

Tax Efficient Review

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Venture Capital Trusts

Review of AIM based VCTs
Hargreave Hale VCT 1 & 2

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GENERAL RISK WARNINGS Your attention is drawn to the following risk warnings which identify some of the risks associated with the investments which are mentioned in the Review:

Fluctuations in Value of-Investments The value of investments and the income from them can go down as well as up and you may not get back the amount invested.

Suitability The investments may not be suitable for all investors and you should only invest if you understand the nature of and risks inherent in such investments and, if in doubt, you should seek professional advice before effecting any such investment.

Past performance Past performance is not a guide to future performance.

Legislation Changes in legislation may adversely affect the value of the investments.

Taxation The levels and the bases of the reliefs from taxation may change in the future. You should seek your own professional advice on the taxation consequences of any investment.

ADDITIONAL RISK WARNINGS Venture Capital Trusts

1. An investment in a VCT carries a higher risk than many other forms of investment.
2. A VCT's shares, although listed, are likely to be difficult to realise.
3. You should regard an investment in a VCT as a long term investment, particularly as regards a VCT's investment objectives and policy and the five year period for which shareholders must hold their ordinary shares to retain their initial income tax reliefs.
4. The investments made by VCTs will normally be in companies whose securities are not publicly traded or freely marketable and may therefore be difficult to realise and investments in such companies are substantially riskier than those in larger companies.
5. If a VCT loses its Inland Revenue approval tax reliefs previously obtained may be lost.
6. No investment can be made by the VCT in a company whose first commercial sale was more than 7 years prior to date of investment, except where previous State Aid Risk Finance was received by the company within 7 years (10 years for a 'knowledge intensive' company) or where a turnover test is satisfied; and
7. No funds received from an investment by the VCT into a company can be used to acquire another existing business or trade.

Hargreave Hale VCT 1 & VCT 2 Joint Offer	Type	AIM based VCTs
	Size	£15m in VCT 1 and £10m in VCT 2
	Manager	Hargreave Hale
	Sponsor	Howard Kennedy Corporate Services LLP
	Promoter	Portunus Investment Solutions
	Focus	A diversified portfolio primarily comprising AIM stocks
	Minimum investment	£5,000 (no less than £2,500 in each VCT if the subscription is to be split equally or otherwise between both VCTs)
	Minimum subscription	N/A
	Closing dates	12pm 5 April 2016 for the 2015/16 tax year and 12pm 16 November 2016 for the 2016/17 tax year
Introductory Commission	1% initial or 0.5% initial plus trail where applicable The VCTs can facilitate Adviser Charges under RDR	

Table 1: Tax Efficient Review summary of offering Pros and Cons

PROS	CONS
<ul style="list-style-type: none"> VCT 1 has delivered strong performance over the last 5 years, whilst VCT 2 has delivered strong performance from launch. 	<ul style="list-style-type: none"> VCT 2 has lagged in more recent years with the heavier qualifying investment burden weighing on performance in the short-term.
<ul style="list-style-type: none"> Diversified portfolio with active focus on risk management resulting in comparatively low volatility 	<ul style="list-style-type: none"> Performance is not immune to sentiment issues within the public equity markets.
<ul style="list-style-type: none"> Impressive history of paying dividends 	<ul style="list-style-type: none"> Deal flow is in part dependent on the numbers of IPOs on AIM, which fell in 2015.
<ul style="list-style-type: none"> Recent performance has been positive despite falls in the major equity markets 	
<ul style="list-style-type: none"> Low running costs compared to the wider VCT industry. 	
<ul style="list-style-type: none"> Historic focus on growth and development capital means new legislation will little impact on the execution of the investment policy 	

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Table 2: Hargreave Hale funds under management as at 30 November 2015

(Source: Hargreave Hale)

VCT	Net assets £m	Annual Management fee	Still to be invested £m
VCT funds			
Hargreave Hale VCT 1	37	1.5%	Nil
Hargreave Hale VCT 2	29	1.5%	1.3
NON VCT funds than can co-invest with VCT Funds			
Marlborough Special Situations Fund	968	1.5%	Nil
Marlborough UK Micro Cap Growth Fund	496	1.5%	Nil
Marlborough UK Multi-Cap Income Fund	1,396	1.5%	Nil
Marlborough UK Nano-Cap Growth Fund	97	1.5%	Nil
Marlborough European Multi-Cap Fund	12	1.5%	Nil
Marlborough UK Multi-Cap Growth Fund	97	1.5%	Nil
TOTAL	£3,132m		£1.3m

2015 Finance (No2) Act changes

There have been significant announcements regarding the legislation governing investments by VCTs. The Finance Act received Royal Assent on 20 November 2015 and in summary:

1. Funds raised from VCTs and EISs can no longer be used to buy existing businesses (includes MBOs). Since 6 April 2012 it has not been possible to fund management buyout (MBO) transactions using EIS money or VCT funds raised after that date. That rule also affects buy and build strategies. It is now proposed that VCT or EIS money cannot be used to acquire shares in another company or the trade of another company (including goodwill and other intangibles).
2. The Company must be under 7 years old (with certain caveats).
3. There is a lifetime investment limit of £12m (£20m for knowledge intensive companies).

The changes are covered in the prospectus as follows: "The Finance (No.2) Act 2015 introduced changes to the VCT rules which have placed greater restrictions on the range of investments into which the Company can deploy funds. As a result the Company must generally invest in businesses which are less than seven years old and VCT funds cannot be used to finance acquisitions by investee companies. The penalty for breaching these new rules is loss of VCT status, so the Company and its investors may face a higher risk of the loss of tax benefits than under the previous rules."

