

**Smith & Williamson**

**Baronsmead VCT 3 Plc &  
Baronsmead VCT 4 plc**

Venture Capital Trust Review

29 January 2010

# Introduction

## Rating: n n n n

- | A £16m joint offer from the existing Baronsmead VCT 3 and Baronsmead VCT 4. The offer can be extended up to a maximum of approximately £24m in aggregate if, in the opinion of the Directors, it is appropriate to do so. Following the successful fund raising to the original Baronsmead VCTs last year, their first since 2005, Baronsmead have decided to expand their VCT offering further.
- | In line with the existing strategy the VCT will be invested in a diverse portfolio of established and profitable UK unquoted and AIM traded companies. Co-investment by all of the Baronsmead VCTs enables them to invest in larger, more established companies on an exclusive basis.
- | Baronsmead VCT 3 has the objective to maintain a minimum annual dividend of c4.5p per ordinary share, while Baronsmead VCT4 aims to sustain progressive dividends for shareholders. Both VCTs are of course reliant on sufficient realisations being made.

## Track Record

### Rating: n n n n

- | As at 30 September 2009 the NAVs of the Baronsmead VCT 3 was 100.23p and the NAV of the Baronsmead VCT 4 was 92.25. There have also been dividends paid of 48.3p and 38.0p respectively – although this figure does include the dividends announced on 1 December 2009 which were paid on the 30 December 2009.
- | The original Baronsmead VCT has a NAV of 76.04p as at 30 September 2009 having paid dividends totalling 100.5p.
- | The Baronsmead VCT 2 has a NAV of 89.06p and has paid 73.04p in dividends as at 30 September 2009
- | Baronsmead will invest on an exclusive basis in unquoted companies and will often be one of the largest institutional shareholders in Aim traded companies as it will co-invest with the other Baronsmead VCTs.
- | There has been a history of buy-backs and Baronsmead plan to continue to offer to re-purchase up to 14.99% of the overall VCT annually at a discount of 10% to NAV subject to shareholder approval.

## Management Group

### Rating: n n n n

- | The Baronsmead VCTs are amongst the largest and most well established VCTs in the market. They are managed by ISIS Equity Partners LLP, which also has £414m under management in institutional private equity funds.
- | Under David Thorp they have been an integral part of the industry's development and are fully committed to the VCT market. Currently they have approximately £238m in their 5 VCT funds.
- | Baronsmead utilise a distinctive investment approach to invest in unquoted and AIM companies, using private equity disciplines where possible. This includes due diligence on both the investee company and its management and the use of the managers national and regional connections to assess market conditions and trading prospects.
- | The Baronsmead brand is very strong in the funding arena and again their size and strength is likely to attract desirable deals given the difficulty of fund raising in current markets.

## People

### Rating: n n n n

- | The Investment team at ISIS has extensive experience. David Thorp is also chairman of the VCT Managers committee and a director of the Association of Investment Companies– making representation to HM Treasury, HMRC regarding VCT legislation.
- | Andrew Garside joined ISIS in 2005. He is responsible for all unquoted investments and contributes to the overall investment management of the Baronsmead VCTs. He previously worked for 3i and has extensive knowledge of the types of UK growth company seeking to finance their next round of capital raising.
- | Henrietta Marsh joined Baronsmead in 2005 and is responsible for the day-to-day running of the Baronsmead AIM VCT.
- | Wol Kolade leads the team of 28 investment professionals sourcing deals.
- | Members of the manager have indicated their intention to invest a further £140,000 in aggregate into this offering (having invested approximately £220,000 previously).

## Costs

**Rating: n n n n**

- | The AMC is 2.5% paid quarterly in arrears; the TER is approximately 3.2%
- | The TER is capped at 3.5%, any excess will be met by a reduction in future management fees.
- | A performance fee is not payable to the Manager until the total return on Shareholders' funds exceeds an annual threshold of 8%. Any returns in excess of the threshold will be subject to a performance fee of 10%.

# Exit Strategy

**Rating: n n n n**

- | There is no specific exit strategy for this VCT. It should be seen as a long-term private equity fund, with shareholder return likely to come mainly through the payment of tax-free dividends as the portfolio matures and individual investments can be realised.

## 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 authorized 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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