

ALBION VCT TOP-UP OFFER

VCT type:	Generalist	Charges:	
Issue details:	Top-up offer	Annual Management Charge	Up to 2.5%
Max sought:	£32m	Standard Initial Charge	2.5%
Min investment:	£6,000 (with a minimum of £1,000 in any of the individual VCTs)	EQ Investors Discount	1% for existing investors 0.5% for new investors
Offer Closes:	2017/18 tax year: 5 April 2018 2018/19 tax year: 24 Aug 2018	(until 3 Oct 2017 or £10m raised)	

EXECUTIVE SUMMARY

Albion Capital Group LLP is raising up to £32 million across five of its suite of six VCTs: Albion Development VCT, Albion Enterprise VCT, Albion Technology & General VCT, Crown Place VCT and Kings Arms Yard VCT. Each individual VCT will differ in composition, but in aggregate intends to invest in a combination of stable asset backed investments alongside high growth potential companies.

Albion launched this particular offer across all six VCTs, however recently suspended the fundraising into Albion Venture Capital Trust, which invests solely in asset backed opportunities. The management *“decided to suspend this offer until it is clearer as to what categories of investment by VCTs will be permitted in the future, in light of ongoing discussions in respect of asset-backed businesses following the publication in August by HM Treasury of the consultation document ‘Financing growth in innovative firms’”, which is expected on 22 November 2017.*

We believe that this investment strategy is one of the more conservative when compared to its peers within the Generalist VCT sector, given the allocation to asset-backed opportunities and use of loan notes. Albion Capital Group LLP has built one of the strongest track records of consistently returning capital to shareholders through dividend payments. The current dividend yields available on each VCT in this offer are very competitive, ranging from 4.6% to 6.3% based on each current annual dividend target and issue price.

Investors who take an allocation to more than one VCT in the suite would gain exposure to a broad and balanced portfolio and benefit from added diversification, as well as receiving a regular dividend stream. However, the option is available to invest in an individual VCT within the offer.

This top-up fundraising into existing VCTs offers investors immediate access to a mature portfolio, invested across a broad range of sectors. This includes investment in a number of opportunities that are no longer deemed qualifying to new VCT money, such as renewables, increasing its appeal.

Each VCT has a maximum target of £6 million, with the exception of KAY which is raising a maximum of £8m. We believe this to be a significant fundraising, especially given the current cash weightings across each VCT. However, the management team are confident that this is in line with the pipeline of opportunities. The funds raised in this offer will be deployed in new investment opportunities as well as continued investment into existing portfolio companies, where applicable.

BACKGROUND

VCT	Launch date	Size (Millions)
Albion Development VCT	Jan 1999	£48.3
Albion Technology & General VCT	Jan 2001	£70.7
Crown Place VCT	Apr 1998*	£45.7
Albion Enterprise VCT	Apr 2008	£52.2
Kings Arms Yard VCT	Apr 1996**	£59.5

*Crown Place VCT has been managed by Albion since April 2005, following the merger of the three Murray VCTs.

**Kings Arms Yard VCT has been managed by Albion since Jan 2011. Kings Arms Yard VCT 1 & 2 were merged in Sep 2011.

Any performance data within this presentation will include dividends paid since Albion have been in management, and in some cases the NAVs have been rebased to 100.

Pros	Cons
Investors can gain exposure to a mature and existing portfolio	At £6,000 the minimum investment size is higher than peers
Strong pipeline for 2017/18. Since Jan 2016 to date, invested £43m in 25 new and existing underlying companies	Continued fundraising a potential concern given cash weightings, while also reducing the percentage of renewable holdings for existing investors
Currently, 42% of the portfolio is in asset-backed investments, and 45% as a proportion invested is held in secured loan stock	Complex history of Crown Place VCT and Kings Arms Yard VCT makes performance analysis more difficult

Impact of latest regulations

While the investment strategy followed by Albion Capital Group was relatively unaffected by the November 2015 changes in regulations (which included restrictions on management buyouts, the maturity of investee companies and increased regulation of the non-qualifying investments), it is unlikely their strategy will remain unscathed following the announcement of the Patient Capital Review findings on 22 November 2017. These concerns have led to the suspension of the Albion Venture Capital Trust fundraising within this offer, which is solely focused on asset-backed investments. Given this, investments across the other five VCTs may now be more geared towards the growth opportunities, increasing the risk of the investment strategy over time.

