

**Smith & Williamson**

# Octopus VCT

Venture Capital Trust Review

8 December 2009

# Introduction

**Rating: n n n n**

- | A new limited life offering of up to £50m from Octopus. The VCT invests in a different way to traditional VCTs with the aim of minimising risk.
- | The qualifying proportion will invest in 35-40 companies that provide a high level of capital security – those either with secure contractual revenues from financially sound customers, or revenue streams that are generated from predictable transactions with a range of customers. The fund may also invest in businesses with strong asset backing.
- | Prior to deployment to qualifying investments funds will be held in a portfolio of investments with the aim of generating an attractive return while limiting downside risk. Investments may include money market instruments, short dated bonds, and other instruments where the Investment Manager believes that the overall downside risk is low.
- | It is intended that all investment will be sold shortly after five years and the net proceeds returned to investors.

## 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 2007, 2008 and 2009
- | The Eclipse VCT and Eclipse VCT 2 were launched in 2004 and 2005 and the total returns as at 31 October 2009 are 105.30p and 88.55p respectively.
- | Octopus launched the Protected VCT 1 in October 2006 and as at 31 October 2009 it has a NAV of 90.6p having paid dividends totalling 6p.

## Management Group

**Rating: n n n n**

- | Octopus manages £225m of VCT money and this will be further bolstered this year.
- | Octopus Structured Tax Investment Management Team (the fund managers who will be investing the Octopus VCT funds) already manage c.£200 million which has been raised through its low risk EIS vehicles.
- | 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.

# People

**Rating: n n n n**

- | The Investment Team is headed by Paul Latham, The Chief Operating Officer of Octopus. The team is made up of three individuals and also comprises, Hedley Mayor (Finance Director at Octopus) and Simon Rogerson (founder and Chief Executive Officer of Octopus).
- | Chris Hulatt is a Director of the VCT, alongside the Octopus Titan 3 VCT which was previously launched.
- | Each of the Directors of Octopus VCT will be investing £5,000 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. There is also an annual company secretarial fee of £15,000 plus VAT which is paid quarterly in arrears to Octopus.
- | Octopus rolls up its AMC interest free until the point of wind-up (August 2015). The cumulative AMC will only be paid to Octopus once shareholders have received dividends during the life of the Fund and distributions at the time of winding-up of a total of 105p per share.
- | Octopus will not receive a performance fee until after the general meeting in 2015. At that stage a performance fee of 20% of any return in excess of 105p to shareholders will be payable. The calculation is based wholly on the payment of cash proceeds to Shareholders.

## Exit Strategy

**Rating: n n n n**

- | The Shareholders will be given the opportunity to vote for the winding up of the fund at the general meeting of Octopus Secure VCT that is scheduled to be held in August 2015. If passed the disposal and return of the proceeds to shareholders will be executed promptly.
- | Octopus also proposes to offer a share buy-back facility on an annual basis at 10% discount to NAV for the first five years of the Fund. This 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.

**Tax Efficient Solutions is a division of  
Smith & Williamson Investment Management Limited  
which is authorised and regulated by Financial Services Authority.**