VCT RESEARCH REPORT

OCTOPUS APOLLO VCT

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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 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

Fund	Octopus Apollo VCT
Amount seeking	£20 million
Minimum investment	£5,000

OUR VIEW

This is the more conservatively managed of the Octopus VCTs, which aims to be lower risk, but also deliver lower returns than the others. We like the focus on robust management teams running established

businesses; and the aim of offering some capital shelter while paying attractive dividends could appeal to more cautious VCT investors. Please remember VCTs are more risky than mainstream investments and you could get back less than you invest.

The Apollo VCTs launched in 2006 and a number of mergers have taken place to consolidate the range into one VCT. Octopus is also planning to merge another VCT (Octopus VCT) into Apollo. This will create a bigger, more diverse VCT and costs should fall. We would like to see how performance fares following the merger before becoming more positive.

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 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 VCTs approach and risks before investing. We

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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.

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.

PHILOSOPHY

Investing in smaller companies is as much about backing people as products and services. A management team can make or break a company's fortunes and the Apollo team focuses on established management teams ideally running businesses with more predictable sales and revenues. They then structure their investments to generate an attractive income while offering some capital shelter.

COMPANY CASE STUDY

The two companies below are very different, but both benefit from similar characteristics, such as providing an essential service and generating repeat business.

Technical Software Consultants uses a unique technique to detect cracks in metals, especially where the failure of a structure or component could result in significant loss of life or risks to the environment. It is particularly relevant for offshore oil and gas platforms, for example. The team believes the company's strong earnings make it attractive for the capital preservation mandate, while they could also share in the growth of the business through an equity stake.

Countrywide Healthcare Supplies specialises in supplying healthcare and cleaning products, as well as furniture and bedding, to the care home industry. These are all essential products and services that can't easily be cut back on during harder times. The Apollo team was attracted by the company's strong customer focus, high level of customer retention and repeat business.

PORTFOLIO CONSTRUCTION

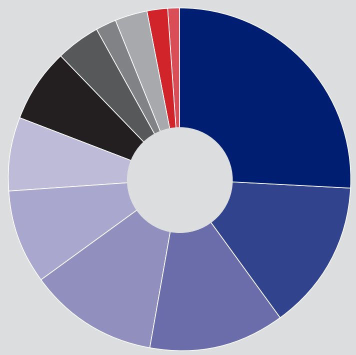
All types of business are considered regardless of the industry in which they operate. The overall aim is to hold a broad range of companies operating in a variety of sectors. The quality of management and the predictability, or stability, of the business model are the main considerations.

The investments made by the VCT are often in the form of loans to the company. The interest from the loans and the capital repayment are relatively predictable and can be used to fund dividends to VCT investors. Loans are often secured against assets the business owns, such as property or machinery, which can be sold to recover some losses if the company struggles to repay the loan.

The VCT will also invest in the company's shares, which offer the potential for some capital appreciation if the value of the share has risen when the investment is sold. It is the combination of debt and equity investments that allows the VCT to target some capital shelter, offer attractive dividends (variable and not guaranteed), and the potential for capital growth over the long term.

The latest sector breakdown for the portfolio is shown to the right (if the merger with Octopus VCT goes ahead the sector breakdown will be different):-

Sector Breakdown



Source: Octopus Investments as at 31 July 2014

PERFORMANCE & DIVIDENDS

The VCT targets a return of £1.20 for each £1 invested over a five-year period (before tax reliefs); though there is no guarantee this can be achieved.

The first Apollo VCT only launched in 2006 so the track record is relatively short. In the early years VCT returns tend to be subdued. This is because it takes time to invest the portfolio and for these investments to start generating value, before being sold. The table below shows the percentage return generated (NAV plus dividends) in each of the past five years:-

	Year to 31 July 2010	Year to 31 July 2011	Year to 31 July 2012	Year to 31 July 2013	Year to 31 July 2014
Apollo VCT	1.20%	4.90%	6.00%	0.80%	4.30%

Source: Octopus Investments to 31 July 2014

Past performance is not a guide to future returns.

Hargreaves Lansdown is offering a discount of 2.5%, which is available to all investors.

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 six-strong team behind Octopus Apollo VCT is headed by Grant Paul-Florence. The team has a broad range of experience, both within venture capital, private equity and financial services, as well as other industries. As well as conducting their own research to find investment opportunities the team has built a strong network of contacts which is useful for sourcing potential deals.

As well as providing funding to businesses the team will also provide advice and support to help the company grow and reach its potential.

CHARGES & FEES

The initial charge is 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. For applications received and accepted before 31 December 2014 there will also be an 'early bird' discount of 2%. The following net initial charges therefore apply (please note discounts are paid as additional shares):-

	Before 31 December 2014	From 31 December 2014
Existing & previous Octopus investors	0%	2%
New investors	0.5%	2.5%

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 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. Investors should remember VCT shares must be held for a minimum of 5 years to retain the tax relief. Please refer to the prospectus for further details.

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 paid by cheque, 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.