Triple point VCT 2011 B Share

VCT type:	Limited Life VCT	Charges:	
Issue details:	New Share Class	Annual Management Charge	1.9%
Max sought:	£10m	Standard Initial Charge	5.5%
Min investment:	£5,000	EQ Investors Discount (inc. 0.5% until 4 March 2016)	
Offer Closes:	1 April 2016 29 April 2016	New Investor	3.5%
		Existing Investor	4.0%

EXECUTIVE SUMMARY

Triple Point VCT 2011 (TP11) is raising up to £10 million in a new B Share Class, with an overallotment facility for a further £10 million in place.

The strategy will invest in qualifying companies focused on developing and maintaining Combined Heat and Power plants (CHP), another form of efficient energy generation.

Although Triple Point do not have a track record of investing in CHP, the underlying investment exhibits similar attributes to that of other renewable energy opportunities, in the form of asset backed funding with predictable revenue streams or contractual services and as such, it is deemed lower risk compared to Generalist VCTs. However, investors should be aware that this focused strategy leads to a lack of diversification, despite a number of underlying partners.

To date, Triple Point have arranged funding for £35 million of gas power CHP plants and further pipeline appears significant. This pipeline is key, because as detailed within this report, investment in CHP will no longer be deemed a qualifying investment post April 2016 and therefore all qualifying investments must be made prior to this date. If this is the case, we believe this VCT offer to be a good opportunity for those investors who would like to gain exposure to renewable energy.

This is a limited life VCT, which will wind-up following the five year holding period required under HMRC regulations. The VCT is targeting a return of 110-115p, with a 5p dividend expected annually commencing in the financial year ending February 2019.

Given this, we do not deem it a suitable option for those investors who require an income payment from inception.

BACKGROUND

The TP11 VCT Ordinary Shares launched in 2011, investing in communications, technology and infrastructure, more specifically in Solar and Anaerobic Digestion. In 2015, Triple Point launched the A Shares, investing solely in hydro-electric power. Indirectly, within the non-qualifying portfolio of both share classes, the VCT gained exposure to a portfolio of diverse loans to SMEs.

The funds raised in this offer will remain segregated to the TP11 VCT O shares and A shares, which launched in April 2010 and April 2015 respectively, as although the investment strategy appears comparable, the underlying asset class differs for each.

VCT	Launch date	Size (Millions)*
Triple Point VCT 11 O Shares	April 2010	£20.30
Triple Point VCT 11 A Shares	April 2015	£10.30

* As at 31 August 2015

Impact of latest regulations

The TP11 B Share has been significantly impacted by the latest changes in regulations, more specifically with respect to the exclusion of all remaining energy generation activities as a qualifying investment post April 2016. More specifically, *"the provision of reserve energy generating capacity and the generating of renewable energy benefiting from other government support by community energy organisations will no longer by qualifying activities".* As such, the investment strategy has been tweaked to ensure that capital is deployed prior to this date, but their vast pipeline means that the ultimate underlying portfolio is likely to be in line with that planned before the regulatory changes were announced. We discuss this further within this report, but in summary, assuming that these investments are made in a timely fashion, we are confident that the management team can complete the desired investment strategy.

ORGANISATION & MANAGEMENT

Triple Point was founded in 2004, by Mike Bayer, David Dick and Michael Sherry. Triple Point Investment Management LLP, a subsidiary of Triple Point LLP focuses solely on offering tax efficient investments, in the form of VCTs, EIS and BPR structures. Since inception, Triple Point have invested approximately £350 million with circa. £180 million in BPR, £85 million within VCTs, and the balance in EIS vehicles. These investments have been made across a diverse sector base ranging from technology, more specifically cinema digitisation, to renewable energy and infrastructure projects. In addition, the non-qualifying investment has led to a significant investment in a portfolio of diverse loans.

The Triple Point investment team of 19 is well-resourced and experienced within private equity and infrastructure finance. We have highlighted the roles of the six partners below, while the remaining team includes investment analysts and managers, portfolio managers and legal counsels.

Claire Ainsworth, Managing Partner, is the Chief Investment Officer (CIO) and Chairman of the Investment Committee, which includes four other members of the team. The remaining partners and key members of the team are James Cranmer (Head of Leasing), Mike Bayer (Head of Compliance), Bryan Curel (Legal Counsel), Ben Beaton (Head of Investment) and Ian McLennan.

The Board of Triple Point VCT 2011 consists of three directors, all of which are non-executive and independent; Jane Owen (Chairman), Tim Clarke and Chad Murray.

INVESTMENT STRATEGY

The Triple Point VCT 2011 (B Share) strategy attempts to target capital preservation while offering an attractive yield. More specifically, the target tax free IRR is 9-10% per annum, with an expected aggregate dividend of 10-15p over its life.