Hargreave Hale has undertaken an extensive review of 26 qualifying investments made over the 14 months to 31 August 2015 in light of the new VCT legislation. The analysis, which was based upon an early review of the draft legislation, indicated that a comfortable majority of those investments were likely to have met the requirements of the new legislation. All of the investments met the annual and lifetime investment limits, whilst a limited number failed the new ban on acquisitions. Interestingly, some of these that failed the ban on acquisitions may have been permissible if the acquisition funding had come from non-State Aided sources with the VCTs only providing growth and development capital.

The new age restriction, which prevents a company receiving State Aided funding 7 years after its first commercial sale (10 years for a knowledge intensive company) presents the greatest source of uncertainty. However, with many companies now receiving earlier SEIS and EIS rounds, it is possible that a significant number of those that have been trading for more than 7 years can still access State Aided funding through an available safe harbour. The turnover test, whereby a company can receive State Aided money if the State Aided money exceeds 50% of the average revenue of the prior 5 years, may also provide another route to investment for companies that fail the age related test; however there remains some uncertainty about aspects of this test, which makes it difficult to run backward looking analysis with complete confidence.

The AIM VCT managers are working to produce a standardised questionnaire and warranty letter for AIM companies to complete.

Strategy

An offer from the two AIM-based VCTs managed by Hargreave Hale for up to £15,000,000 of Ordinary Shares in Hargreave Hale AIM VCT1 and £10,000,000 of Ordinary Shares in Hargreave Hale AIM VCT2 at an offer price at a 3.5% premium to the latest published unaudited NAV per Ordinary Share of the relevant Company. The offer is not a traditional linked offer where investors have to invest in a fixed ratio in the two VCTs although by default investor subscriptions will be split equally between both VCTs. However, prospective investors have complete freedom to split their investment as they wish, including the ability to invest exclusively in one or other of the VCTs. This is now the standard approach to VCT fund raising following the 2014 Budget change that excluded investment in a VCT from qualifying for new tax relief if made within 6 months of a disposal of shares in the same VCT.

Following the success of the 2014-15 offers in which £20.0 million was raised and the offer was sold out, the Companies have already invested £10.0 million in 22 Qualifying Companies (as at 31 October 2015). They believe that in respect of both VCTs, raising new capital will ensure that they have sufficient liquid funds to support their investment objectives of investing in both Qualifying Investment and Non-Qualifying Investment opportunities and reduce the Ongoing Expense Ratios whilst at the same time having sufficient resources to continue the Companies' dividend and share buy-back policies.

Both VCTs have identical investment policies that seek to maximise shareholder returns through a

Table 3: AIM VCT comparison table Source Managers

	Amati VCT	Amati VCT 2	Hargreave Hale VCT 1	Hargreave Hale VCT 2	Octopus AIM VCT	Octopus AIM VCT 2	Unicorn VCT
Data as at	31/10/15	31/10/15	30/11/15	30/11/15	30/11/2015	30/11/2015	31/10/2015
VCT size	£37.9m	£32.7m	£37.4m	£27.1m	£79.5m	£52.1m	£128.7m
Number of AIM holdings	41 (58 in total)	42 (57 in total)	64 (71 qualifying investments in total)	60 (64 qualifying investments in total)	66 (70 in total)	64 (68 in total)	58 (72 in total)
% of VCT represented by top 10 holdings	42.1%	44.8%	32.2%	25.7%	37.6%	35.5%	42.8%
Weighted Avg market cap of AIM holdings	£86m	£96m	£131m	£46m	£227.8m	£209.3m	£220
Weighted Avg turnover of AIM holdings	£37m	£39m	£101m	£15m	£192.0m	£165.4m	£55m
% profitable	73%	74%	69.6%	59.2%	86.8%	85.9%	80%
% paying dividends	41%	40%	46.6%	29.5%	68.1%	66.2%	58%

diversified portfolio of qualifying equity investments (mostly traded on AIM) supported by investment into a range of non-qualifying investments. The investment policies for each company are:

- to invest in a diversified portfolio of small UK based companies on a high risk, medium term capital growth basis, primarily being companies which are traded on AIM and which have the opportunity for significant value appreciation;
- to invest in smaller companies which may not be readily accessible to private individuals and which also tend to be more risky;
- to maximise distributions to shareholders from capital gains and income generated from the Company's funds; and
- to target investment in equities which are non-qualifying investments on an opportunistic basis

Both VCTs are to maintain their exposure to small companies by investing up to 75% of the net proceeds of the fundraising into the Marlborough Special Situations Fund which is also managed by Hargreave Hale, subject to a maximum of 20% of the gross assets of the Company. This will enable the companies to maintain their exposure to small companies indirectly, whilst Hargreave Hale identifies opportunities to invest directly into small UK companies through a suitable number of qualifying investments.

INVESTMENT STRATEGY **Qualifying Investments**

Hargreave Hale's management of the VCTs has evolved over the 11 years they have been managing them. In particular, there is now more emphasis placed on risk management and volatility. This is primarily achieved through the construction of the qualifying and non-qualifying investment portfolios with a shift towards more established and profitable companies and active management of the VCTs exposure to different kinds of risk. The manager strongly believes in the benefits of a diversified portfolio and point to one of the potential benefits being the performance of the Marlborough Special Situations Fund and Marlborough UK Micro Cap Fund. Hargreave Hale believes this focus on risk management provides some protection in volatile markets, although not in distressed markets of the type witnessed in 2008. Thus far, their approach seems to have been quite effective, with 3 and 5 year volatility materially lower than the FTSE 100 and FTSE AIM All-Share.

The strong focus on risk management leads the manager to weigh each investment up against a series of factors, some specific to the company, others relate to portfolio construction. These include, the business model, financial controls, management track record, balance sheet strength and portfolio risk.

