

Product

Pembroke VCT plc

Tax Status

Venture Capital Trust

Fund Group

Pembroke Investment Managers LLP

Risk Warning

This communication is provided for informational purposes only. This information does not constitute advice on investments within the meaning of Article 53 of the Financial Services and Markets Act (Regulated Activities) Order 2001. Should investment advice be required this should be sought from a FCA authorised person.

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Tax Efficient Review Ltd
35 The Park
London
NW11 7ST
Tel: +44 (0)20 8458 9003
www.taxefficientreview.com

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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.

Factsheet

Pembroke VCT	
Type	Generalist VCT with track record
Size	£153m AUM and is seeking £40m with this launch and a £20m over-allotment facility
Manager	Pembroke Investment Managers LLP ("Pembroke")
Sponsor	Howard Kennedy LLP
Registrars	The City Partnership Limited
Focus	To generate tax free capital gains and regular dividend income for its shareholders through a diversified portfolio of VCT qualifying investments across a broad range of sectors
Promoter	Pembroke and co-Distributed by Portlight Ltd
Funds initially invested	Cash deposits, fixed income securities and other securities
Minimum investment	£5,000 per tax year, excluding initial adviser charges
Initial Closing Date	5th April 2022 unless fully subscribed before for the 2021/22 tax year and 30 June 2022 unless fully subscribed before for the 2022/23 tax year
Issue costs	3% of amount subscribed for advised investors and 5.5% of the amount subscribed for direct investors
Annual costs	2% per annum
Initial advisor charges	If charged, these may be facilitated by the VCT on subscription.

Summary

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

PROs	CONs
Two successful exits from Pasta Evangelists and Plenish Drinks this year have increased the Total Return and resulted in two special dividends totalling 8p	There have been seven investee company which have either been substantially written down or have resulted in a nil return
No arrangement fees or monitoring fees, due diligence fees, exit fees, directorship fees are levied by the Pembroke VCT on the underlying companies. This is unusual within the VCT industry and should be welcomed as these can represent a further 1-2% p.a.	Whilst the Pembroke investment and portfolio team has grown to seven persons over the past 5 years, there is still significant key man risk with Andrew Wolfson heading both teams
Good performance from the investment portfolio against the economic and social impact of the Covid-19 pandemic	There is not a particularly high performance hurdle in place as the manager only has to achieve 3p/year. A performance fee is only paid upon realisations and when the total investment realised gains exceed the investment realised losses. After that they take 20% of any excess return.

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TER classification

TER classifies this VCT as a “Generalist VCT with track record” and Pembroke are experienced

fund managers within the VCT market. The first Pembroke VCT launch was in 2013.

Review based upon

TER always meet with fund managers prior to a review. This review is based on those meeting, the prospectus for the offer, (Pembroke VCT

reference 5 August 2021) and data provided by Pembroke Investment Managers LLP

The Offer

This new offer is offering investors the opportunity to invest up to a further £40m in the Company via its B Ordinary Shares with an over-allotment facility for a further £20m. The offer provides investors with immediate access to a maturing portfolio of 40 active companies, at varying stages of development, providing increased diversity compared with last year’s offer. The offer gives the opportunity to invest across both the 2021-22 and 2022-23 tax years from the one offer.

Pembroke’s B Ordinary Shares have 40 active investments (in total the VCT has invested in 50 companies and achieved two profitable exits, but eight have failed) within the Wellness, Food, Beverage & Hospitality, Education, Design, Media and Digital Services sectors. At 30 June 2021 Pembroke had a NAV of £153m.

The VCT has been operating since April 2013. Pembroke Investment Managers LLP is an asset management partnership which is part of the Oakley group which comprises private equity, venture capital and corporate finance, managing funds of over 4.8bn Euros.

The Board believes that raising new capital will ensure that the Pembroke VCT has sufficient liquid funds to support its investment objectives of investing in Qualifying Investments across the above sectors, reduce the Ongoing Expense Ratio of the VCT whilst also having sufficient resources to continue the Companies’ target annual final dividend of 3 pence per share and 5% discount to NAV share buy-back policies.

Strategy

Pembroke focuses on backing “exceptional founders” who lead their own businesses by providing them with the capital, contacts, advice and strategic guidance to enable them to succeed.

The Manager targets six key market segments: Wellness, Food, Beverage & Hospitality, Education, Design, Media and Digital Services. The Management Team claims substantial experience in these areas with a network of advisors and relationships.

Within Pembroke’s current portfolio of 40 companies, 15% are profitable businesses on an annualised basis and the remainder are post-revenue,

