VCT RESEARCH REPORT

ProVen VCT

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.

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	ProVen VCT
Amount seeking	£30 million
Minimum investment	£5,000

OUR VIEW

We like the approach of identifying young, growing companies at an earlier stage of their development. 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.

We were recently disappointed to learn Trevor Hope, Chief Investment Officer, has handed his notice in. He has a lot of experience investing in small, unquoted businesses and we feel this experience will be missed. That said, there are other experienced individuals on the team, including Karen McCormick, who has taken over as CIO; and Stuart Veale, Managing Partner.

We still view this VCT as a good choice for those with a long-term investment horizon. The earlier stage companies and exposure to the digital media sector differentiates it from some peers, but it is higher risk. It could complement other generalist VCTs as part of a diversified portfolio. Potential investors should take note of the recent changes to the VCT rules, discussed overleaf.

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The VCT invests in a broad range of companies, many of which have digital media at their heart or are using digital media to fuel their growth.

PHILOSOPHY

The team looks for companies crossing the chasm 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.

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 ProVen's investments have tended to be in younger companies and they have tended not to engage in the types of deals that are now prohibited. Their approach should be relatively unaffected by the new rules, although £30 million is a lot to raise when there could 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

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, 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.

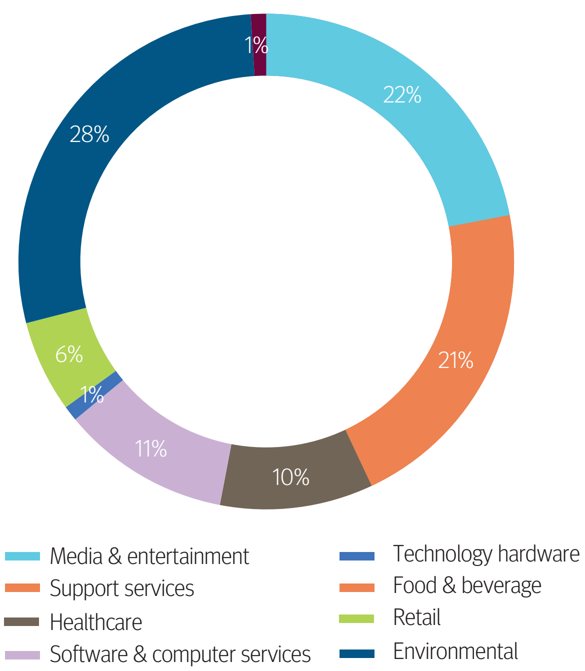
PORTFOLIO CONSTRUCTION

Digital media has infiltrated almost every sector of the economy. While the VCT used to have a bias to digital media companies specifically, today it invests 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 41 investments and the latest sector breakdown is shown below:-

Sector breakdown



Source: Beringea

COMPANY CASE STUDIES

Monica Vinader is a luxury jewellery brand that launched in Harrods in 2007. The ProVen VCT invested in 2010 to help finance the opening of the first Monica Vinader stand-alone store in Mayfair, London. A further investment was made in May 2013 to help open more stores, improve online sales and expand internationally. There are now three stores in London, two in Hong Kong and there are plans to expand across North America, Asia and the Middle East during 2016.

Watchfinder.co.uk sells pre-owned luxury watches over the internet and through retail shops. The company buys them from the public, services them, and sells them on again. ProVen VCT invested £2.6 million in Watchfinder during 2014 to help the company accelerate its growth by buying more watches from the public for resale.

The table below shows some of the investments sold by the VCT in recent years and the return achieved. Past performance is not a guide to the future and some investments have been written off or disposed of at zero value in the past. Sale proceeds include interest and dividends received.

Year of sale	Company	ProVen investment	Sale proceeds	Multiple of investment
2015	Speed-Trap	£1.8m	£3.8m	2.1x
2014	Eagle Rock	£1.2m	£1.7m	1.4x
2013	Espresso	£2.1m	£4.9m	2.3x
2013	Fjordnet	£1.9m	£5.6m	2.9x
2013	Tossed	£1.2m	£5.6m	1.4x

Source: Beringea

COMPANY CASE STUDIES

	ProVen VCT
Target annual dividend:	5% of NAV
Payment frequency:	Semi-annually

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. From the financial year ending 28 February 2013 the dividend target has been 5% of NAV a year. The table below shows the track record since the target was introduced. Dividends are not guaranteed and past performance is not a guide to the future.

	2013	2014	2015
Dividend - pence	7.5p	7.5p	5p
Dividend - yield	5.1%	7.3%	4.8%

Source: Beringea, as at 20 November 2015

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

Beringea: The ProVen VCTs are managed by Beringea. They have over 25 years' experience managing unquoted investments, including VCTs. 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.

Team: The team is not the largest in the VCT sector and we believe the loss of Trevor Hope as Chief Investment Officer is a blow. Karen McCormick has taken over as CIO having been with the team for over 8 years. She has a lot of experience making new investment and working with companies until they are ready to be sold. Stuart Veale, Managing Partner, also remains with the firm. He has over 25 years' experience. Additions to the team in recent years have bolstered the research and analytical capabilities.

Research: 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.

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.

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 paid into your bank account, receive them by cheque or participate in the VCT's dividend reinvestment scheme. Please see the relevant section of the prospectus and application form for further details.