ORGANISATION & MANAGEMENT

Albion Capital Group LLP (previously Albion Ventures LLP) was created in January 2009, following the Management Buyout of Close Ventures Limited from Close Brothers Group plc. Patrick Reeve led the management buyout, having established Close Ventures in 1996, and now heads up the investment committee as Managing Partner. Although not the largest investment team, we believe resources are ample with a new hire taking the team to fourteen-strong, including nine partners, an investment director and three investment managers with an average tenure at Albion of approximately eleven years.

The team have all the experience we would expect as a Generalist VCT manager, with respect to accountancy and management consultancy within private equity. However, a key differentiator which we believe can add real value given their strategy is the diverse backgrounds within the team, especially in healthcare with a neurosurgeon and radiologist in Andrew Elder and Christoph Ruedig respectively.

It is clear that the management of these VCTs remains the key focus of the team. However, in addition they are also responsible for the Albion Community Power PLC, a renewable energy power generation company developing community-scale renewable energy projects in the UK. In 2016, Albion launched the UCL Technology fund, in partnership with UCL Business, which has raised £50 million to commercialise the University College London research output.

Finally, in 2017 Albion bought OLIM Investment Managers, a UK quoted equity specialist for charities, an investment trust and private clients.

Each of the five VCTs have individual Boards of directors, all of which are non-executive and independent, with the exception of Patrick Reeve, who is the Managing Partner of Albion Capital Group LLP as well as on the Board of Albion Development VCT, Albion Enterprise VCT and Albion Technology & General VCT.

INVESTMENT STRATEGY

The return objective underlying each of the five VCTs is to achieve capital growth and income generation to ensure a sustainable dividend. This is achieved, in the main, through a strategy attempting to combine investment in both lower-risk, stable unquoted UK asset-backed investments and higher growth potential opportunities.

Asset backed investments are deemed lower-risk as these investments essentially take first charge on assets owned by the investee company, whether this be a bricks and mortar asset or an income stream with similar characteristics. In addition to reducing the risk characteristics, these long term investments are a strong source of income which enhance the capabilities of each VCT to maintain its attractive dividend.

There are slight nuances between each, for example three of the VCTs have specific targets: both Albion Enterprise VCT and Kings Arms Yard VCT target 50% in asset backed investments and 50% in growth capital opportunities and Albion Technology & General VCT

Figure 1. Combined portfolio as of 31 March 2017. Source: Albion Capital Group LLP