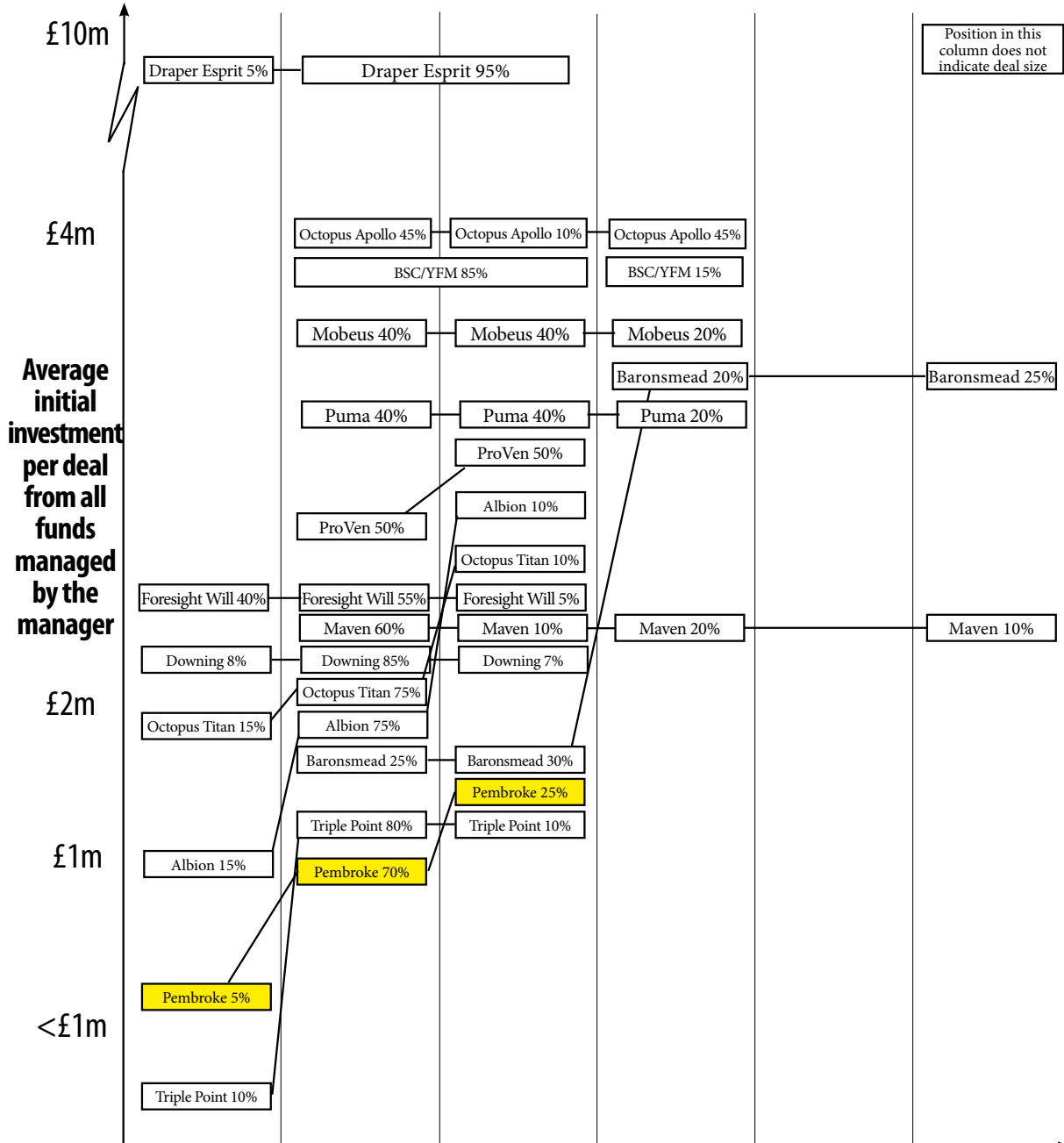
Table 2: Pembroke funds under Management as at 31 July 2021

	Net assets	Annual Management fee	Still to be invested
VCT Funds			
Pembroke VCT B Ordinary shares	£153m	2% of NAV	£17m
TOTAL	£153m		£17m

Source Pembroke

Diagram 1: Investment strategies of Growth VCT managers

(% figures refer to manager expectations of VCT qualifying companies portfolio composition post investment of current fund raising) Source: Fund Managers September 2021



Seed capital/ Early stage	Pre-Profit	Post-Profit	Larger Develop- ment Capital Deals	Asset backed opportunities	AIM stocks
	High Growth and Development capital				
- high risk with hopefully high return - all equity investment - should have potential for rapid growth	- should have potential for rapid growth and exit within 3-5 years - some VCT loan interest may be deferred until exit - usually no bank debt because of lack of assets for security and companies may not be able to support interest payments - focus on high growth market sectors in which company growth should be less dependent on the performance of the whole economy		- relatively low returns but should be lower risk - companies usually profitable - companies should be able to sustain loan interest payments - profitable companies seeking capital for expansion	- low return and should be low risk - should be able to support interest on debt	- some stocks are dividend paying - limited liquidity - potential volatility

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pre-profitable, hopefully high growth opportunities. Pembroke say that despite halving from last year's figure of 31% being profitable, this ratio is expected to be maintained and increased going forward.

Most of Pembroke's deal flow is sourced by the Manager from the personal and professional networks of the team, with an increasing number of opportunities coming via referrals by Pembroke's current portfolio companies.

Historically, Pembroke has also been provided with opportunities from the Oakley Capital Private Equity team and their portfolio companies, particularly where the investments may be too small for their institutional fund. In addition, Pembroke benefits from insights from PROfounders and Oakley Advisory which are both part of the Oakley group. They provide Pembroke with market intelligence and a potential source of deal flow through their wider network. Pembroke receives support from the Oakley group including legal, compliance and HR.

Pembroke seeks to invest in businesses on the same terms, and, importantly, in the same share class, as the founders wherever possible to ensure an alignment of interests. It actively works with its investee companies, taking board positions and offering counsel and practical help to founders seeking to grow their businesses. Unlike other VCT managers, the Pembroke VCT manager does not impose fees on its portfolio companies, such as due diligence, director, monitoring, investment, arrangement fees or exit fees which is highly unusual in the generalist sector and is to be welcomed as these can represent a further 1-2% of costs per annum.

A modest initial investment is typically followed by more substantial subsequent rounds if the company performs well, a discipline typical of quality Venture Capital managers investing in expansion capital deals. Pembroke contends that this founder-friendly and "stepping-stone" approach, together with its commercial and professional network of contacts within its key sectors, makes it an attractive funding partner and gives it a significant advantage when seeking to invest in a competitive process.

