

Smith & Williamson

Edge Performance 'F' Share

Venture Capital Trust Review

29 December 2009

Introduction

Rating: n n n n

- | A £10m 'F' share offering from Edge for their existing specialist VCT. Although there is provision to increase this to £20m if there is sufficient investor demand.
- | The VCT will continue to invest in the entertainment business, with particular focus on live events such as music concerts, festivals, tours, sporting events, trade shows and other events.
- | Investments of a mixture of equity (at least 30%) and debt (up to 70%) will be made in independent promoters, which work alongside some of the major industry players. The VCT will invest via event companies Edge will set up – the ownership of these will be split between the VCT and the promoter. No more than 50% of each event company's capital will be held by Edge.
- | This is the identical strategy adopted in the previous offerings and reduces the reliance on a single event. Numerous events will be promoted by each event company and therefore reduce the risk accordingly.
- | Edge has commercial partnerships with two leading promotion companies (SJM and AEG Live UK).

Track Record

Rating: n n n n

- | The original offering was launched in January 2006 and raised £6.28m. This was under the old legislation which had a minimum three year holding period in order to continue to qualify from tax relief. In line with the original intention the VCT has now wound up – having provided a total return to shareholders of 85p per share, equivalent to a return of 125p per 100p invested for those who obtained 40% income tax relief on subscription. This was significantly higher than the targeted total return of 75p per share.
- | The C share that was launched in December 2006 raised £13.2m and is now fully invested. The total return as at 31 August 2009, having paid a 7p dividend in December 2008 and a further 7p due in November 2009, was 93.5p. The D share that was launched in November 2007 raised £19m and has a total return of 93.19p, with the first 7p dividend being paid in November 2009.
- | The E share that was launched in 2008 raised £9.6m and has a NAV of 93.19p, but does however have 35% of assets invested or committed at this early stage – which is an excellent start.
- | The management team includes Gordon Power, who has managed VCT money (Guinness Flight and Proven) and has a good personal investment track record
- | The board intends to implement a share buy-back at a discount of no more than 10% to NAV.

Management Group

Rating: n n n n

- | The fund will be managed by Edge Investment Management.
- | The managers have demonstrated they have the contacts to make this structure work and that there is the demand from the events promotion industry for the finance that this and previous VCTs offer to it.
- | The existing partnerships with SJM and AEG Live UK have ensured the original VCT was fully invested into more than the required 70% some 18 months prior to the deadline required under VCT rules.
- | The manager also believes the D, E and F share pools will be fully invested prior to the required date.

People

Rating: n n n n

- | In addition to Gordon Power, the management team comprises 5 individuals (including music industry impresario Harvey Goldsmith CBE who has promoted events including Live Aid and Live 8.) There are 4 more board members to help with deal-flow (including Sir Robin Miller, who has vast experience in the media industry).
- | Alasdair George has considerable entertainment industry experience having been on the management board at Sony Music UK and on the Council of UK record trade association, the BPI.
- | Sanjay Wadhvani has recently joined the Edge team having previously been a member of the management team at Ingenious Media. During this time Sanjay invested in / advised media companies, individuals and projects across a wide range of media including films, television, music, digital media, live events, and creative agencies in marketing and communications.
- | This is a very impressive team with a previous investment track record and therefore investing funds should not prove to be a problem.
- | To date the boards of Edge Performance VCT, Edge Investment Management, and people associated with them have committed over £1.25m to the various VCT offerings.

Costs

Rating: n n n n

- | The AMC is 1.75%.
- | There is an annual administration fee payable to Edge of £125,000 (plus VAT) in total attributable to the Ordinary, C, D, E and the F shares on a pro rata basis.
- | The TER is capped at 3% of NAV but is anticipated to be 2.5% if £10m is raised through the F share offer, and 2.25% if £20m is raised.
- | The performance fee is 19% of cumulative cash returns in excess of £1.00 for every 70p invested (net of tax relief) rising to 29% for returns in excess of £1.20 (in addition the chairman of Edge will be entitled to receive a performance fee of 1% - calculated on the same basis).
- | These costs remain identical to the previous offerings.

Exit Strategy

Rating: n n n n

- | The targeted return to F shareholders is 130p for the net 70p cost of investment (equivalent to 160p per 100p invested, after income tax relief)
- | Edge's investments will be underpinned, with the intention of protecting the shareholder's entire 70p net of tax cost of investment
- | The intention to return any capital realised after 5 years to shareholders rather than to re-invest it will be attractive to most investors.
- | It is anticipated that after 5 years the board will present shareholders with the opportunity to wind-up the VCT.
- | Investors may have access to priority tickets for some events financed by the VCT, and while this is slightly less material, it will no doubt be attractive to some fans of live entertainment.

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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