

Smith & Williamson

ProVen VCT and ProVen Growth & Income VCT

D Share linked offer

Venture Capital Trust Review

14 December 2009

Rating: n n n n

- | A £20m 'D' share issue from Beringea for their generalist ProVen VCT and Growth & Income VCTs. Each Investor's subscription will be divided equally between the two companies.
- | The VCT will invest in a broadly diversified portfolio of qualifying investments, namely smaller, privately owned UK companies which have potential for rapid growth. There is an aim to exit each investment within 3-4 years, either through a trade sale or floatation. It is intended to distribute the profits of these disposals as tax free dividends where possible.
- | It is expected there will be at least 10 investments made within three years of the launch of the offer, assuming full subscription.
- | Once this process has been completed and 75% of the fund is invested in qualifying investments the remaining 25% will be held in cash, liquidity funds and fixed interest securities of an 'A' rating or better.

Track Record

Rating: n n n n

- | Beringea manage three VCTs, the ProVen VCT, ProVen Growth & Income and the ProVen Health VCT. They have only been responsible for the management of the Health VCT since February 2009, when they took over from Noble.
- | The ProVen VCT was launched in February 2000 and as at 31 August 2009 has an NAV of 53.1p, having paid out dividends of 93.45p.
- | The ProVen Growth & Income VCT was launched in February 2001 and the 'O' share has a NAV of 43.6p as at 31 August 2009, having paid out 146.9p as dividends.
- | The ProVen Growth & Income C share launched in January 2006 and has a NAV of 70.7p as at 31 August 2009 having distributed dividends totalling 9.6p.
- | Beringea have only been responsible for the management of the Health VCT since February 2009 and therefore its performance is reflective of the previous manager, but for information purposes the NAV at the 31 July 2009 was 55.7p with an additional 13.5p paid in dividends.
- | These are excellent track records of both investment return and distributions.
- | The manager has operated a successful share buy-back facility for investors since 2004 and aims to continue this practice at a discount of no greater than 5% to NAV.
- | In 2008 Beringea won two industry awards – 'VCT Fund Manager of the Year' at the Growth Company Awards and 'Specialist Investment Vehicle of the Year' at the Quoted Company Awards.

Rating: n n n n

- | Beringea are private equity fund managers and they operate on both sides of the Atlantic. They run institutional money as well as the two VCTs and in total they have c£143m of VCT funds under management. They are an established management group and their VCT mandates are very important to them.
- | Historically, the team have structured some co-investment deals with their own institutional funds, and with third parties. This is likely to continue for the new monies.
- | The management team are likely to be able to source deals through their existing contacts and their US office connections.

Rating: n n n n

- | The management team comprises of five, all of whom have private equity experience.
- | Malcolm Moss is Senior Managing Director and the founder of Beringea LLC. With over 20 years at the helm of the company he has been responsible for the growth, development and management of both the UK and USA arms of the private equity business of Beringea.
- | Nick Lewis is on the board of the VCTs and is the Director and founder of Downing Corporate Finance Limited. He is a director of a number of VCTs and has extensive knowledge of the VCT market.
- | Beringea employees are investing £44,000 in this offer, bringing the total invested by directors and employees of Beringea to c£320,000.

Costs

Rating: n n n n

- | The AMC is 2%
- | The TER is capped at 3.25% for the ProVen VCT and 3.6% for the ProVen Growth & Income VCT.
- | There is a performance fee for the 'D' shares payable once total distributions exceed 25p (including the proposed tender offer) and total return exceeds 130p. Thereafter, the performance fee is payable from March 2012 at 33% of dividends between 3p and 6p and 20% above 6p. This is reasonably complex but looks attainable, and so it should align interests well.

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. The timescale for this is likely to be 5 years plus.

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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