In general terms, Pembroke aims to exit after 5-7 years; its Management Team claims experience of selling companies to both strategic/trade buyers as

well as private equity funds. An ideal exit would be to a strategic trade buyer or to a sector-specialist PE fund. Both the recent exits were to trade buyers.

Pembroke aims to invest 35% of its funds into new businesses, and 65% into existing investments. Of the 35% in new investments, it targets 80% in mid-growth companies with revenues of over £1m per annum and 20% in early-stage growth companies with revenues under £1m).

In the 12-month period to 31 July 2021 the team invested £22.5m, of which £8.5m, or 38%, was into new companies (EAVE £2,000,000, Smartify £1,000,000, Credentially £999,997, Dropless £1,750,001, OnePlan £1,750,000, COAT £999,999). Pembroke say a further £5m is in due diligence to be invested in new companies.

The new funds raised under this offer will need to be 80% invested within three years of allotment under the new VCT rules; we note that Pembroke has achieved this at every fundraise since inception

Pembroke's growing stable of brands such as Popsa, Stitch & Story, Heist and LYMA has garnered significant national media exposure, which has led to a number of approaches from businesses in similar sectors seeking investment.

Like all VCT managers, Pembroke claim a strong pipeline of interesting opportunities, and there are currently £5m of potential investments in advanced diligence ahead of a proposed investment following a first allotment of the current raise.

New investors in the current B Ordinary Share offer will have immediate access to a maturing portfolio of 40 active companies. Of these, Pembroke tell us that 15% are currently profitable on an annualised EBITDA basis.

The B Ordinary Share NAV is invested: 22% in the Wellness sector which includes LYMA a high-end nutritional supplement and Beryl who provide bike and e-scooter hire schemes and created the laser lights seen on Santander Cycles in London.

- 12% in the Food, Beverage & Hospitality sector which includes Five Guys, a premium burger chain with over 100 restaurants in the UK, Second Home which provides flexible office

Table 3: Generalist VCT provider 3,5 & 10 year performance comparison

VCT manager (alphabetical order)	VCT name	Data as at	Annual return over last 3 years	Annual return over last 5 years	Annual return over last 10 years
ALBION	Albion VCT	31/03/2021	5.0%	7.0%	5.2%
	Albion Technology & General VCT	30/06/2021	10.1%	10.7%	5.1%
	Kings Arms Yard VCT	30/06/2021	7.0%	10.1%	11.3%
	Albion Development VCT	30/06/2021	10.0%	13.0%	8.6%
	Crown Place VCT	30/06/2021	8.9%	12.1%	7.5%
	Albion Enterprise VCT	30/06/2021	9.5%	12.0%	10.2%
BERINGEA	ProVen Growth & Income New	31/05/2021	0.9%	3.2%	4.1%
	ProVen VCT	31/05/2021	-0.6%	4.9%	10.7%
DOWNING	Downing ONE VCT	31/03/2021	-6.1%	-1.9%	
	Downing FOUR VCT Generalist shares	31/03/2021	-9.0%		
DRAPER	Draper Esprit VCT	31/03/2021	0.6%	-0.7%	4.6%
FORESIGHT	Foresight VCT	30/06/2021	7.1%	5.8%	3.1%
GRESHAM HOUSE	Baronsmead Second Venture Trust	30/06/2021	5.6%	6.0%	6.4%
	Baronsmead Venture Trust	30/06/2021	4.5%	6.3%	6.7%
MAVEN	Maven Income & Growth VCT 3	31/05/2021	3.0%	2.2%	5.8%
	Maven Income & Growth VCT 5	31/05/2021	6.5%	5.5%	7.1%
	Maven Income & Growth VCT	31/05/2021	-19.1%	-7.2%	1.0%
	Maven Income & Growth VCT 4	30/06/2021	3.9%	2.8%	4.0%
MOBEUS	Mobeus Income & Growth 2 VCT	31/03/2021	14.6%	8.4%	11.9%
	Mobeus Income & Growth VCT	31/03/2021	15.3%	8.3%	10.2%
	Income & Growth VCT	31/03/2021	17.4%	9.1%	12.2%
	Mobeus Income & Growth 4 VCT	31/03/2021	16.8%	8.5%	8.4%
NVM	Northern 3 VCT	30/06/2021	9.5%	7.4%	9.0%
	Northern 2 VCT	30/06/2021	9.2%	7.1%	7.9%
	Northern Venture Trust VCT	30/06/2021	10.5%	9.3%	8.4%
OCTOPUS	Octopus Apollo VCT Ord shares	31/01/2021	4.6%	2.6%	3.1%
	Octopus Titan VCT	30/04/2021	9.6%	7.5%	10.4%
PEMBROKE	Pembroke VCT B share	31/03/2021	6.5%	5.4%	
YFM	British Smaller Companies VCT	30/06/2021	12.1%	7.0%	4.9%
	British Smaller Companies VCT 2	30/06/2021	10.9%	7.7%	5.7%

Source: Tax Efficient Review calculation based on data from public accounts

Calculation: (Closing period NAV less Opening period NAV plus dividends paid in the period) divided by number of years in the period

Report created 15/09/2021

space to technology and creative businesses creating a 'hub', and Hackney Gelato, a premium ice cream brand

- 12% in the Education sector which includes N is for Nursery, a 7-day-a-week nursery and family club and Stitch & Story, an at home knitting and crafting business
- 25% in the Design sector which includes Heist, a premium hosiery & undergarment brand, and the Bella Freud and ME+EM fashion brands
- 22% in the Media sector which includes Popsa, a photobook app that uses algorithms to create photobooks from customer pictures
- 7% in Digital Services which includes Rated People, an online marketplace for finding tradesman and Floom, an online marketplace and back-end management tool for florists

Recent investments include Dropless, a waterless vehicle cleaning service, and COAT, a made-to-order paint company that uses sustainable materials.

