfully.

The current portfolio offers exposure to 12 unquoted investments and the team is currently positive on both the new investment opportunities they are seeing and the potential for existing investments to be successfully sold. This could result in early dividends, plus exposure to exciting new investments, although there are no guarantees.

We view this as a slightly higher risk generalist VCT which could complement other core generalists as part of a diversified portfolio.

WHAT ARE GENERALIST VCTs?

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

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.

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

The team look to back small, but established businesses with the ability to grow earnings strongly.

individual VCT's approach and risks 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 look to back small, but established businesses with the ability to grow earnings strongly. They aim to maintain a core of mature investments which could generate consistent dividends, and achieve the

occasional 'big winner' to boost returns.

COMPANY CASE STUDY

Aerospace Tooling Corporation Limited is a niche operator in the aerospace and turbine engine servicing industry. It provides repair and refurbishment services, focusing on components and engines that have ceased production, but are still in widespread use. Given the level of expertise involved contracts tend to be long-term and customers are reluctant to switch, giving a more predictable and stable revenue stream. The company works with some of the best-known aircraft manufacturers and has grown turnover and profits strongly recently.

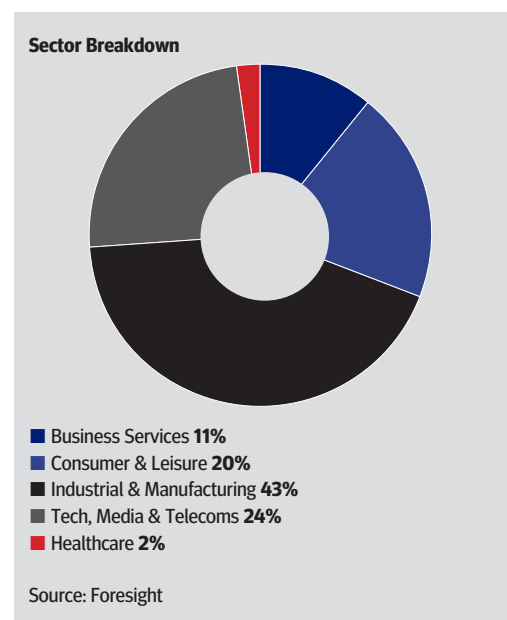
PORTFOLIO CONSTRUCTION

Rather than have a bias to a particular sector the team looks for businesses which share a number of characteristics. They prefer companies with an established product or service, which are generating earnings of between £500,000 and £2m a year. They look for those in a strong competitive position, from which they could be able to grow the business rapidly.

The success of many smaller companies is highly dependent on the management team though, so strong and robust leadership is an important consideration. The team then takes a hands-on approach, aiming to work closely with management in the following areas:-

- Reviewing and implementing the business strategy
- Recruiting and incentivising management and board members
- Planning for growth, expansion, or new products and services
- Additional fundraising
- Mergers, acquisitions and ultimately planning for the sale of the business

The chart below shows the sector breakdown as at 30 June 2014:-



Today, Foresight has in excess of £1 billion of assets under management, around a quarter of which is in VCTs.

ABOUT THE MANAGER

Foresight was founded in 1984 and has a long track record of investing in unquoted companies across the UK. While their origins were in technology investing they have broadened their remit to include other types of unquoted businesses and infrastructure investments, including those in the renewable energy sector. Today, Foresight has in excess of £1 billion of assets under management, around a quarter of which is in VCTs.

Foresight's 9-strong Private Equity Team manages this VCT. It contains a mixture of experienced individuals from a variety of financial services backgrounds,

including those who have been with Foresight a number of years and more recent additions. While it will take time for the expanded team to demonstrate they can work successfully together the addition of more resources to bolster the team should prove positive for investors.

CHARGES & FEES

The initial charge is 5.5%. Hargreaves Lansdown is offering a discount of 3% off the initial charge. For applications accepted before 19 December 2014 there is a further discount of 2%, which reduces to 1% for applications accepted before 27 February 2015. Existing

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investors in any VCT managed by Foresight are entitled to a further 0.5% discount providing their application is accepted before 27 February 2015. Please note these discounts are paid in the form of additional shares. The following net initial charges therefore apply:-

	Before 19 December 2014	Before 27 February 2015	After 27 February 2015
Existing investors	0.00%	1.00%	2.50%
New investors	0.50%	1.50%	2.50%

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 and risks before investing.

SHARE BUY BACK POLICY

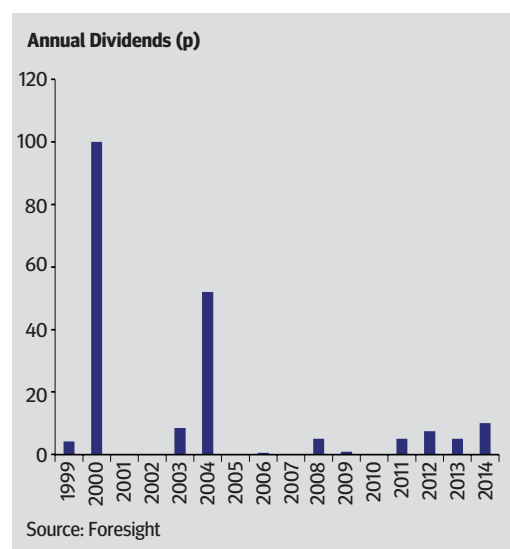
The aim is to buy back shares at a discount to NAV of up to 10%. This is subject to certain conditions. Please refer to the prospectus for further details.

PERFORMANCE & DIVIDENDS

The team aims to maintain a steady stream of dividend payments to investors over the long term. Their current target is to pay a dividend of 5p per share a year. Previously, dividends paid were impressive but inconsistent and we prefer the approach of aiming to deliver more consistent returns. Following the sale of successful investments the board might look to increase dividends on an ad-hoc basis, either by raising

the interim/final dividend; or through the payment of special dividends. All dividends are variable and not guaranteed.

The charts below show the annual and cumulative dividends paid by the Foresight VCT 'O' share class since launch:-



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 months following the acceptance of your application. Shares will be issued according to the most recently announced NAV per share of the VCTs, adjusted for the costs of the offer.

You can elect for dividends to be reinvested, paid by cheque or into your bank account. Please see the relevant section of the prospectus and application form for further details.