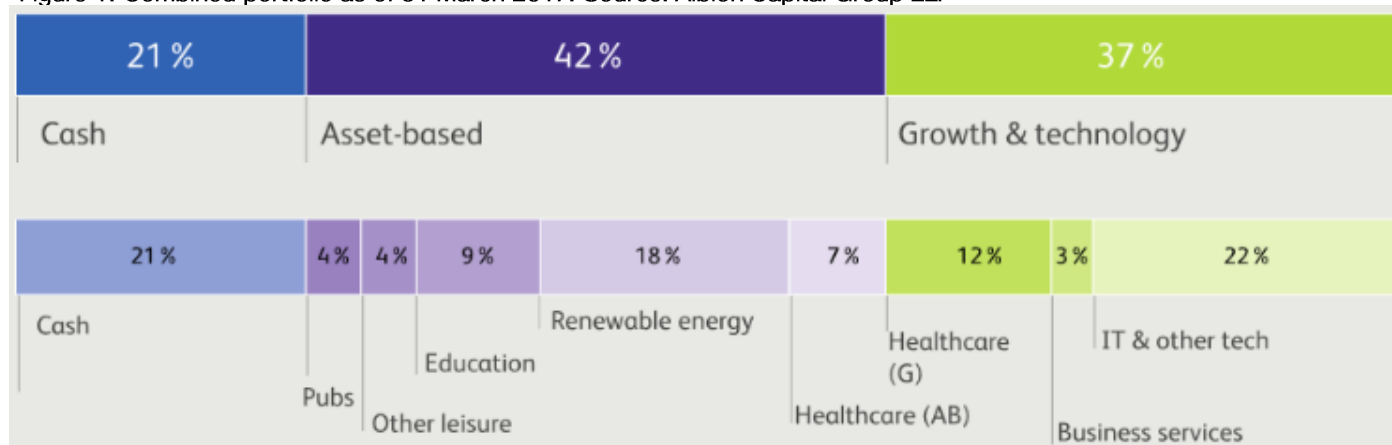


Figure 2. Percentage of NAV invested in different types of company across the six VCTs in the portfolio, as of 31 March 2017.
Source: Albion Capital Group LLP.

VCT	Unquoted asset-backed companies	Unquoted growth companies	Quoted growth companies, including AIM	Cash and deposits less current liabilities
Albion Development VCT	39%	36%	0%	25%
Albion Technology & General VCT	44%	35%	2%	19%
Crown Place VCT	57%	21%	1%	21%
Albion Enterprise VCT	33%	41%	1%	25%
Kings Arms Yard VCT	41%	45%	6%	8%

targets 40% in technology related companies, and 60% in non-technology companies. However, in practice we deem these slight differences as trivial, although we include a full breakdown of asset backed and growth investments as a percentage of NAV in **Figure 2**.

As generalist VCTs, each will invest across a broad range of sectors, which adds an important diversification benefit. The suite of VCTs will commonly co-invest alongside each other, increasing the possible investment size up to £10 million and opening up a wider investment universe. Investments of this size will typically be asset-backed, while the investment into growth capital opportunities can be as small as £1 million. The specific allocation per VCT will be dependent on the cash held within each VCT at the time of investment, coupled with the appropriateness of the investment to the VCT mandate.

The universe comprises established companies, with a preference for revenue streams in excess of £1 million per annum. At times the VCTs may invest in early stage companies, such as seed investments, where there are established and strong relationship with the management team. However, they still typically invest in excess of £0.5 million, with follow-on investments as the company matures – and these will never constitute a substantial proportion of the VCT. It is unlikely that the VCT will invest in an underlying company with existing external borrowing, and if this occurs VCT investment must rank ahead. Finally, as Albion are active investors, we would expect a member of the investment team to take a seat on the board.

The non-qualifying portfolio has been unaffected by recent changes in regulation. This portion of the portfolio is relatively conservative in comparison to the universe, either holding cash on deposit, or investing in floating rate notes or similar highly rated instruments. In the case of Albion Technology & General VCT, it has recently invested in the SVS Albion OLIM UK Equity Income Fund, while Albion Enterprise VCT intends to make follow suit in due course.

PORTFOLIO CONSTRUCTION & ACTIVITY

This report details the combined portfolio of the five VCTs within this top-up offer, which contain approximately 60 unquoted UK companies. **Figure 1** shows how this overall portfolio is composed by type of investment and business sector.

Most significantly, the portfolio has 42% in asset-backed investments across a range of sectors, which as discussed are deemed lower risk, as well as a strong source of income generation. Within this, 18% of the entire portfolio is invested in renewables, across Solar, Hydro-electricity, Wind, and Biogas. Each of these are long term assets with contracts of 20-25 years that are now fully operational and income generating. In our opinion, this is a key appeal of the top-up offer, given that investment in any renewable opportunity is no longer deemed a qualifying investment. The implication of this however is that the percentage held in the portfolio will be diluted over time as new funds are raised and deployed elsewhere.

We detailed earlier that the investment team is well resourced with respect to Healthcare and Biotech, and in fact believe them to be one of the most capable in identifying strong growth opportunities in these sectors. Of the 37% invested in Growth & Technology, 12% is currently held in Healthcare, across sub-sectors including Diagnostics, Drug Development, Drug Distribution and Healthcare IT and we would expect this to continue to increase over time. Finally, while the current cash held in the portfolio appears high at 21%, we have been assured that pipeline is strong. Of the current portfolio, approximately 45% as a proportion of investment is through secured loan stock, compared to equity or preference shares, acting to reduce the risky nature of investing in high risk UK private companies and increases the ability of the VCTs to sustain their dividend requirement.