Dividend Policy

The B Ordinary Shares will continue to target an annual final dividend of 3 pence per B Ordinary

Track record

Our approach to comparing track records between providers is to use 3, 5 & 10 year measures of the annual increase in total return (calculated as closing net asset value less opening net asset value plus dividends paid during the period).

The 3 and 5 year results (the VCT was not in existence ten years ago) are in Table 3. So how does the Pembroke VCT track record stand up to scrutiny? The 3 and 5 year annualised performances are relatively poor at 6.5% over 3 years (making them 16th out of 30 VCTs) and 4.5% over 5 years (making them 20th out of 29 VCTs) respectively.

In order to reduce the data down to one figure, each VCTs' position in the Table 3 results is scored from 1 (first in the year) to the total number of VCTs in the analysis for the period (lower numbers are better), added together and then averaged over the three periods being measured. The results are in Table 4 and place Pembroke VCT just below the middle of the pack at 8th out of 11 providers.

As at 30 June 2021 the Total Return (NAV plus cumulative dividends paid) is 141.3 pence on the

Share, expected to be paid in November each year, and will also aim to pay special dividends where realisations occur from the sale of its portfolio assets. The Company has paid two such special dividends in March and June 2021, totalling 8 pence per share, following the exits from Pasta Evangelists and Plenish respectively. However, this is a target, and no forecast or projection should be implied or inferred. At 30 June 2021 the total return per share for the B Ordinary Shares was 141.3p and the NAV per share was 119.3p.p.

Share Buyback Policy

It is intended that the Company will continue to repurchase shares which shareholders wish to sell, at a discount of no more than 5% to net asset value per share, less transaction costs payable to market makers and stockbrokers; this will be at the discretion of the Board who must believe it to be in the best interests of the Company at the relevant time. Investors should note that a "buy-back scheme" does not involve the VCT purchasing shares from the investor. It works by investors selling to a market maker who in turn will sell to the VCT.

Tax Efficient Review Strategy rating: 28 out of 30

B Ordinary Shares (issued at 100p) since 2015 excluding any tax benefit. Since January 2021, the B Ordinary Share portfolio paid two special dividends, each of 4p per share from the sale of its investments in Pasta Evangelists and Plenish. The fund expects to return a further 3p dividend, to be paid in November 2021, and funded by the Plenish exit proceeds.

Pembroke has made two positive exits to date, Pasta Evangelists and Plenish. The VCT held Pasta Evangelists for a period of less than one year, before exiting in January 2021 with a return of 2.3x; the business was acquired by Barilla, the world's largest pasta business. Plenish was acquired in May 2021 by FTSE 250 listed beverage giant Britvic, realising a 2.3x return on investment.

Whilst these results are encouraging and show the investment strategy working, Pembroke has also had six loss making exits to date (the total losses on which equate to 4% of the funds raised over 8 years). Any measure of track record depends largely upon the manager's valuation of its holdings; there are examples where there has been

obvious substantial growth at a portfolio company level, for instance Five Guys growing from zero to 100 UK restaurants since Pembroke invested and are yet to exit.

As at 31 July the B Ordinary Share portfolio was 1.38x above cost (see Table 8). Whilst this is encouraging, advisers should note that 44% of the investment portfolio is invested in early stage companies.

Pembroke values its investments in accordance with International Private Equity and Venture Capital Valuation Guidelines. Of the B Ordinary Share NAV:

- 53% of NAV is calculated by reference to valuations that are set by most recent funding round valuations in which non-Pembroke investors also participated

Manager

The Pembroke investment team is listed in Table 3 with a breakdown of their activities in Table 4.

As can be seen in Table 3, there have been changes most years and since the last TER review Pembroke has recruited three new employees:

- **Stefania Ponzo** has been appointed as Portfolio Director with a remit to work with founders and management teams on specific strategic and operating challenges that the companies might face. Stefania has 10 years' experience in venture capital funds and wealth management. Prior to joining Pembroke, Stefania worked as an Investment Principal for Pi Labs, and has also held investment roles at Downing and Coutts
- **Angus Nodder** has joined the Investment Team as an Investment Associate. Prior to joining, Angus spent 3 years in a similar role at Ruffer
- **Dilesh Maisuria** has been appointed as Portfolio Associate, having joined Pembroke from Pantheon Ventures. Former Portfolio Analyst, Orla Walsh, has been appointed to the role of Financial Controller.

There is also a 4th hire who is expected to join in October 2021. The new hire and Dilesh Maisuria have been hired to replace Portfolio Director William Goodwin who left Pembroke in July 2021

- 15% of NAV is held at fair value, typically where there are no third-party funding round valuations to compare against, or for recent investments where valuation has not moved in any significant way
- 33% of NAV is calculated with reference to comparable company metrics such as earnings and EBITDA multiples

TER always prefer to see any uplift in the value of unquoted investee companies within a VCT to be accompanied by the rigour of a 3rd party investor participating in the round. So it is encouraging to see over half of the portfolio within the Pembroke VCT being valued this way.