Non-Qualifying Investments

The flexible and opportunist non-qualifying investment strategy allows the manager to adjust the risk within the portfolio to match their view of the market through variable allocations to fixed income and non-qualifying equities. When investing in non-qualifying equities, the manager is able to access the investment ideas generated through their other mandates and invest in a variety of small, mid and large cap companies. At the same time, the manager is prepared to make substantial use of fixed income if a more defensive posture is required. This was done, they say, to good effect in 2008-9.

Hargreave Hale describes its approach as stock (rather than sector) specific, and opportunistic, arguing that the VCTs' connections with its other unit trusts enable the manager to exploit the work of the wider fund management team to identify new qualifying investments whilst also supporting the execution of the non-qualifying equity strategy to drive further growth in the NAV.

VCTs' investment policies allow the manager to allocate capital into the Marlborough Special Situation Fund to help absorb new capital and reduce cash drag without creating liquidity risk within the portfolio. Hargreave Hale will invest up to 75% of the net proceeds of the fundraising into the fund, which is also managed by them, subject to a maximum of 20% of the gross assets of the Company. This will enable the companies to maintain their exposure to small companies indirectly, whilst Hargreave Hale identifies opportunities to invest directly into small UK companies through a suitable number of qualifying investments. The £968m fund is well known to investors and has a strong track record, having produced a compound annual return of 19.52% since coming under Giles Hargreave's management in 1998.

We understand that the non-qualifying strategy (including Marlborough Special Situations Fund) added around 0.42 pence per share to the Hargreave Hale AIM VCT 1 NAV and 2.95 pence per share to the Hargreave Hale AIM VCT 2 NAV in the twelve months to end November 2015. The divergence in the relative contributions reflects the different allocations to the non-qualifying portfolios with VCT 2 holding more capital in non-qualifying pending investment in qualifying companies.

Asset Allocation

The two Hargreave Hale AIM VCTs have established investment portfolios of qualifying investments, albeit with some minor differences. Hargreave Hale AIM VCT 1 is the larger of the two with net assets of c.£37m, whilst Hargreave Hale AIM VCT 2 has net assets of c.£27m (as at 20 Nov 2015). Hargreave Hale AIM VCT 1's qualifying portfolio holds a greater number of companies and a greater number of more mature companies. Much of this can be attributed to the relative age of the two VCTs and the VCT legislation in place at launch time, which restricted Hargreave Hale AIM VCT 2 investments to smaller companies than Hargreave Hale AIM VCT 1. Harmonisation of the VCT legislation in 2012 means that this gap is closing.

Many of the qualifying investments are becoming increasingly established, with 94% of Hargreave Hale AIM VCT 1's qualifying portfolio invested in revenue generating companies (revenue generating is considered as expected revenues of £1m or more in the current financial year). 70% of Hargreave Hale AIM VCT 1's qualifying portfolio is invested in profitable companies (as at 30 November 2015). A number of the qualifying companies are becoming quite large. For example, the largest qualifying company in Hargreave Hale AIM VCT 1, Abcam, has a market capitalisation of c.£1.2bn, with estimated Revenues of £160m and Profit Before Tax of £51m (Broker forecasts for the financial year ending June 2016).

With 67% of Hargreave Hale AIM VCT 1's net assets held in profitable qualifying companies, cash and fixed income (as at 30 November 2015), investors can feel re-assured that the VCT is not overly exposed to blue-sky investments. The manager believes that strong balance sheets and good cash generation provide a degree of downside protection in difficult markets. They point out that eight of the ten top positions in Hargreave Hale AIM VCT 1 were in net cash position as at 30 Nov 2015 with eight of the top ten generating positive free cash flow.

While about 80% of the portfolios of qualifying companies are common, there remain several differences in both portfolios' composition (due to legacy stocks) as well as respective weightings within each portfolio. We are informed that in future, both VCTs will often (but not always) co-invest into the same new investments. Individual decisions will be taken on a case-by-case basis and will reflect the VCTs existing exposure to the proposed investee company, and also the aggregate level of exposure to

a particular sector/similar companies etc. Co-investment may also extend to the manager's other fund management mandates such as the Marlborough UK Micro Cap Fund.

	Hargreave Hale AIM VCT 1		Hargreave Hale AIM VCT 2	
	as at 30 November 2015	as at 30 September 2014	as at 30 November 2015	as at 30 September 2014
Average Revenue	£101.0m	£88.8m	£15.4m	
Average Profit Before Tax	£5.6m (incl loss-making companies) £9.6m (excl loss-making companies)	£6.0m (incl loss-making companies) £8.8m (excl loss-making companies)	£0.3m (incl loss-making companies) £2.8 (excl loss-making companies)	£1.6m (incl loss-making companies) £3.7 (excl loss-making companies)
Average Net Cash	£7.5m	£3.7m	£3.8m	£1.59m
Average Free Cash Flow	£4.2m	£3.5m	-£0.1m	£0.62m
Average Market Capitalisation	£131m	£119m	£46m	£62m
EPS growth (exc loss making companies)	21.0%	22.56%	29.9%	30.38%

As at 20 November 2015, the 20 largest qualifying holdings accounted for 45.4% of Hargreave Hale AIM VCT 1's net asset value of approximately £37.2 million, of which the top 10 was 29.1%. In total, VCT 1 comprised investments in 71 qualifying companies valued at £27.4 million against a book cost of £20.4m. The 20 largest qualifying holdings accounted for 35% of the VCT 2's net asset value of approximately £26.9 million, of which the top 10 was 23.6%. In total, VCT 2 comprised investments in 63 qualifying companies valued at about £14.8 million against a book cost of £11.6m.

