Smith & Williamson

Triple Point TP10 VCT

Venture Capital Trust Review

7 December 2009

Introduction

Rating: n n n n

- This is one of two launches by Triple Point for the current tax year.
- As with Triple Point's existing Venture Capital Trusts this is also designed to return capital to investors after the minimum holding period to qualify for tax relief.
- The £50m offering aims to provide relatively low risk of capital loss by focusing on investments in companies with more realisable returns who have contractual revenues derived from financially secure counterparties.
- Initially funds will be held in cash or cash based liquid investments. Over the next three years funds will be deployed into qualifying investments which will focus on the health, leisure, environment and social enterprise sectors.
- The remaining 30% of non qualifying assets will continue to be held in cash or cash based investments for the duration of the Venture Capital Trust.
- In the early years the Directors expect to pay modest dividends. Once capital profits have been realised the aim is to distribute these to shareholders as tax free dividends.

Track Record

Rating: n n n n

- Triple Point has five other Venture Capital Trusts – Triple Point VCT and TP70, TP70 2008(I) & (II) and TP5.
- The original Triple Point VCT launched in 2005/06 and was subject to the old regime of a three year holding period to benefit from tax relief (which was 40% at the time). As per the intention at the time of launching this is in the process of winding up and has a nominal NAV of 2.00p having already returned 91.03p in the form of tax free dividends which is in line with targets.
- TP70, launched last in 2006/07 and raised £30m, which was more than any other offerings in the same period. The fund is initially invested in the GAM Diversity Hedge Fund and intends to switch into qualifying investments to meet its obligation at the end of the three year holding period. In line with markets over the last 12-18 months performance of the GAM fund has declined leading to a current NAV of 79.65p. The fund is yet to pay any dividend.
- In 2007/8, Triple Point launched the TP70 2008 (I) and (II) VCTs which also utilised exposure to the GAM Diversity fund of hedge funds which raised £48.5m securing 23% of the market that year. The current NAV per share of those two VCTs is 86.05p and 86.02p respectively.

Track Record

Rating: n n n n

- For the 2008/9 VCT season, Triple Point offered two VCTs, TP70 2009 which used the structure and investment content of the TP70 2008 VCTs and TP5 which was a lower risk income orientated VCT which used Goldman Sachs Asset Management to run a cash and bond portfolio within the VCT. Due to the economic circumstances in early 2009, TP70 2009 raised 3.2M but TP5 raised £18.6m. Subsequently, TP70 2009 was merged with TP5 resulting in two share classes within TP5, ‘O’ and ‘B’ shares which have an NAV per share of 98.7p and 93.00p respectively.

Management Group

Rating: n n n n

- The Triple Point Partnership was created to develop innovative tax and investment products for high net worth individuals and includes Michael Sherry, a leading tax barrister.
- VCT's are Triple Point's highest profile product and they are therefore highly incentivised to run it successfully.
- Deal flow is important for any VCT and Triple Point have demonstrated a clear strategy and ability to place deals with their previous VCT. Service provision is typically outsourced, with the VCT providing initial capital in return for guaranteed cash-flows. These deals back up the claims of the managers that they will be able to find and structure qualifying deals in order to implement their strategy.

People

Rating: n n n n

- There is an investment team of 7, all of whom have experience in a variety of sectors to complement one another.
- David Dick is managing partner of TPIM and founding member of Triple Point Group. David was formerly managing director of Goldman Sachs and has over 15 years experience as a specialist investor in UK and European quoted companies. He has been managing partner at Triple Point since its launch in 2004
- James Cranmer is also a member of the team having previously worked for 7 years at specialist asset and lease management boutique Cranmer Lawrence, where he was responsible for financings in excess of £500m from Local Authorities, the NHS and FTSE 100 companies.
- Chris Tottle joined Triple Point in May 2008 after spending 5 years with leading hedge fund manager GAM. Prior to this he spent 6 years at Schroders Private Bank, specialising in portfolio management.
- The partners of Triple Point have a history of investing in their own VCTs and it is assumed they will invest in TP10 and/or TP70 2010.

Costs

Rating: n n n n

- Triple Point will be paid an annual fee of 2.25% plus VAT. There is also an annual fee of 0.25% plus VAT for administration services.
- Assuming full subscription the directors estimate that the annual running costs of the company will be approximately 2.75%
- The TER is capped at 3.5%, excluding VAT.
- There is no performance fee on the VCT which is designed to ensure the objective of maintaining capital security and liquidity are not compromised by seeking deals with a greater potential return (but more risk). There is an exit fee of 1%, payable on distributions to investors after 5 years. This replaces the AMC levied during investors' required 5 year holding period.

Exit Strategy

Rating: n n n n

- This is a low risk limited life VCT which will appeal to ‘cautious’ VCT investors or those who are inexperienced in terms of VCT investing.
- The clear exit strategy and timescale will also appeal to investors.
- The limited life of this VCT is underwritten by the company’s Articles of Association, which require directors to submit a motion for discontinuance to shareholders at the 6th AGM, as well as the fee structure which incentivises a quick exit

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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