Tax Efficient Review Track Record rating: 33 out of 40

The Management Team of Pembroke VCT consists of:

- **Peter Dubens** – Partner and Co-Founder of Oakley
- **David Till** – Partner and Co-Founder of Oakley
- **Andrew Wolfson** – Chief Executive & Chief Investment Officer
- **Chris Lewis** – Chief Financial & Operating Officer

Not only must an investment manager obtain deal flow, but it must also have a team resourced to invest at the correct rate to satisfy the VCT rules. The 80% investment rule requires that by the end of the third accounting period after launch and in every accounting period thereafter the VCT must have at least 80% of its funds invested in qualifying holdings. Most Boards impose a minimum level that is higher than this to ensure that any exits do not push the VCT below the 80% level. In this case Pembroke tells us that the Board's preferred investment level has always been around 80%; note that Pembroke intends to invest 80% of the current raise within the first year.

At launch of this offer the Manager has invested the majority of its prior funds. Pembroke currently holds £17m (11% of its NAV in cash) and the manager says there is a pipeline of potential investments in advanced diligence.

Table 4: Provider results comparison

PROVIDER	AVERAGE SCORE BASED ON PLACE IN PEER GROUP (lower is better)
MOBEUS	6
ALBION	10
NVM	11
YFM	13
OCTOPUS	17
GRESHAM HOUSE	18
BERINGEA	20
PEMBROKE	21
FORESIGHT	22
MAVEN	23
DRAPER	25

Calculation as at 08/09/2021 and based on results in Table 3. In order to reduce the data down to one figure, each VCTs' position in the Table 3 results is scored from 1 (first in the year) to the total number of VCTs in the analysis for the period (lower numbers are better), added together and then averaged over the three periods being measured

Table 5: Sectors data as at July 2021

Sector name	%
Design	25%
Digital Services	7%
Education	12%
Food, Beverage & Hospitality	12%
Media	22%
Wellness	22%
TOTAL	100%

Source Pembroke

Table 6: Stage of investment by current year revenue as at July 2021

Sector name	%
Early stage (under £1m):	44%
Growth (£1m-£5m):	33%
Scale up (over £5m):	23%
TOTAL	100%

Source Pembroke

Overall, TER feel that a potential £50m plus deployment could place a strain on the current team which lacks in depth experience of VCT investing compared to other Managers.

Board of Directors

The Board has overall responsibility for the Company's affairs, including determining its investment policy and having overall control, direction and supervision of the Investment Manager. The past and present Directors have already invested £1,950,000 in the Company, and the Directors intend to invest a further £130,000 in aggregate under the Offer. Members of the Manager intend to invest £220,000 under the Offer.

Pembroke VCT plc has an independent board of directors consisting of

- **Jonathan Djanogly (MP)** - Jonathan previously sat on the Pembroke VCT Investment Committee. He is a non-practicing solicitor and was, for over ten years, a corporate partner at City law firm SJ Berwin LLP. He specialised in mergers and acquisitions, private equity and joint ventures as well as fund raising on public markets. Jonathan has been a Member of Parliament since 2001, in which capacity he served for approximately four years as a member of the Trade and Industry Select Committee. Between 2005 and 2010, he also served on the Opposition front bench as shadow Solicitor General and as a shadow Minister for Trade and Industry with responsibility for employment law and corporate governance
- **Laurence Blackall** - Laurence has had a 30-year career in the information, media and communication industries. After an early career at Virgin and the SEMA Group he was a director of Frost & Sullivan before moving to McGraw Hill where he was a vice-president in its computer and communications group. He then went on to found AIM listed Internet Technology Group plc in 1995 and successfully negotiated its sale in 2000 for a consideration of almost £150 million. Laurence was also instrumental in the creation of Pipex Communications plc. He has interests in a range of leisure and TMT businesses and currently holds a number of directorships in public and private UK companies
- **David Till** - co-founded the Oakley Capital Group in 2002. He plays a key role within the group and has overall responsibility for the businesses' operations. David worked with Peter Dubens on the development of 365 Media Group plc and Pipex Communications plc where he led all 26 acquisitions and disposals between 2002 and 2007. In 2007, following the sale of both 365 Media Group plc and Pipex Communications plc, Peter and David launched Oakley Capital Private Equity
- **Mark Stokes** - appointed in January 2021. Mark has over 30 years' experience in financial services, and 20 years at executive committee level. He is currently Chief Commercial Officer at United Trust Bank, and previously held managing director positions at Lloyds Corporate and Commercial Banking, Williams & Glyn, and Metro Bank. Mark has a broad business experience from a career lending into commercial and SME markets, and consumer and asset finance markets, that includes M&A execution and capital markets fund raising. He has also previously served as a non executive director alternate with Motobility Operations Group plc. Mark is a member of the Chartered Institute of Bankers, and has completed their Green and Sustainable Finance certification
- **Louise Wolfson** - appointed in Jan 2021. Louise is a corporate lawyer who was previously a partner at Allen & Overy LLP and Pinsent Masons LLP. She has a particular focus on corporate finance transactions, and has wider experience including mergers and acquisitions, joint ventures, strategic investments, capital raisings and listings. Louise currently works as a freelance legal consultant and sits as a tribunal judge hearing social security and immigration appeals. Louise is also a director of Women's Pioneer Housing, a housing association which supports women in West London. (TER asked if there was any relationship between Louise Wolfson and Andrew Wolfson and Pembroke have confirmed that whilst they share the same surname, they are not related).