Both VCTs have significant weightings to their non-qualifying portfolios. The asset allocation of each fund as of 20 November 2015 is shown in the table below.

	Hargreave Hale AIM VCT 1		Hargreave Hale AIM VCT 2	
	% NAV as at 30 November 2015	% NAV as at 30 September 2014	% NAV as at 30 November 2015	% NAV as at 30 September 2014
Qualifying Investments	74%	78%	55%	64%
Marlborough Special Situations Fund	2%	1%	12%	8%
Non-Qualifying Equities	15%	8%	20%	15%
Fixed Income	0%	3%	1%	4%
Cash	9%	11%	12%	9%
Total	100%	100%	100%	100%

Fixed income and cash account for 9% of Hargreave Hale AIM VCT 1 and 13% of Hargreave Hale AIM VCT 2, although the manager has made more extensive use of fixed income in the past as a source of income, capital growth and a relatively stable and low volatility asset class. Fixed income exposure is relatively low right now, and expected to remain that way for the foreseeable future.

Over the longer term, we understand that the non-qualifying strategy should remain broadly unchanged, i.e. assets allocated to cash, gilts, UK corporate bonds and also to direct non-qualifying UK or international equities. We expect the exposure to the Marlborough Special Situations Fund to vary according to the manager's view of markets and in line with cash flows into and out of the fund. The manager may adjust the proportion of non-qualifying equity or fixed interest holdings (between nil and 25% of VCT assets) according to its view of the market conditions.

AIM can be an illiquid market at times, so we draw comfort from the manager's emphasis on diversification, along with the high levels of cash and fixed income that the manager has historically run. Further liquidity could be available at short notice through the sale of their holdings in the Marlborough Special Situations Fund.

Qualifying Investment Test

The manager assures us that both portfolios comfortably exceed the HMRC defined investment test: Hargreave Hale AIM VCT 1 is 90% invested, whilst Hargreave Hale AIM VCT 2 is 91% invested. The minimum required by HMRC is 70%, when measured by book cost (as opposed to market value). Careful management of the portfolio over the years, along with recent inflows from the current offer,

means the actual proportion of assets now invested in qualifying companies (as measured by market value) is considerably lower (Hargreave Hale AIM VCT 1 74.0%, Hargreave Hale AIM VCT 2 55% as at 31 October 2015), with the additional capital available to invest in non-qualifying holdings or retained as cash equivalent assets as the manager sees fit.

Share Buy-Back Policy The Hargreave Hale AIM VCTs have a strong track record of facilitating shareholder exits. Initially, the VCTs operated a buy-back policy that targeted a 10% discount to the net asset value; however, in April 2012 the Hargreave Hale AIM VCTs became the first VCTs to target a 5% discount to net asset value. This is very uncommon for evergreen VCTs and we are pleased to see the VCTs take this step.

The Boards reserve the right to revert to the previous 10% discount or suspend the buy-back policy, if required. The manager has discretion to buy shares back in on a weekly basis (every Friday), subject to certain limits. These are set by the Boards to ensure compliance with the Listing Rules and shareholder authorities. Nevertheless, these policies have proven to be very robust and have never been suspended. More than 13m shares have been acquired across both VCTs. The consistent application of the policy has been particularly effective at controlling the share price, which has tightly tracked the published net asset value per share, initially at a 10% discount before narrowing to 5% from April 2012. Hargreave Hale AIM VCT 1 has an average discount of 5.1% and Hargreave Hale AIM VCT 2 has an average discount of 5.2% to the net asset value for the 3 years to 31 October 2015.

We believe the revised policy, and the execution of it, is very good news for existing investors, provided the team is able to maintain it. Individuals should be aware that there is no guarantee that this policy will be sustainable or adhered to over the long term.

Dividend Policy The VCTs both have well established track records of paying out tax free dividends to their shareholders. The intention is to continue the existing policy of targeting a 5% tax free dividend distribution yield (referenced to the year-end Net Asset Value of each company), and historically both have paid an average yield of more than 5% since first joining the dividend list. However, it should be noted that the ability to pay dividends will clearly be influenced by the underlying investment performance of the VCT shares and the VCTs available cash resources, and the Boards may vary or skip a dividend at their discretion.

Both Hargreave Hale AIM VCTs pay their dividends out of capital. To date this has been done through distributions from the Special Reserve, which was created by a court approved conversion of the Share Premium Account. Hargreave Hale does not expect execution of the dividend policy to be adversely affected by the new rules restricting the use of the Share Premium Account to return capital within 3 years of a fundraising. The Finance Act 2014 amended the VCT rules, such that VCT status will be withdrawn if, in respect of shares issued on or after 6 April 2014, a dividend is paid (or other forms of distribution or payments are made to investors) from the capital received by the VCT from that issue within three years of the end of the accounting period in which shares were issued to investors. The reason Hargreave Hale does not expect execution of the dividend policy to be adversely affected by the rule is that it does not stop a VCT using distributable reserves from funds raised from other shareholders to fund the payment.

	VCT1	VCT2
The percentage generated by revenue profits	0%	0%
The percentage from the store of gross capital profits	0%	0%
The percentage from capital	100%	100%

Hargreave Hale is entitled to a performance fee of 20% of any dividends paid to Ordinary Shareholders in excess of 6p per Ordinary Share per annum, provided that the Net Asset Value exceeds 95p, with any cumulative shortfalls having to be made up.

Tax Efficient Review rating: 29 out of 30

Track record Hargreave Hale is a specialist manager focusing on UK small cap. With £5.1bn of funds under management and possibly the largest team of UK small cap fund managers, Hargreave Hale has considerable reach into the market. Led by Giles Hargreave, the team of 14 fund managers held approximately

1,300 company meetings in the 12 months 31 October 2015, of which approximately 200-250 were directly linked to the VCT. The team has considerable experience and an extensive network of contacts that helps to originate and assess a large pipeline of deal flow. The team is pro-active in seeking out potential investments and has in the past arranged private placings.

