

VCT RESEARCH REPORT

ALBION VCTs

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HEAD OF INVESTMENT
ANALYSIS

**Generalist
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in unquoted
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wide variety of
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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

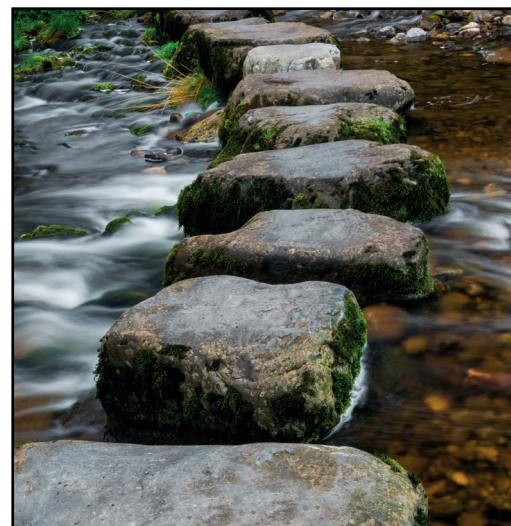
VCTs are substantially higher risk than mainstream equities. They invest in smaller companies, which can be prone to failure. VCT shares are difficult to buy and sell – the market price may not reflect the value of the underlying investments. The value of the shares will fluctuate, income is not guaranteed 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	Albion VCT, Albion Development VCT, Albion Technology & General VCT, Albion Enterprise VCT, Crown Place VCT, Kings Arms Yard VCT
Amount seeking	£25.5 million
Minimum investment	£6,000
Split	Investors can split their subscription equally across the six VCTs or choose one or more, providing £6,000 is invested in aggregate.



OUR VIEW

Diversification and regular dividends are the main attractions of this offer and it could appeal to first-time VCT investors and those seeking regular income. An investment across all six VCTs provides exposure to around 60 unquoted companies and has the potential to provide monthly dividends. The team running the VCTs is experienced and well-resourced. We like their hands-on approach as the types of companies VCTs invest in often need nurturing and guidance to reach their full potential.

A mix of investments across a range of sectors and in companies at different stages of their development makes this a truly generalist VCT offer and we believe it could form the core of a well-diversified portfolio for almost any VCT investor. Splitting an investment across all six could be sensible, but investors looking to do so should act quickly as some could reach capacity before others. Potential investors should also take note of the recent changes to the VCT rules, discussed overleaf.

WHO SHOULD CONSIDER 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

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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 although there are no guarantees.

Investors should ensure they are comfortable with an individual VCTs 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 you must hold the VCT for five years to benefit from the tax relief, we believe 10 years plus is a more realistic time horizon.

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. The majority of Albion's investments have tended to be in younger companies and those with assets against which the investment can be secured. This approach should be relatively unaffected by the new rules, although there could also be more competition to secure the most attractive investments as other VCT managers adapt to the changes. Further details of the legislative changes can be found on the VCT section of our website: www.hl.co.uk/vct

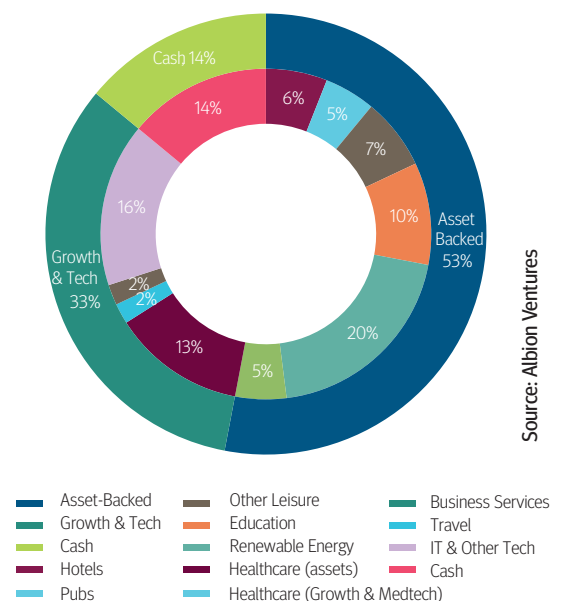
PHILOSOPHY

Albion combines lower-risk, asset-backed, income-generating investments with higher growth opportunities in riskier businesses. They believe this helps achieve a stable and predictable income while offering some long term growth potential, although there are no guarantees. Essentially, for those investing across all six VCTs they are aiming to create a portfolio that performs well in a variety of economic conditions, although there are no guarantees. Albion also looks for companies creating social value and providing a real benefit to society, such as those in the healthcare, technology and renewable energy sectors. In contrast they avoid those which do not create any social value such as those in the gambling and arms industries.