Tax Efficient Review Team rating: 16 out of 20

Costs

- **Initial costs:** 3% for Investors who have invested in the Offer through an Intermediary and have received upfront advice including Investors who are investing through Intermediaries/advisers using financial platforms

5.5% for Investors who have invested directly into the Company or invested through an Intermediary/platform and have not received advice. The VCT may facilitate adviser charging from intermediaries up to a maximum of 4.5%.

Pembroke say that an adviser charge will not attract tax relief.

- **Annual management fee:** 2% of the VCT's NAV. The Manager also contributes to and caps the Annual Running Costs of the Company such that they will not exceed 0.5% pa of NAV. In the twelve months ending on 31 March 2021, the Manager contributed £nil under this agreement.

In the year to 31 March 2021 the total expense to NAV ratio was 2.4% (was 2.3% in year to 31 March 2020) and is expected to be capped at 2.5% in the year to 31 March 2022.

- **Performance fee:** 20% fee (+VAT if applicable) on net realised investment gains, since inception. The performance fee is based on net realised investment gains; and not on the unrealised valuations during the investment hold period. The Total Return Hurdle of 3 pence per year from 26 August 2020 must be achieved before a Performance Fee is paid to the Manager. This is not a "real" hurdle nor a particularly high one. In our view a "real" hurdle is one where the performance fee is paid on distributions (not just valuations) over

and above a return plus an annual compound hurdle. The Pembroke fee falls short on both points: it is not paid on distributions and the return achieved has had no annual increase applied to it when it is calculated (in other words it is 24% of the excess of the exit value over cost, not 24 % of the excess over cost compounded by 3% annually). Even worse, the so called hurdle is an increase of 3 pence per year, not 3%. At 30 June 2021 the NAV per share was 119.3p so the hurdle is only in reality around 2.15%.

Pembroke say that the performance fee is not paid on investment valuations during the holding period of the investment and only on its exit, at the end of the investment cycle.

- **Arrangement Fees:** Unusually in the Generalist VCT sector the Manager does not take any arrangement fees, , due diligence fees, director fees, monitoring fees or exit fees from any of the underlying portfolio companies thereby maintaining what Pembroke claim is one of the lowest net see-through charges amongst other comparable VCTs.

So, whilst TER applaud Pembroke for having low annual fees and no arrangement fees, we view the change to the performance fee made in 2020 as a step backwards for shareholders, as it's no longer based on distributions, nor do they have to hit a particularly high level of "performance". The Manager (Pembroke) has confirmed to us that they would not draw their performance fee until such time as the directors did approve a distribution to shareholders.

Tax Efficient Review Cost rating: 9 out of 10

Conclusion

The Pembroke VCT has a rather unique investment strategy in looking to build up founder-led businesses over time across the sectors where they have significant experience: Wellness, Food, Beverage & Hospitality, Education, Design, Digital Services and Media.

It is a relatively young VCT, having first launched in 2013, and achieved momentum in 2015, so there is only a five year track record to consider (most VCT managers have a 10 year plus track record). One of the points we raised in previous reviews was a lack of successful exits to date and since the previous review they have had two: Plenish Drinks and Pasta Evangelists. The proceeds of which have generated a further 8p per share in special dividends for shareholders and will fund the November final dividend of 3p per share. These exits occurring against the economic backdrop of the Covid-19 pandemic is encouraging.

But given that one of their sectors is beverage & hospitality the investment portfolio has been far from immune to the impact of Covid-19 and there have been seven investments significantly written down or which have resulted in a nil value; which is to be expected given the early stage bias of the investment portfolio.

The Pembroke VCT now has a respectable £153m in assets under management and the investment team and portfolio has grown over recent years. This offer is looking to raise their largest amount to date: £40m, plus a £20m over allotment facility. Add in the recent proceeds from the successful exits (less fees and dividends) and they could have their work cut out to deploy that amount of money in the coming years. Particularly if companies within the portfolio such as ME + EM and Five Guys UK, which have performed well of late, also achieve successful exits in the next 12 month. TER will continue to monitor this area carefully.

The team at Pembroke though can be congratulated on the successes they have achieved to date from a relatively young portfolio and they have shown they can deliver positive returns from investee companies. One of the drawbacks to the VCT market is the lack of new entrants and Pembroke have shown that it can be done.

Tax Efficient Review rating: 86 out of 100 for a generalist VCT

Table 7 (1 of 2): Pembroke B Share Exits & Write-downs July 2021

	Exit	Exit	Exit	Exit	Exit	Exit
Investee Company name	Cheekfrills	Penfield (1)	Zenos Cars (2)	Dilly & Wolf (9)	Pasta Evange- lists	Plenish
Structure of investment	Equity	Equity & Debt	Equity & Debt	Equity & Debt	Equity	Equity
Sector	Design	Design	Design	Wellness	Food, Beverage & Hospitality	Food, Beverage & Hospitality
Financing stage when first invested	Early Stage, post revenue	Early Stage, post revenue	Early Stage, post revenue	Early Stage, pre-revenue	Early Stage, post revenue	Early Stage, post revenue
Board seat	Yes	Yes	No	Yes	Yes	Yes
Amount originally invested	£0.205m May 2015	£0.150m May 2015	£0.15m Nov 2015	£0.100 Mar 2017	£2.000m Jan 2020	£0.225m Jun 2013
Further investment	None	£0.362m eq- uity, £0.214m debt	£0.025m	£0.025m debt	None	£3.075 equity, £0.600m debt
Realisations/Dividends	£nil	£0.661m	£0.012m	£nil	£4.613m	£8.710m
Profit/Loss	(£0.205m)	(£0.065m)	(£0.163m)	(£0.125m)	£2.613m	£4.814m
Length of investment: to final realisation *	< 1 year	2 years	3 years	2 years	1 year	8 years