Giles Hargreave has an excellent track record in small company fund management with the Marlborough Special Situations fund returning 2,100% (as at 31 October 2015) since it came under his management in July 1998. It is the top performing UK equity fund over that time period. The Marlborough UK Micro Cap Growth fund, also managed by Giles Hargreave, has returned 405% since inception on 4 October 2004 (as at 31 October 2015). It was the top performing UK Small Cap Fund in 2012.

Our approach to comparing track records between providers is to use the Internal Rate of Return (IRR) for all relevant VCT fund raisings. The IRR on an investment is the “annualised effective compounded return rate” or “rate of return” that makes the net present value of all cash flows (both positive and negative) equal to zero. We calculate it on a daily basis using the net of income tax relief original cost (negative cash flow), the flow of dividends on the date they were paid and the net asset value published in the latest quarterly report from the VCT (both positive cash flows). We favour the IRR over measures such as Total Return as it factors in the “time value of money” and rewards early distributions of cash. We consider relevant VCT fund raisings to be those launched in tax year 2009/10 or before, larger than £6m and where the current management team have been involved since launch.

The result for each VCT manager is a number of IRRs each associated with a position within the

Table 6: AIM VCT provider comparison

Provider	Percent Ranking (Higher number is better see Note 1)	
	Performance as at 30 November 2015	Performance as at 30 October 2014
Unicorn	91%	86%
Hargreave Hale	78%	80%
Octopus	62%	67%
Amati	59%	64%

Source: Tax Efficient Review

Note 1: Each provider has launched a large number of fund raisings, so we use “Percent Ranking” as a way of comparing results for each provider. “Percent Ranking” is the rank of a value in a data set as a percentage of the data set. For each fund raising the data set comprises the AIM VCTs launched in the same year. A figure of 100% means the fund raising from the manager ranks ahead of all others in the data set, so the higher the figure the better. Figure is an average of all fund raisings where the manager has managed the fund since launch, raised more than £6m and launched in tax year 2009/10 or before.

Table 7: VCT Performance of HARGREAVE HALE fund raisings

Launch year	Net Asset Value/Date	Total Dividends to date	Total return (dividends plus latest net asset value)	Annual IRR post initial tax relief/ Position in peer group
Hargreave Hale VCT ord shares (2004/05 investors in Keydata AIM VCT ord shares raised £14m at 100p per share, renamed Oct 2009) TIDM HHV TER Ref 215				
2004/05	77.85p 30/11/2015	38p	115.85p	8% 7th out of 18
Hargreave Hale VCT 2 ord shares (2006/07 investors in Keydata AIM VCT 2 ord shares at 100p, renamed Oct 2009) TIDM HHVT TER Ref 358				
2006/07	108.18p 30/11/2015	45p	153.18p	11% 2nd out of 6
Hargreave Hale VCT ord shares (2005/06 investors in Keydata AIM VCT C share which raised £18m, each C share converted into 1.23935 ord shares Oct 08, renamed Oct 2009) TIDM HHV TER Ref 324				
2005/06	96.48p 30/11/2015	32.85p	129.33p	9% 3rd out of 19
Hargreave Hale VCT ord shares (2009/10 £7m further at 67.52p per share) TIDM HHV TER Ref 551				
2009/10	77.85p 30/11/2015	21p	98.85p	16% 2nd out of 6
Hargreave Hale VCT 2 ord shares (2009/10 £3m further issue at 109.69p per share) TIDM HHVT TER Ref 552				
2009/10	108.18p 30/11/2015	29p	137.18p	12% 5th out of 6
Hargreave Hale VCT 2 ord shares (2010/11 further issue at 109.69p per share) TIDM HHVT TER Ref 679				
2010/11	108.18p 30/11/2015	25p	133.18p	14% 4th out of 6
Hargreave Hale VCT ord shares (2010/11 £1.9m top-up at 68.85p per share) TIDM HHV TER Ref 694				
2010/11	77.85p 30/11/2015	17p	94.85p	18% 3rd out of 6
Hargreave Hale VCT 2 ord shares (2010/11 £0.72m top-up at 108.24p per share) TIDM HHVT TER Ref 695				
2010/11	108.18p 30/11/2015	25p	133.18p	14% 5th out of 6

relevant launches made in the same tax year. To compare results between providers we calculate the "Percent Ranking" figure for each fund raising and then average them all for the provider. The Percent Ranking shows the position within the relevant launches for each fundraising with 100% for first position and 0% for last position. Therefore the higher the "Percent Ranking" figure the better. This is shown in Table 6.

The performance of the VCTs is summarised in Table 7 and in our view the position of the VCTs within their peer grouping by year of launch shows a creditable performance.

Tax Efficient Review rating: 31 out of 40

Team The VCTs are co-managed by Giles Hargreave and Oliver Bedford, with support from Joshua Northrop and the rest of the fund management team of 14.:

- Giles Hargreave is the chairman of Hargreave Hale. After leaving Cambridge in 1969, Giles began his career as a trainee analyst with James Capel before moving to Management Agency and Music Plc as a private fund manager in 1974. In 1986 he founded Hargreave Investment Management, which he then merged with Hargreave Hale & Co in 1988. In 1998, Giles took over as the fund manager of the Marlborough Special Situations Fund. He also co-manages the Marlborough UK Micro Cap Growth Fund, the Marlborough UK Nano-Cap Growth Fund and both VCTs. Giles heads up Hargreave Hale's investment committee and chairs the weekly meetings in which the team reviews existing and potential investments.
- Oliver Bedford graduated from Durham University in 1995 with a degree in Chemistry. He served in the British Army for 9 years before joining Hargreave Hale in 2004. Oliver co-manages the VCTs with Giles Hargreave and supports the other unit trusts through the investment committee.
- Joshua Northrop joined Hargreave Hale in September 2013 as a Fund Managers Assistant. Before joining Hargreave Hale, he studied Economics and Human Geography at University College London. He holds the Investment Management Certificate and has passed his CFA level 1.