PORTFOLIO CONSTRUCTION

Asset-backed companies account for approximately 53% of the portfolio. This includes businesses such as care homes, pubs, hotels, and renewable energy projects. Companies in sectors such as leisure, real estate and healthcare are ideal for asset-backed investments as they tend to own freehold property against which investments can be secured. If the business struggles or fails these assets can be sold to recover some losses for the VCT.

A further 33% is invested in comparatively higher risk, growth-focused businesses. Sectors Albion tends to specialise in are healthcare / med-tech; business services; and technology. The remaining 14% of the portfolio is held in cash. The chart below shows the breakdown of the portfolio as at 30 September 2015:-



The sector breakdown and asset mix will be different for investors who do not invest across all six VCTs. Investors selecting a different combination should note there are differences between each. Albion VCT has comparatively more in asset-backed areas, for instance, while Albion Technology & General has more traditional, early-stage venture capital.

COMPANY CASE STUDY

Early in 2015 several Albion VCTs invested a total of £9.5 million to acquire Combe Bank School near Sevenoaks in Kent. This follows a previous successful investment in Radnor House School in 2010. The investment will be used to provide new facilities and modernise existing

ones in order to enhance the school's academic success. The development will be driven by the experienced team at Radnor House School, and Albion is hopeful their success can be repeated at Combe Bank.

PERFORMANCE & DIVIDENDS

The target annual yield is 6% for investors choosing to invest in all six VCTs – this is equal to a tax-free yield of 8.5% after the effect of tax relief. The longer term aim is to ensure the value of the portfolio at least keeps pace

with inflation. The dividend target for each VCT is shown below and investors should be aware that if there is not enough income available to maintain the level of dividend investors could receive back a portion of their capital.

Dividends are variable and not guaranteed.
Source: Albion Ventures

	Albion VCT	Albion Development	Albion Technology & Development	Albion Enterprise	Crown Place	Kings Arms Yard
Target dividend (pence per share)	5p	5p	5p	5p	2.5p	1p

The table below shows the total dividends paid and the total return (dividends plus capital growth) of each VCT since Albion assumed management:-

VCT	Date of launch or Albion's management	Total dividends	Total return (before tax relief)
Albion VCT	Apr-96	137.30	207.10
Albion Development	Jan-99	82.75	154.04
Albion Technology & General	Jan-01	86.00	163.11
Albion Enterprise	Apr-07/08	26.35	122.86
Crown Place	Apr-05	24.30	128.73
Kings Arms Yard	Jan-11	4.67	148.00

Dividends are variable and not guaranteed.
Source: Albion Ventures

ABOUT THE MANAGER

Albion is one of the UK's leading VCT managers, managing approximately £275 million across the six VCTs. The team is headed by Patrick Reeve who founded the venture capital division of Close Brothers in 1996 before leading the buy-out of the business in 2009 and renaming it Albion Ventures. The core of the team has worked together for a number of years using the same philosophy.

Of the VCTs Albion has managed since launch they have a good track record of delivering dividends to shareholders, while they also appear to be progressing with the turnaround of Crown Place and Kings Arms Yard which they inherited from the previous managers in 2005 and 2011 respectively.

The team aims to have a good understanding of what is going on in the wider economy. They then drill down into individual sectors aiming to identify which might have the best prospects, or where growth is expected to slow. Their aim is to then back the best management teams in the fastest growing sectors, but the team believes they have particular strength in the healthcare, environmental, leisure and technology sectors.

The aim is to hold onto successful companies for as long as possible, which can be difficult as the best companies will often attract early interest from potential buyers. If a company is not performing well they tend to try and exit quickly to minimise the detrimental impact on the portfolio.

CHARGES & FEES

The initial charge is 3%. There is a 1% discount for existing Albion shareholders and a 0.5% discount for new shareholders, both of which expire on 29 January

2016. This means the following net initial charges apply (please note discounts are paid in the form of additional shares):-

	Before 29 January 2016	After 29 January 2016
Existing investors	2%	3%
New investors	2.5%	3%

Each of the VCTs has different annual charges and performance fees. Full details can be found in the prospectus which must be read in full. Investors should

ensure they are comfortable with the charging structure and risks for each VCT before investing.

SHARE BUY BACK POLICY

VCT	Target discount to NAV
Albion VCT	5%
Albion Development	5%
Albion Technology & General	5%
Albion Enterprise	5%
Crown Place	5%
Kings Arms Yard	5%

Buy backs and the target discounts above are not guaranteed and are subject to a number of factors,

including, among other things, market conditions, liquidity and maintaining VCT status.

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 VCTs, adjusted for the costs of the offer.

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