Source Pembroke

Table 7 (2 of 2): Pembroke B Share Exits & Write-downs July 2021

	Exit	Write Down	Exit	Exit	Exit	Exit
Investee Company name	La Bottega (LBID Holdings) (8)	Chilango (3)	Chucs	Stylindex (5)	Bel-Air (6)	Chucs Bar & Grill (7)
Structure of investment	Equity & Debt	Equity	Equity & Debt	Equity & Debt	Equity	Equity & Debt
Sector	Food, Beverage & Hospitality	Food, Beverage & Hospitality	Design	Digital	Food, Beverage & Hospitality	Food, Beverage & Hospitality
Financing stage when first invested	Early Stage, post revenue	Early Stage, post revenue	Early Stage, post revenue	Early Stage, post revenue	Early Stage, post revenue	Early Stage, post revenue
Board seat	Yes	No	Yes	Yes	No	Yes
Amount originally invested	£1.960m Aug 2013	£0.450m Nov 2013	£0.240m Dec 2013	£0.200m Feb- 18	£0.300m Apr 2016	£0.200m Oct 2013
Further investment	£1.050m debt	£0.185m equity	£0.650m eq- uity, £0.325m debt	£0.463m debt	None	£3.304m eq- uity, £2.220m debt
Realisations/Dividends	£0.465m	£nil	£0.020m	£nil	£nil	£2.220m
Profit/Loss	(£2.542m)	(£0.635m)	(£1.195m)	(£0.663m)	(£0.300m)	(£3.504m)
Length of investment: to final realisation *	6 years	8 years	8 years	3 years	4 years	8 years

Notes:

*From first investment by either Ordinary or B-Ordinary share classes

(1) Penfield: In addition, the Ordinary share class (pre-conversion to B-Ordinary shares in August 2020) invested £0.614m from July 2014 and realised £0.357m on exit; resulting in a loss of £0.258m

(2) Zenos Cars: In addition, the Ordinary share class invested £0.5m from March 2015, realising £0.045m on exit; resulting in a loss of £0.455m

(3) Chilango: Remains in administration. Held at nil valuation

(5) Stylindex: Valued at nil at March 2021 and liquidated April 2021

(6) Bel-Air: Valued at nil since March 2019. Dissolved April 2020

(7) Chucs Bar & Grill: Includes investments originally made through the Ordinary share class. Includes £0.468m equity investment on the exit from La Bottega. March 2021 reorganisation converted £2.2m into 25% equity investment in Chucs Restaurants Ltd which continues to trade the Chucs brand and sites.

(8) La Bottega £0.468m debt recovery was converted into equity of Chucs Bar & Grill in March 2020 as Chucs took over a previous La Bottega site

(9) Dilly & Wolf: In addition, the Ordinary share class invested £0.270m from March 2017, resulting in a loss of £0.270m.

Source Pembroke

Table 8: Pembroke VCTs unquoted holdings as at July 2021

Investee Company	Cost @ 31/7/2021	Value	Date invested	Syndicated Y/N	Lead investor Y/N	Structure of investment (Equity/ Loan)	Industry Sector	Stage of Investment Note 1	Valuation method Note 2	Multiple on cost
	£000	£000								
Me + Em	955	6,757	Aug-15	Y	N	Ords	Design	Mature: Profitable	Multiples	7.1
Lyma Life	2,000	9,667	Dec-18	N	Y	Ords / Loan Stock	Wellness	Early: Pre Profit	Multiples	4.8
Beryl	553	1,771	Mar-15	Y	N	Ords	Wellness	Early: Pre Profit	Most recent round	3.2
5 Guys UK	2,083	5,507	Sep-15	Y	N	Ords / Loan Stock	Food, Beverage & Hospitality	Early: Pre Profit	Multiples	2.6
Boat International Media	3,250	6,950	May-15	Y	Y	Ords / Loan Stock	Media	Early: Pre Profit	Market value	2.1
Popsa	4,400	9,063	Feb-18	Y	Y	Ords	Media	Early: Pre Profit	Multiples	2.1
Kat Macconie	1,850	3,765	Jun-13	N	Y	Ords / Loan Stock	Design	Early: Pre Profit	Most Recent Round	2.0
Bella Freud	3,227	6,318	Jun-15	N	Y	Ords / Loan Stock	Design	Early: Pre Profit	Most Recent Round	2.0
Thriva	1,330	2,426	Jul-19	Y	N	Ords	Wellness	Early: Pre Profit	Multiples	1.8
Stitch and Story	3,500	6,014	Nov-19	N	Y	Ords	Education	Early: Pre Profit	Multiples	1.7
N is for Nursery	3,200	5,220	Jul-18	Y	Y	Ords / Loan Stock	Education	Early: Pre Profit	Most Recent Round	1.6
Rated People	641	993	Apr-16	Y	N	Ords	Digital Services	Early: Pre Profit	Multiples	1.5
KX Gym	700	1,066	Sep-13	N	N	Ords	Wellness	Early: Pre Profit	Multiples	1.5
Troubadour Goods	2,040	2,964	Nov-15	N	Y	Ords / Loan Stock	Design	Early: Pre Profit	Most Recent Round	1.5
Stillking Films	1,452	1,968	Oct-14	N	Y	Ords	Media	Mature: Profitable	Multiples	1.4
Floom	1,750	2,193	Nov-18	Y	N	Ords	Digital Services	Early: Pre Profit	Most Recent Round	1.3
Unbolted	400	500	Nov-16	Y	N	Ords	Digital Services	Mature: Profitable	Most Recent Round	1.3
Heist Studios	5,049	5,808	Jul-17	Y	N	Ords / Loan Stock	Design	Early: Pre Profit	Most Recent Round	1.2
Kinteract	2,075	2,162	Apr-19	Y	Y	Ords	Education	Early: Pre Profit	Most Recent Round	1.0

