VCT RESEARCH REPORT

PEMBROKE VCT 'B' SHARE

www.hl.co.uk
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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.

The Pembroke team aims to back some of the UK's most talented entrepreneurs, running businesses with significant growth potential.

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
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	Pembroke VCT 'B' Share Top-up Offer
Amount seeking	£15 million
Minimum investment	£3,000

OUR VIEW

Pembroke VCT was launched by Oakley Capital in 2013 and has a bias to consumer-facing businesses, primarily those in the leisure and luxury brands sectors.

We like the approach of supporting promising entrepreneurs in a traditionally competitive area, where it could be difficult for businesses to obtain funding and investment from elsewhere. The Oakley Capital team is experienced in identifying unquoted investments and we believe they have the potential to deliver good returns. Their track record managing VCTs is short though and we would like to see more evidence of returns delivered to shareholders before becoming more positive.

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.

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There is an emphasis on consumer-related businesses, particularly those in the leisure and luxury brand sectors. Current investments include popular burger restaurant Five Guys.

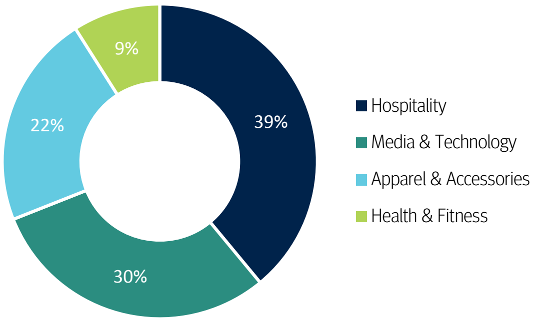
Investors should ensure they are comfortable with an individual VCTs approach before investing. We believe building a portfolio of different VCTs is sensible as the diversification reduces risk. Starting by selecting those focusing on more mature, established companies; and then adding higher risk VCTs 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.

PHILOSOPHY

The team aims to back some of the UK's most talented entrepreneurs, running businesses with significant growth potential. They will target those with an established brand or those with the potential to develop their brand into a well-known name.

PORTFOLIO CONSTRUCTION

The team concentrates on making investments in the health & fitness; hospitality; apparel & accessories; and media & technology sectors. They consider companies at all stages of their development, from start-ups, which are higher risk, to more mature businesses already achieving a degree of success. Presently, investments are split approximately 50/50 between profitable and unprofitable companies.



Source: Oakley Investment Managers as at 30 September 2015

Consumer-facing companies tend to be reliant on discretionary spending and can therefore struggle during a recession or tougher times when people cut back their spending. This is arguably less true for luxury brands as wealthy consumers tend to maintain their spending power through a recession. Nevertheless, we consider the focus on more economically-sensitive companies in a limited number of sectors to be higher risk.

COMPANY CASE STUDIES

Five Guys is a burger restaurant that was founded in the US in 1986. Its success across the pond has been driven by its high-quality range of hand-made burgers, made with fresh, locally sourced beef and cooked on a grill, along with fresh-cut fries, and served with unlimited toppings. It currently has over 1,000 stores the US. Pembroke VCT has invested in the UK joint venture. The money provided has helped roll out thirty restaurants across the UK with several more still in the pipeline.

A more recent investment made in the 'B' share pool was **cheekfrills**, a women's underwear brand founded in 2012. The company launched with a range of knickers, and has expanded to include other undergarments including; vests, pyjamas, bralets, robes, shorts and chemises. The brand is renowned for high-quality, comfortable and fun knickers with bright hues, cheeky slogans and beautiful box sets. The brand is stocked in leading international retailers including Selfridges, Saks, Barneys, Fenwick and Galeries Lafayette and the Pembroke team aims to help the company improve its operational infrastructure and expand further.

PERFORMANCE & DIVIDENDS

Having only launched in 2013 the VCT has yet to build a long track record of successfully selling businesses and distributing the proceeds to investors (though the Oakley Capital team does have previous experience investing in and selling unquoted companies).

There have been some early signs of success in the VCT: Five Guys; Plenish (a juice business which sells through Waitrose, Ocado, Selfridges, Planet Organic and Harvey Nichols); and Troubadour (a luxury men's accessory brand specialising in leather goods) have seen their values increase.

Many of the underlying investments have been made relatively recently, particularly in the 'B' share class which only launched in March 2015, so there has not been sufficient time for values to increase materially. Some companies have also not done as well as initially hoped. La Bottega, a London-based chain of Italian delis, has seen sales affected by growing competition and has fallen in value. The Pembroke team is helping to modernise its stores and improve the menu, and they are confident this will help improve sales. This does highlight the higher-risk nature of investing in early-stage companies though. The table below shows the latest NAVs and dividends paid to date for the Ordinary and 'B' shares:-

	NAV (30/09/2014)	NAV (30/09/2015)	Dividends (p)	Total return
Ordinary Shares	97.91p	114.59p	3p	117.59p
B 'Shares'	n/a	102.68p	0p	102.68p

Source: Pembroke VCT plc (half-yearly report, 30.09.2015, unaudited). The 'B' shares were first allotted on 19.03.2015. Dividends are variable and not guaranteed.

The target going forward is to pay a dividend of 3 pence per share each year, with the potential for this to be boosted from time to time by special dividends following the sale of successful investments. Given the 'B' share only launched recently it is likely to take 1-2 years for the 3p target to be met.

ABOUT THE MANAGER

Oakley Capital was established in 2000 by Peter Dubens. Prior to the launch of the VCT the team focused more on investing in medium-sized unquoted companies, but the VCT was launched in 2013 to take advantage of opportunities among smaller companies.

Most investments are sourced through an extensive network of contacts the team has built throughout their careers. They seek companies with significant growth potential and aim to take a meaningful stake in order to have influence over the company's strategy and operations, in order to help them develop successfully. They will aim to sell the business three to seven years after investing. So far the team has made 23 investments in Pembroke VCT.

CHANGES TO VCT LEGISLATION

Potential investors should be aware that in November 2015 some changes were made to the legislation governing VCTs, which effectively imposes 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. Pembroke VCT should not be materially affected, in our view. They tend not to invest in older, more mature companies; or engage in the prohibited types of transaction. That said, as with any change there is the potential for disruption and there could be more competition to secure investments, making it harder to deliver returns. Further details of the legislative changes can be found on the VCT section of our website: www.hl.co.uk/vct

Hargreaves Lansdown is offering a discount of 3%, which is available to all investors

CHARGES & FEES

The initial charge is 5%. Hargreaves Lansdown is offering a discount of 3% off the initial charge. For those investing before 15 December 2015 there is an additional discount of 2%, which reduces to 1% for investment made before 29 January 2016. The following net initial charges therefore apply (please note discounts are paid as additional shares):-

	Before 15/12/2015	From 16/12/2015	After 29/12/2016
Net initial charge	0%	1%	2%

The VCTs total expenses are capped at 2%, excluding the performance fee. 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 before investing.

SHARE BUY BACK POLICY

The VCT will endeavour to buy back shares at a maximum discount to NAV of 5%. Investors should remember VCT shares must be held for a minimum of 5 years to retain the tax relief.

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.

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