The Board of Hargreave Hale AIM VCT1 comprises Sir Aubrey Brocklebank, David Brock and Giles Hargreave. The Board of Hargreave Hale AIM VCT2 comprises David Hurst-Brown, Philip Cammerman and Giles Hargreave. Only one of them will be taking up shares in this offer (David Brock who will invest roughly £12,000).

Deal Flow The manager reports good access to qualifying investment opportunities, with £10m invested in 22 Qualifying Companies made in the 12 months to 31 October 2015. As at 31 October 2015, Hargreave Hale VCT1 was 90.3% invested in qualifying investments (as defined by the HMRC investment test) and has already deployed all the cash raised from the 2014/15 offer. The amount being raised by Hargreave Hale AIM VCT1 is such that when fees, buybacks and dividends are factored in, Hargreave Hale AIM VCT 1 will be able to continue to meet the 70% qualifying investment rule with only a limited amount of further investment. In practice the manager expects to continue to make selective investments in qualifying companies to increase the diversity of the fund. As at 31 October 2015 Hargreave Hale VCT2 was 90.7% invested in qualifying investments (as defined by the HMRC investment test). Hargreave Hale AIM VCT2 is a smaller fund with c.£1.3m to invest to complete the deployment of the proceeds from its £10m raise in 2014/15. The extra £10m sought through this offer will increase the investment obligation on the manager but looks comfortable within the context of recent investment activity. The manager is confident that they will retain qualifying status.

Tax Efficient Review rating: 18 out of 20

Costs Initial costs are usually 3.5% including commission to introducers of either 1% or 0.5% up-front with annual trail subject to availability and paid by the manager out of their annual management charge (where no advice is given to the investor).

There is an early bird discount of up to 2% available to existing shareholders for applications received by 12pm on Friday 29 January 2016. New investors will be eligible for an early bird discount of up to 1.75% for applications received between 25 December 2015 and 12pm Friday 29 January 2016. The

full early bird discount of 2.00% (1.75% for new investors) is only available when Hargreave Hale is not required to pay any initial commission, either (1) because the introducing adviser gives advice (and therefore cannot accept commission) or (2) the introducing adviser waives the introductory commission in favour of the client.

As at 30 November 2015, VCT1's on-going expenses ratio is 2.3% inclusive of VAT. VCT2's on-going expenses ratio is 2.5% inclusive of VAT. These are low by industry standards and are expected to fall further towards 2%. There is a performance fee structure in place but there is no expectation of any fees becoming payable under it. Where applicable, trail commission is paid by the manager.

Tax Efficient Review rating: 8 out of 10

Conclusion An offer to invest in two AIM based VCTs run by Giles Hargreave and his team at Hargreave Hale where investors decide on how they allocate their investment between the two VCTs, which can be zero or any amount starting at the £5,000 minimum in aggregate up to the tax year maximum of £200,000.

The performance of the VCTs within their peer grouping by year of launch shows a very creditable performance.

VCT2 is a smaller fund (£27m) than VCT1 (£37m) and we think that most investors will probably spread their investment equally.

Tax Efficient Review rating: 86 out of 100

Table 8: HH VCT 1 Portfolio at 20 November 2015			
Source: HH			
Description	Book cost £	Market value £	% of Fund
Qualifying Investments			
Cohort plc	619	1,876	5.0
TrakM8 Holdings plc	113	1,337	3.6
Abcam plc	67	1,109	3.0
K3 Business Technology Group plc	270	1,086	2.9
Intercede Group plc	247	1,072	2.9
Animalcare Group plc	220	992	2.7
Craneware plc	150	938	2.5
Science in Sport plc	778	851	2.3
Idox plc	135	801	2.2
Mexican Grill Ltd (A Pref Shares)	185	769	2.1
Vertu Motors plc	600	765	2.1
TLA Worldwide plc	300	682	1.8
Learning Technologies Group plc	663	631	1.7
Eagle Eye Solutions Ltd	541	629	1.7
Premaitha Health plc	432	608	1.6
Ideagen plc	410	597	1.6
Portr Ltd	550	550	1.5
Tasty plc	288	542	1.5
DP Poland plc	333	527	1.4
Vision Direct Group Ltd	205	510	1.4
Quixant plc	160	494	1.3
Belvoir Lettings plc	513	433	1.2
MartinCo plc	225	427	1.2
CentralNic Group plc	293	417	1.1
Angle plc	348	407	1.1
Flowgroup plc	577	390	1.1
Porta Communications plc	505	379	1.0
Kalibrate Technologies plc	323	379	1.0
Mirada plc	618	378	1.0
ULS Technology plc	221	359	1.0
Instem plc	297	348	0.9
Fusionex International plc	138	342	0.9
Jelf Group plc	148	300	0.8
Hardide plc	635	281	0.8
Universe Group plc	210	277	0.7
Reneuron Group plc	534	276	0.7
Clearstar Inc	449	276	0.7
Microsaic Systems plc	350	267	0.7
Plastics Capital plc	250	262	0.7
EKF Diagnostics Holdings plc	300	260	0.7
Gfinity plc	233	248	0.7
Electrical Geodesics, Inc	200	231	0.6
Audioboom plc	166	224	0.6
Imaginatik plc	199	222	0.6
Pressure Technologies plc	170	213	0.6
Midatech Pharma plc	200	195	0.5
Everyman Media Group plc	172	190	0.5
APC Technology Group plc	498	180	0.5
Synety Group plc	259	172	0.5
Lidco Group plc	220	159	0.4
Verona Pharma plc	127	150	0.4
Satellite Solutions Worldwide plc	155	136	0.4
Progressive Digital Media Group plc	173	134	0.4
Egdon Resources plc	158	131	0.4
Sphere Medical Holdings plc	407	105	0.3
Redcentric plc	214	103	0.3
Nektan Ltd	92	103	0.3
Mexican Grill Ltd (Ordinary Shares)	21	85	0.2
Outsourcery Group Ltd	650	83	0.2
Ilika plc	68	83	0.2
Synairgen plc	140	69	0.2
Haydale Graphene Industries plc	67	67	0.2
Tangent Communications plc	337	56	0.2
WANDisco plc	89	55	0.2
Mycelx Technologies plc (D1 shares)	300	43	0.1
TP Group plc	185	42	0.1
Mporium Group plc	301	26	0.1
Proxama plc	105	25	0.1
Corfe Energy Ltd	50	10	0.0
Brigantes Energy Ltd	50	9	0.0
Invocas Group plc	169	0	0.0
Total Qualifying Equity Investments	20,375	27,373	73.6