Table 8: Pembroke VCTs unquoted holdings as at July 2021

Investee Company	Cost @ 31/7/2021	Value	Date invested	Syndicated Y/N	Lead investor Y/N	Structure of investment (Equity/ Loan)	Industry Sector	Stage of Investment Note 1	Valuation method Note 2	Multiple on cost
	£000	£000								
Hackney Gelato	2,700	2,800	Jan-20	N	Y	Ords	Food, Beverage & Hospitality	Early: Pre Profit	Most Recent Round	1.0
Eave	2,000	2,000	Oct-20	Y	Y	Ords	Wellness	Early: Pre Profit	Most Recent Round	1.0
Credentiaally	1,000	1,000	Feb-21	Y	Y	Ords	Wellness	Early: Pre Profit	Most Recent Round	1.0
Chucs Restaurants'	2,220	2,220	Nov-19	N	Y	Ords / Loan Stock	Food, Beverage & Hospitality	Early: Pre Profit	Most Recent Round	1.0
Rubies in the Rubble	732	732	Jul-19	Y	N	Ords	Food, Beverage & Hospitality	Early: Pre Profit	Most Recent Round	1.0
Toucan-tech	1,000	1,000	May-20	N	Y	Ords	Education	Early: Pre Profit	Most Recent Round	1.0
Smartify	1,000	1,000	Nov-20	N	Y	Ords	Education	Early: Pre Profit	Most Recent Round	1.0
Roto VR	1,750	1,750	Dec-19	Y	Y	Ords	Media	Early: Pre Profit	Most Recent Round	1.0
Wishi Fashion Limited	153	153	Sep-16	Y	N	Ords	Digital Services	Early: Pre Profit	Most Recent Round	1.0
OnePlan	1,750	1,750	May-21	Y	Y	Ords	Digital Services	Early: Pre Profit	Most Recent Round	1.0
Coat	1,000	1,000	Jun-21	Y	Y	Ords	Design	Early: Pre Profit	Most Recent Round	1.0
Player-Layer	4,851	4,801	Dec-17	Y	N	Ords / Loan Stock	Design	Early: Pre Profit	Most Recent Round	1.0
UFB	4,476	4,350	Jul-15	N	Y	Ords	Wellness	Early: Pre Profit	Multiples	1.0
Alpha (Alexa Chung)	4,122	3,520	Apr-16	N	Y	Ords	Design	Early: Pre Profit	Most Recent Round	0.9
KXU Ltd	1,034	790	Mar-17	Y	Y	Ords / Loan Stock	Wellness	Early: Pre Profit	Multiples	0.8
Droplless	2,415	1,750	Mar-21	Y	Y	Ords	Digital Services	Early: Pre Profit	Most Recent Round	0.7

Table 8: Pembroke VCTs unquoted holdings as at July 2021

Investee Company	Cost @ 31/7/2021	Value	Date invested	Syndicated Y/N	Lead investor Y/N	Structure of investment (Equity/Loan)	Industry Sector	Stage of Investment Note 1	Valuation method Note 2	Multiple on cost
	£000	£000								
Secret Food Tours	1,000	500	Aug-18	N	Y	Ords	Food, Beverage & Hospitality	Early: Pre Profit	Market Value	0.5
HotelMap	1,500	750	Oct-18	Y	Y	Ords	Digital Services	Early: Pre Profit	Market Value	0.5
Sourced Market	6,597	2,700	Jan-16	N	Y	Ords / Loan Stock	Food, Beverage & Hospitality	Early: Pre Profit	Multiples	0.4
Second Home	1,485	392	Apr-15	N	Y	Ords	Food, Beverage & Hospitality	Early: Pre Profit	Multiples	0.3
Chilango	635	0	Dec-15	Y	N	Ords	Food, Beverage & Hospitality	Early: Pre Profit	In liquidation	0.0
TOTALS	£83.9m	£116.1m								1.38

Source Pembroke

Table 9: Matrix of individual responsibilities Data Source Pembroke July 2021

	Andrew Wolfson	Chris Lewis	Simon Porter	Fred Ursell	Angus Nodder	Stefania Ponzio	Dilesh Maisuria	Orla Walsh	Rosie Samuels
VCT RELATED									
Deal origination	30%	5%	10%	10%	10%	5%	5%	5%	5%
General enquiries		15%					10%	10%	20%
New deal doing	35%	10%	65%	70%	70%	10%	10%	5%	5%
Investee board seats No.	19	0	2	0	0	0	0	0	0
Sitting on	20%	10%	5%			65%	55%	20%	5%
Fund raising	5%	10%	5%	5%	5%	5%	10%	5%	40%
Internal issues	5%	30%	5%	5%	5%	5%	5%	50%	15%
Exits	5%	10%	10%	10%	10%	10%	5%	5%	
NON VCT									
Non-VCT work	0%	10%	0%	0%	0%	0%	0%	0%	10%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%
Years in venture capital	12	12	6	6	3	10	3	3	3
Years involved with VCTs	9	12	3	6	3	5	0	3	3
Years with current team	9	2	3	3	0	1	0	3	3

Source Pembroke