For those investors who would like to invest in an individual VCT rather than equally across the five, **Figure 2** highlights the percentage of NAV invested in unquoted

asset-backed companies, unquoted and quoted companies and finally cash and cash equivalents.

The most conservative and differentiated VCT is the Albion Venture Capital Trust, which currently has approximately 85% in asset-backed opportunities, with the remaining held in cash and cash equivalents. However, as mentioned, given the expected changes in regulations, fundraising for this VCT has been suspended. With the exception of Kings Arms Yard VCT, where the allocation to asset-backed investments will continue to increase to circa 50% over the next few years, we do not expect the allocations to vary significantly.

RECENT ACTIVITY

Albion Capital Group LLP have consistently raised funds for their VCT range, and have raised an impressive £34 million, £36 million and £34 million in the 2014/15, 2015/16 and 2016/17 tax years respectively.

Since January 2016, post the changes in regulations, Albion have invested approximately £43 million in around 25 new and existing investee companies, across a range of sectors and investment types; asset backed, growth capital in established and profitable companies and seed investments, which as mentioned will never constitute a large portion of the portfolio.

To highlight the breadth of investments, we have included a recent transaction across each of the three investment types: Oviva, a growth capital investment into a digital health business providing medical nutritional counselling, G.Network, an asset-backed investment into a company providing ultra-fast fibre optic broadband to SMEs in Central London and finally Quatexa, a seed capital

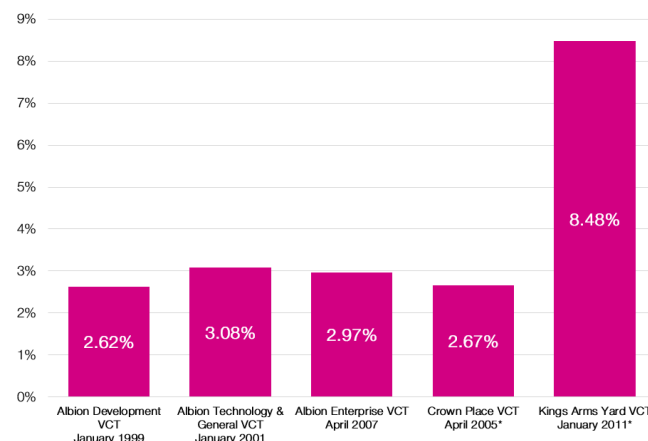
investment into a company using the latest advances in big data analytics and AI to help its banking, insurance and government customers detect financial crime.

HISTORIC RETURNS

The Albion VCTs have now returned in excess of £190 million in dividends. **Figure 3** highlights the total returns to shareholders for each VCT, comprising dividends paid / declared and the most recent (unaudited) NAV (30 June 2017).