Table 8: HH VCT 1 Portfolio at 20 November 2015			
Source: HH			
Description	Book cost £	Market value £	% of Fund
Non Qualifying Equity Investments			
FC Fund Managers Ltd	300	425	1.1
The Gym Group plc	363	381	1.0
Finsbury Food Group plc	150	270	0.7
Fulcrum Utility Services Ltd	129	270	0.7
NAHL Group plc	252	269	0.7
Horizon Discovery Group plc	260	216	0.6
Mexican Grill Ltd (Ordinary Shares)	128	196	0.5
Clipper Logistics plc	127	189	0.5
Greene King plc	171	172	0.5
IFG Group plc	154	164	0.4
Eurocell plc	146	163	0.4
Legal and General Group plc	152	162	0.4
Quixant plc	159	160	0.4
Babcock International Group plc	143	148	0.4
JD Sports Fashion plc	123	145	0.4
Workspace Group plc	136	139	0.4
DS Smith plc	123	136	0.4
Dart Group plc	129	131	0.4
Midatech Pharma plc	134	130	0.4
Dixons Carphone plc	106	116	0.3
RPC Group plc	94	105	0.3
Playtech plc	104	102	0.3
Clinigen Group plc	84	102	0.3
Reneuron Group plc	104	100	0.3
Restaurant Group plc	100	99	0.3
Everyman Media Group plc	85	92	0.3
Johnson Service Group plc	75	88	0.2
Melrose Industries plc	78	86	0.2
Learning Technologies Group plc	76	85	0.2
Plethora Solutions Holdings plc	149	84	0.2
Plexus Holdings plc	125	83	0.2
Amerisur Resources plc	167	74	0.2
Mithril Capital plc	63	72	0.2
Audioboom plc	59	72	0.2
Mycelx Technologies plc (REG S+ shares)	200	67	0.2
Restore plc	62	63	0.2
Evertree Drinks plc	26	63	0.2
Eagle Eye Solutions Ltd	44	55	0.2
The Fulham Shore plc	37	55	0.2
Mexican Grill Ltd (A Pref Shares)	26	26	0.1
Abcam plc	3	3	0.0
MartinCo plc	2	3	0.0
Craneware plc	2	2	0.0
Animalcare Group plc	1	1	0.0
CentralNic Group plc	1	1	0.0
Hardide plc	1	1	0.0
Kalibrate Technologies plc	1	1	0.0
ULS Technology plc	1	1	0.0
Angle plc	1	0	0.0
Gfinity plc	1	0	0.0
Ideagen plc	1	0	0.0
Premaitha Health plc	1	0	0.0
Science in Sport plc	1	0	0.0
TLA Worldwide plc	1	0	0.0
Verona Pharma plc	1	0	0.0
Total Non-Qualifying Equity Investments	5,162	5,568	15.0
MFM Special Situations Fund	796	846	2.3
Total Non-qualifying investments	5,958	6,414	17.3

