

# VCT RESEARCH REPORT

## ALBION VCTs

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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 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.

### OFFER SUMMARY

Fund	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 over 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 VCT portfolio. 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.

### 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.

## Albion combines lower-risk, asset-backed, income generating investments with higher growth opportunities in riskier businesses.

They also aim to maintain or steadily grow capital over the long term.

Investors should ensure they are comfortable with an individual VCT's 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 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

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. 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.

### COMPANY CASE STUDIES

Bayfield Court, a purpose-built care home in London, is

a good example of an asset-backed investment. Albion tends to provide the money to build the care home and the investment is secured against the development. The VCT makes its return from the weekly fees paid by residents, which rise annually by around 5%. The team believes the following strategy leads to the best opportunities in this area:-

- Backing developers they have worked with successfully in the past
- Building high-quality care homes in affluent parts of the country
- Offering exceptional care and outstanding quality of life
- All inclusive weekly fees, covering accommodation, full service bistro & bar, chauffeur driven limousine, cinema, spa, and evening entertainment & live events

Egress Software Technologies is an example of a higher-risk, high growth business. Albion invested £2.2 million in February 2014 and the company provides encryption services to the cyber security market. The team is positive on the company for the following reasons:-

- An experienced, high-calibre management team
- A market driven by a regulatory need – personally identifiable information must be encrypted
- Strong customer loyalty and recurring revenues from monthly fees and 3-year contracts
- A stronghold in the UK market with increasing opportunities in the US and Europe

## 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 table below shows the total dividends paid and the total return (dividends plus capital growth) of each VCT since Albion assumed management. Please remember all dividends are variable and not guaranteed.

VCT	Date of launch or Albion's management	Total dividends (p)	Total return (before tax relief) since launch (p)
Albion VCT	Apr-96	132.3	201.6
Albion Development	Jan-99	77.8	148.6
Albion Technology & General	Jan-01	81	161.8
Albion Enterprise	Apr-07	21.4	116.1
Crown Place	Apr-05	21.8	124
Kings Arms Yard	Jan-11	3.7	123.4

Source: Albion Ventures as at 30 June 2014.

Past performance is not a guide to future returns. Dividends are variable and not guaranteed. Total return includes dividends paid or declared plus NAV (as at 30/06/14 for all VCTs in the Offers and after issue costs). Crown Place and Kings Arms Yard date from the start of Albion's management.

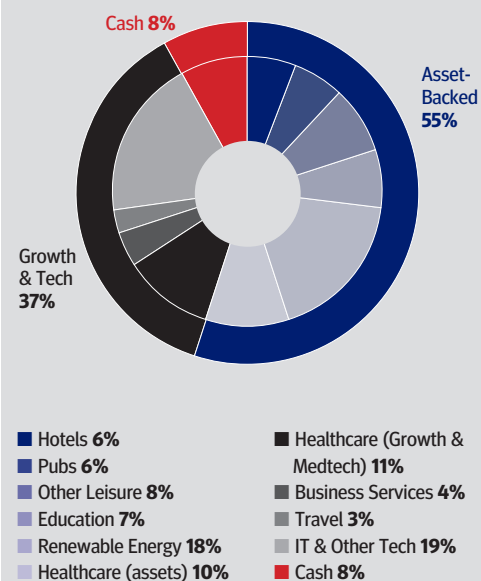
## PORTFOLIO CONSTRUCTION

Asset-backed companies account for approximately 55% 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 37% 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 8% of the portfolio is held in cash. The chart to the right shows the breakdown of the portfolio as at 30 September 2014:-

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. Please refer to the prospectus for details of the six VCTs.

Sector Breakdown



Source: Albion Ventures as at 30 September 2014

## ABOUT THE MANAGER

Albion is one of the UK's leading VCT managers, managing approximately £240 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.

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## CHARGES & FEES

The initial charge is 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 of each VCT before investing.

## SHARE BUY BACK POLICY

Buy backs and the target discounts below are not guaranteed and are subject to a number of factors, including, among other things, market conditions, liquidity and maintaining VCT status. Investors should remember that the VCT shares must be held for five years to retain the tax relief.

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%

## HOW TO APPLY

To apply please read the prospectus 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 to be subscribed 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 to benefit from our discount.

We will acknowledge applications and share certificates and tax certificates 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 an application. Shares will be issued according to the most recently announced NAV per share of the VCTs, adjusted for the costs of the offer.

Dividends can be paid by cheque, into a bank account, or reinvested via the VCT's dividend reinvestment scheme. Please see the relevant section of the prospectus and application form for further details.

