

Smith & Williamson

Octopus Titan VCT 4

Venture Capital Trust Review

8 December 2009

Introduction

Rating: n n n n

- | A new generalist £25m offering from Octopus. The focus of the fund will be to invest in 20-30 unquoted early stage companies across a range of sectors. This will include environmental, technology, media, telecoms and consumer lifestyle. The fund will focus on providing early stage, development and expansion funding to unquoted companies with a typical deal size of £0.2m to £2m.
- | Of the non qualifying element of the VCT funds will be held in cash, money market securities and funds managed by Octopus. Prior to the end of the 3 year qualifying period up to 30% of funds raised will be invested in funds managed by Octopus, such as the CF Octopus Partner Fund (UK Smaller Companies) and CF Octopus Partner Fund (Absolute Return).

Track Record

Rating: n n n n

- | Octopus Investments is one of the UK's leading specialist fund managers, with more than £1 billion under management across its range of products.
- | Octopus manages 15 other VCTs including Eclipse VCT and Phoenix VCT that were jointly awarded 'VCT of the Year' in 2007 Investor Allstars awards.
- | Financial advisers voted Octopus 'Best VCT Provider of the Year' at the Professional Adviser awards in both 2007, 2008 and 2009
- | Octopus launched the Titan 1 and Titan 2 in the 2007/08 tax year which raised a combined £30m. As things stand the NAV is 95.30p for each VCT having also distributed 1p of dividends to date.
- | Octopus launched Titan 3 in the last tax year which raised £19m. At this early stage the NAV is 97.7p.

Management Group

Rating: n n n n

- | Octopus manages £225m of VCT money and this will be further bolstered this year.
- | Octopus took over Katalyst Ventures in 2007, becoming Octopus Ventures which is a wholly owned subsidiary of Octopus Investments.
- | Katalyst established an 'Investor Group' comprising of 80-90 members from an entrepreneurial / business background. The members pay a fee of £3,000pa to be shown investment opportunities in which they can invest alongside the VCT if they so wish. The advantage of this strategy is that within the Investor Group there are voices of experience across many sectors to advise on any potential investments.
- | In 2009 Octopus was selected by Capital for Enterprise Limited (a company that is wholly owned by the Department for Business, Innovation and Skills) to manage a £30m fund on behalf of the UK Government and HSBC, Barclays, Lloyds Banking Group and the Royal Bank of Scotland
- | The team at Octopus has an excellent track record of making investments into early stage unquoted companies over the last 8 years. Over this time period, the Octopus team has invested £38 million in 36 companies.
- | Octopus Ventures invested in Lovefilm - an internet based film rental company, which involves films being sent and returned via the post for a monthly rental charge.
- | There will be the opportunity for co-investment with the other Titan VCTs and other funds managed by Octopus should this be appropriate.

People

Rating: n n n n

- | The Investment Team is headed by Alex MacPherson who co-founded Octopus Ventures. Prior to this Alex worked at SG Warburg
- | Alex MacPherson, Alan Wallace, Alliot Cole, Luke Hakes and Alan Wallace make up the investment team. They have a varied background with experience in business, marketing, investment, fund management and law.
- | The Directors of Octopus Titan 4 will be investing £30,000 in aggregate under the terms of the Offer and it is anticipated that there will be commitment from other employees of Octopus.

Costs

Rating: n n n n

- | The AMC is 2.0% plus an annual administration fee of 0.3%, both excluding VAT.
- | The TER is capped at 3.2% per annum, excluding irrecoverable VAT.
- | If by the end of a financial year (commencing no earlier than close of the 2013 financial year), declared distributions per Share have reached 40p in aggregate and if the Performance Value at that date exceeds 130p per Share, a performance incentive fee equal to 20% of the excess of such Performance Value over 100p per Share will be payable to Octopus Ventures and Octopus Investments, in equal proportions. If, on a subsequent financial year end, the Performance Values of Octopus Titan 4 falls short of the Performance Values on the previous financial year end, no incentive fee will arise. If, on a subsequent financial year end, the performance exceeds the previous best Performance Values of Octopus Titan 4, the Investment Manager and Octopus Investments will be entitled to 20% of such excess in aggregate.

Exit Strategy

Rating: n n n n

- It is intended that Octopus Titan 4 should have an unlimited life but shareholders will have the opportunity to review the position and vote on a continuation at the 10th AGM. Should the VCT continue onwards following the vote there will be additional votes every fifth anniversary thereafter.
- This VCT 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.
- Octopus also proposes to offer a share buy-back facility on an annual basis at 10% discount to NAV which is in line with the industry.

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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