Description	Book cost £	Market value £	% of Fund
Qualifying Investments			
TrakM8 Holdings plc	99	1,167	4.3
Mexican Grill Ltd (A Pref Shares)	277	1,154	4.3
Ideagen plc	190	681	2.5
Science in Sport plc	518	567	2.1
DP Poland plc	332	532	2.0
Learning Technologies Group plc	534	509	1.9
Animalcare Group plc	100	451	1.7
Eagle Eye Solutions Ltd	385	444	1.7
Premaittha Health plc	330	429	1.6
Portr Ltd	410	410	1.5
Intercede Group plc	91	395	1.5
Quixant plc	120	370	1.4
TLA Worldwide plc	150	341	1.3
Vision Direct Group Ltd	132	328	1.2
CentralNic Group plc	207	296	1.1
Angle plc	252	295	1.1
Belvoir Lettings plc	335	293	1.1
Lombard Risk Management plc	92	259	1.0
Tristel plc	80	256	1.0
Mirada plc	393	249	0.9
Sanderson Group plc	200	229	0.9
UJS Technology plc	139	226	0.8
Clearstar Inc	360	221	0.8
Renuron Group plc	262	219	0.8
Hardide plc	77	217	0.8
MartinCo plc	113	214	0.8
Gfinity plc	197	212	0.8
Plastics Capital plc	202	212	0.8
Microsaic Systems plc	272	193	0.7
Fulcrum Utility Services Ltd	100	192	0.7
E.G Solutions plc	200	191	0.7
Everyman Media Group plc	172	190	0.7
Kalibrate Technologies plc	161	189	0.7
Flowgroup plc	268	186	0.7
Fusionex International plc	69	171	0.6
Electrical Geodesics, Inc	145	167	0.6
Porta Communications plc	200	150	0.6
Midatech Pharma plc	150	146	0.5
Lidco Group plc	146	142	0.5
Electric Word plc	185	140	0.5
Synety Group plc	234	135	0.5
Audioboom plc	126	130	0.5
EKF Diagnostics Holdings plc	150	130	0.5
Mexican Grill Ltd (Ordinary Shares)	31	128	0.5
APC Technology Group plc	350	127	0.5
Imaginatik plc	105	125	0.5
Omega Diagnostics Group plc	129	120	0.5
Satellite Solutions Worldwide	103	90	0.3
Paragon Entertainment Ltd	200	84	0.3
Verona Pharma plc	71	84	0.3
Sphere Medical Holdings plc	241	77	0.3
Illica plc	53	65	0.2
Haydale Graphene Industries	64	63	0.2
Synairgen plc	90	44	0.2
Outsourcery Group Ltd	300	38	0.1
Nektan Ltd	32	36	0.1
WANDisco plc	53	33	0.1
TP Group plc	125	27	0.1
Mycelx Tech plc (D1 shares)	150	21	0.1
Tangent Communications plc	98	20	0.1
Proxama plc	63	15	0.1
Mporium Group plc	150	13	0.1
Brigantes Energy Ltd	25	5	0.0
Corfe Energy Ltd	25	5	0.0
Total	11,613	14,848	55.2
Non Qualifying Equity Investments			
Cohort plc	176	415	1.5
Crawshaw Group plc	220	365	1.4
The Gym Group plc	258	271	1.0
FC Fund Managers Ltd	150	213	0.8
IFG Group plc	154	164	0.6
Vertu Motors plc	76	153	0.6
Babcock International Group	145	148	0.6
Clipper Logistics plc	92	137	0.5
Finsbury Food Group plc	75	135	0.5
NAHL Group plc	126	135	0.5
Midatech Pharma plc	134	130	0.5

Description	Book cost £	Market value £	% of Fund
Eurocell plc	109	122	0.5
Greene King plc	114	115	0.4
Puretech Health plc	114	114	0.4
Legal and General Group plc	101	108	0.4
K3 Business Tech Group plc	61	107	0.4
Flowgroup plc	199	103	0.4
Flowtech Fluidpower plc	100	102	0.4
Fulcrum Utility Services Ltd	58	96	0.4
Horizon Discovery Group plc	124	96	0.4
JD Sports Fashion plc	82	96	0.4
Workspace Group plc	91	93	0.4
Everyman Media Group plc	85	92	0.3
Idox plc	68	89	0.3
Learning Technologies Group	80	88	0.3
Melrose Industries plc	79	86	0.3
Plexus Holdings plc	125	83	0.3
Dart Group plc	75	76	0.3
Amerisur Resources plc	167	73	0.3
Egdon Resources plc	140	73	0.3
Tarsus Group plc	72	72	0.3
DS Smith plc	64	70	0.3
Dixons Carphone plc	63	70	0.3
RPC Group plc	63	70	0.3
Playtech plc	69	68	0.3
Clinigen Group plc	54	66	0.3
Johnson Service Group plc	56	66	0.3
Restaurant Group plc	67	66	0.3
Fevertree Drinks plc	26	63	0.2
Restore plc	63	63	0.2
Mycelx Tech plc (REG S+ shares)	170	57	0.2
Eagle Eye Solutions Ltd	44	55	0.2
The Fulham Shore plc	38	55	0.2
AA plc	66	54	0.2
Plethora Solutions Holdings plc	93	53	0.2
Softcat plc	43	52	0.2
Mithril Capital plc	42	48	0.2
Renuron Group plc	41	45	0.2
Audioboom plc	31	37	0.1
Mexican Grill Ltd (A Pref Shares)	3	10	0.0
Genagro Ltd	22	7	0.0
MartinCo plc	2	3	0.0
Westmount Energy Ltd	9	3	0.0
TLA Worldwide plc	2	2	0.0
Animalcare Group plc	1	1	0.0
CentralNic Group plc	1	1	0.0
Kalibrate Technologies plc	1	1	0.0
Microsaic Systems plc	1	1	0.0
Mycelx Tech plc (D1 shares)	8	1	0.0
Quixant plc	1	1	0.0
Sanderson Group plc	1	1	0.0
Tristel plc	1	1	0.0
UJS Technology plc	1	1	0.0
Angle plc	1	0	0.0
Gfinity plc	1	0	0.0
Ideagen plc	1	0	0.0
Paragon Entertainment Ltd	1	0	0.0
Premaittha Health plc	1	0	0.0
Proxama plc	1	0	0.0
Science in Sport plc	1	0	0.0
Verona Pharma plc	1	0	0.0
Total Non-Qualifying Equity Investments	4,805	5,242	19.5
Sovereign Debt			
UK Treasury Stock 2.5% 2024	121	119	0.4
Total - Sovereign Debt	121	119	0.4
Corporate Bonds			
Scottish Amicable Finance 8.5% 2049	154	165	0.6
Total - UK Corporate Bonds	154	165	0.6
MFM Special Situations Fund	2834	3237	12.0
Total Non-qualifying investments	7,941	8,763	32.5
Cash at Bank		3,400	12.6
Prepayments / Accruals		-99	-0.4
Total Investments	19,527	26,912	100.0

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