

Smith & Williamson

Albion Development VCT - D Shares

Venture Capital Trust Review

29 December 2009

Introduction

Rating: n n n n

- | A £25m D share offering for the existing Albion Development VCT which raised a total of £33.3 million between 1999 and 2004 in issues of both Ordinary and C share classes.
- | The Company aims to provide a regular and predictable source of income, combined with the prospect of longer term capital growth.
- | Qualifying investment will be split into two parts once fully invested:
 - Lower risk portfolio – Comprising of lower risk, un-gearred businesses, many of which will be asset backed. Businesses will principally operate in the leisure sector, although will include other sectors such as healthcare. The lower risk portfolio is designed to provide stability and income whilst still maintaining the potential for capital growth.
 - Growth Portfolio – A smaller number of higher risk investments will be sought in un-quoted companies with the potential for greater growth in sectors such as medical technology and services. Many will be later stage, established businesses but could include early stage businesses that have yet to earn any income.

Track Record

Rating: n n n n

- | The Manager of the Company, Albion Ventures LLP, was formed in January 2009 by the executive directors of Close Ventures Limited when they bought the business, which had been formed in 1996, from Close Brothers Group plc. The team, the investment approach of Albion Ventures and the investment policy of the Company, remain unchanged.
- | Albion Venture manages seven VCTs, with net assets of approximately £200 million under management, comprising Albion Venture Capital Trust PLC, Albion Protected VCT PLC, Albion Technology & General VCT PLC, Albion Income & Growth VCT PLC, Crown Place VCT PLC, Albion Enterprise VCT PLC and the Company.
- | Albion has a large presence in the VCT market and has consistently provided dividends to shareholders.
- | To date, dividends of 49.8 pence and 35.7 pence per Share have been paid out to Ordinary and C Shareholders of the Development VCT, which have respective NAV of 77.3p and 82.82p
- | Albion recently won “VCT of the Year” at the 2009 Investor All Stars Venture Capital Awards and the “VCT Manager of the Year” at the 2009 British Private Equity Awards.
- | The Manager has an active policy of returning cash to shareholders through dividends and share buy-backs. To date, £103.4 million has been returned in this way to shareholders in the VCTs it manages.
- | Albion has, historically, been very good at managing the discount and facilitating buy-backs at approximately a 10% discount to NAV.

Management Group

Rating: n n n n

- | Albion is committed to the VCT sector and has a number of funds in the Generalist sectors. It is clearly a central part of their business and their intention is to be involved in the VCT market over the long-term.
- | The number of different funds under their management could allow some internal co-investment if required. The managers will also co-invest or syndicate with other VCTs, whether formally in order to fund a deal or informally to simply negotiate on price.

People

Rating: n n n n

- | There are 11 members of the investment team, with a wide range of experience.
- | The team are confident of raising £25m and their previous record demonstrates this.
- | Partners and staff of Albion Ventures intend to invest not less than £117,000 in the offer.

Costs

Rating: n n n n

- | The AMC is 2.25% plus any applicable VAT.
- | The TER is capped at 3.5% per annum.
- | The performance fee is payable when and if total return (NAV plus dividend) exceeds 6.5p per annum on an aggregate basis. If so 20% of the excess will be paid to the manager.

Exit Strategy

Rating: n n n n

- | The VCT should be seen as a long term investment with the first vote on continuation of the VCT planned in 2015 and at five yearly intervals thereafter.
- | The long-term policy is to maintain a stream of tax-free dividends from portfolio gains.

Disclaimer

This note does not constitute a personal recommendation to invest and may not be suitable for everyone. Reasonable care has been taken in the compilation of this review but its accuracy is not guaranteed and all facts stated should be independently checked. No investment decision should be based on this note. Investors should review the prospectus for a VCT carefully and take appropriate financial advice from a person authorised and regulated by the Financial Services Authority to give such advice before investing. Bases and rates of tax relief are subject to future change. As such, their value depends on individual circumstances. VCT shares must be held for a minimum of 5 years to attract tax reliefs. VCTs should be seen as high risk and only suitable for individuals who can endure losses and take a long term perspective, as their value can fall as well as rise and an investor may lose all of his investment. The market in VCT shares is illiquid and it may be difficult or impossible to sell shares. Past performance should not be seen as an indication of future performance.

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