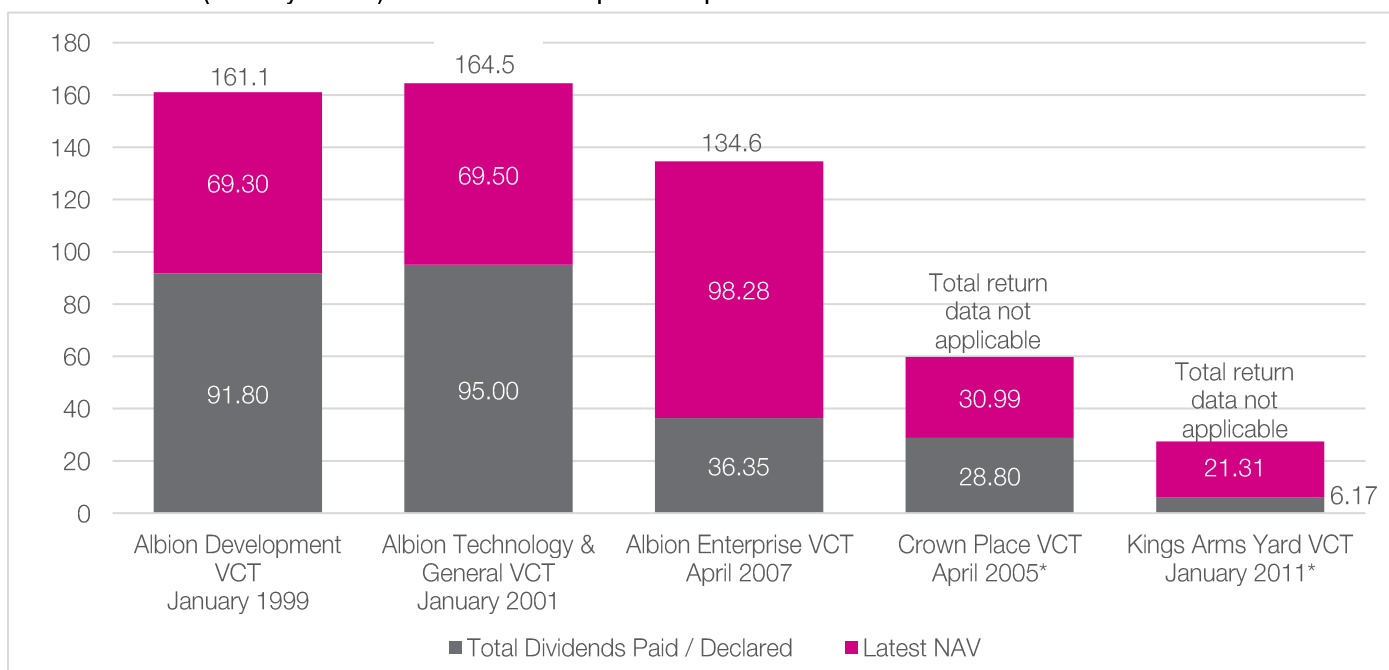
As each of the six VCTs has been in existence or under Albion's management for a different length of time, we have annualised the total return data within their prospectus in **Figure 4**, in an attempt for like-for-like comparison.

Figure 4: Annualised total shareholder return from dividends and capital growth since inception or takeover by Albion



* These calculations take account of the NAV rebalance to 100 when Albion took over management of Crown Place and Kings Arms Yard VCTs. This data is to 30 June 2017.

Figure 3. Total returns since inception, comprising dividends paid/declared and latest NAV (unaudited 30 June 2017) of each VCT in this offer (ordinary shares). Source: Albion Capital Group LLP.



* Albion Capital Group LLP took over the management of Crown Place VCT and Kings Arms Yard VCT in April 2005 and January 2011, while their initial launches were in April 1998 and April 1996 respectively. As such, total return data since inception cannot be attributed to Albion. The data above shows total dividends paid/declared since Albion Capital Group took over management.

Prior to 2009, there was a skew towards leisure property, which includes Pubs, Hotels and Health & Fitness Clubs. These were impacted by the downturn of asset prices in this sector, leading to a number of write downs.

In addition to this, the performance of Albion Technology & General has suffered post the credit crunch as it had raised significant assets at a high point in the market, and was therefore investing at the top of the market. The VCT commenced a programme of repositioning its portfolio in 2014, and this is now nearly complete. Finally, with respect to Crown Place and Kings Arms Yard, both are now cleansed of any legacy holdings in the portfolio from the previous management days, and are focused on yield generating assets in line with the other VCTs within this offer. This is highlighted in both Figure 5 and Figure 6 below, which shows the average 5 year growth rate, as well as the 12 month growth to the end 31 March 2017.

Figure 5: 1 year growth data for each VCT (audited to 31 March 2017)

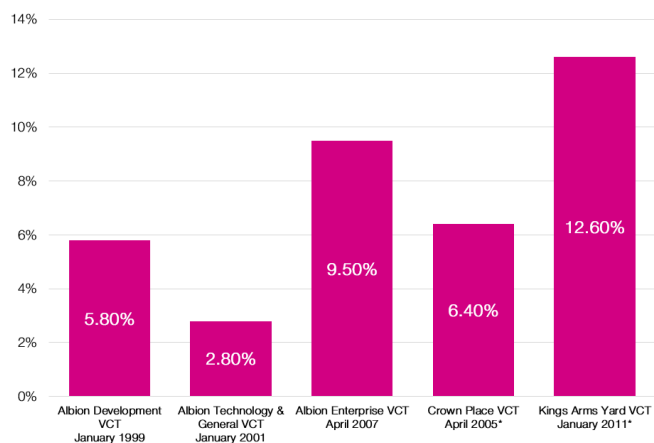
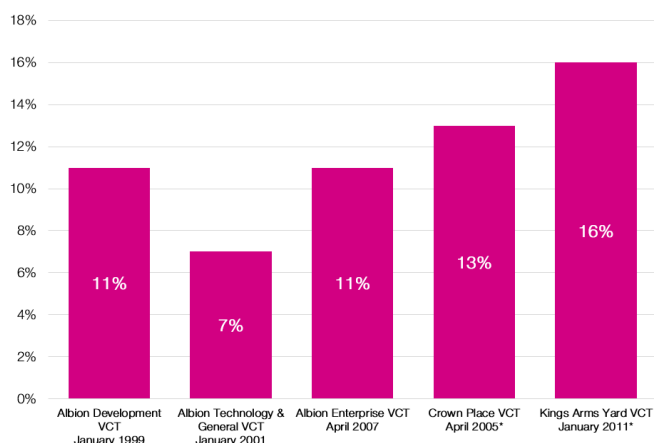


Figure 6: 1 year growth data for each VCT (to 30 June 2017)



FUTURE RETURNS

The top-up offer as a whole, if investors were to invest equally across each of the five VCTs, has an average target dividend yield of 5.4% (based on the latest reported net asset value), which would be paid in ten out of the twelve months, given each of the VCTs pay semi-annual dividends. However, investors should not expect an equal payment, as the VCTs have different annual dividend targets:

VCT	Annual Dividend Target	Current Yield*
Albion Development VCT	4p	5.6%
Albion Technology & General VCT	4p	5.5%
Crown Place VCT	2p	6.3%
Albion Enterprise VCT	5p	5.0%
Kings Arms Yard VCT	1p	4.6%

*Current target dividend yield (on issue price)

If investors have a preference for capital growth, a Dividend Reinvestment scheme is in place, which enables investors to obtain more shares in the company by completing the relevant part of the application form. These are eligible for income tax relief of 30%, subject to the usual restrictions.

DISCOUNT CONTROL MECHANISM

Each of the five VCTs within this top-up offer have an established buy-back policy in place. It is important to note that all buy-back policies within the VCT market are subject to certain conditions. Albion have stated within their Securities Note that the buy-backs are “subject to the overall constraint that such purchases are in the Company’s interest, including the maintenance of sufficient resources for investment in existing and new portfolio companies and the continued payment of dividends to shareholders”. The stated buy-back target is in the region of 5% discount to Net Asset Value, which is competitive relative to peers.

In practice, Albion have returned an additional value in excess of £90 million to shareholders through these policies. Over the 12 month period to 31 August 2017, weighted average discounts to NAV were as follows:

Figure 7: 12 month average discount (to end 31 August 2017)

VCT	Weighted average discount to NAV
Albion Development VCT	4.19%
Albion Technology & General VCT	5.11%
Crown Place VCT	7.53%
Albion Enterprise VCT	5.41%
Kings Arms Yard VCT	6.04%

Next steps

To download an application form please visit:



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Risk warning

The value of investments, and the income derived from them, can go down as well as up and you can get back less than you originally invested. Past performance is not a guide to future performance. This report does not constitute personal advice. Venture Capital Trusts (VCTs) should be regarded as higher risk investments, suitable only for experienced investors who are able to withstand losses. If you are in any doubt as to whether this is a suitable product for you, you should seek professional advice.

VCTs are only suitable for UK resident taxpayers who can tolerate higher risk investments with a time horizon of over five years. Owing to the nature of their underlying assets, VCTs are highly illiquid. Investors should be aware that they may have difficulty, or be unable to realise their shares at levels close to those that reflect the value of the underlying assets. Tax levels and reliefs may change and the availability of tax reliefs will depend on individual circumstances. You should only subscribe for new VCT shares on the basis of the relevant prospectus and must carefully consider the risk warnings contained in that prospectus.

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