The specific sector or asset class focus of the Triple Point VCTs since inception in 2004 have varied widely, continuously adapting to the on-going changes in HMRC regulations. However, the underlying strategy of funding companies with substantial asset bases and predictable revenue streams or contractual revenues has remained unchanged, of which Triple Point have sourced in excess of £400 million of investments over the last 10 years. The O share within Triple Point VCT 2011 is categorised as a generalist VCT, and invested across asset classes including communications, technology and infrastructure, more specifically Solar and Anaerobic Digestion. The A shares focused solely on Hydro-electric power opportunities, another infrastructure asset class.

The qualifying element of this B Share focuses on funding companies that develop and operate Combined Heat and Power Plants (CHP), an opportunity identified by the team over two years ago. The strategy is another form of efficient energy generation and exhibits similar attributes to that of other renewable energy opportunities, in the form of asset backed funding with predictable revenue streams / contractual revenues from financially sound counterparties. Therefore, although this is a new asset class and as such there is no relevant track record, we believe the similarities in aspects such as build contracts, due diligence as well as commission, operating and maintenance are sufficient to have confidence in the team. In addition, the team have already arranged funding for over £35 million of gas powered CHP plants in 2015, across a number of projects.

The deal flow is provided by an extensive network that Triple Point have built since inception, as well as corporate financiers and industry agents. The current pipeline is circa. £40 million, which will be funded through both this VCT offer and the Triple Point EIS.

CHP Explained

"Combined heat and power is an energy efficient technology that integrates the production of useable heat and power (electricity) in a single, highly efficient process. CHP is a significant opportunity to reduce energy costs and to improve environmental performance by substantially reducing fuel consumption without compromising the quality and reliability of the energy supply to consumers.

At the heart of CHP installation is the heat engine. This provides the power to drive the electrical generator and produce the heat. This is generally gas turbine, steam turbine or internal combustion engine. CHP can therefore use a variety of fuels and provide for various heat demands.

Source: Triple Point

The beneficiaries of CHP are varied, and include horticulturists using the heat and CO^2 produced in greenhouses to grow fruit and vegetables, as well as manufacturers and institutions such as hospitals and schools, all of which have a common characteristic of being financially sound. As a specialist VCT focused on a single asset class, there is an inherent lack of diversification which investors must be aware of. However, an important aspect of the strategy, which mitigates some of this risk is that the underlying client base is diverse. In addition to this, the manager has stated that there is high demand for these power plants, and a strong pipeline of high grade counterparties were a plant to become void.

Following the completion of these plants, a long term energy supply agreement is put in place (RPI linked), including both a charge for the electricity and heat generated, as well as the CO^2 bi-product.

The Triple Point 2011 B Share will co-invest alongside other vehicles managed by Triple Point, which is advantageous as it increases the investment universe to include those larger opportunities that require greater funding. To this point, the investment size will range from £500k - £5 million. Importantly, if a project exceeds the £5 million state aid limit, Triple Point have debt facilities.

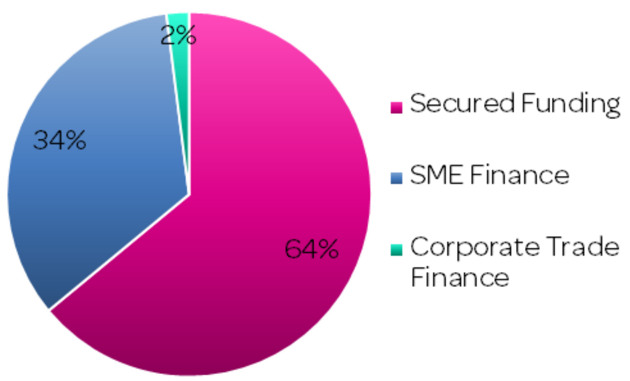
The investment team remain active post-construction, and will take a seat on the Board of the investee companies. This allows in-depth monitoring of performance, management and financials.

The exit strategy will typically entail an institutional buyer of both the assets and trade of the underlying company, although may also be through refinancing from a bank or other source. The manager has stated that a probable exit will be a "bulk sale" of their entire CHP portfolio, which introduces a different type of buyer compared to individual sales and therefore most likely at a higher price.

The non-qualifying portfolio will be invested into Triple Point's Navigator strategy, accessed through an investment in the Generations Navigator LLP as well as cash and money market funds. The Navigator strategy provides short and medium term financing to those SMEs that are struggling to obtain more traditional forms of finance, such as bank lending, and has provided over £100 million funding to over 25,000 since inception in 2013.

The strategy focuses on providing three business lines: SME finance including short term working capital and SME leasing, Corporate Trade Finance and Secured Funding including property lending. The strategy targets an overall gross return of 5-7.5% per annum, and has achieved an average annualised return of 5.81% since inception (data to December 2015). The split of the current portfolio is detailed in **Figure 1.**

Fig. 1: Current split of the Generations Navigator LLP



PORTFOLIO CONSTRUCTION & ACTIVITY

The Triple Point VCT 2011 (B Share) is a new share class, and as such there is no current portfolio. However, given the recent changes in regulations have had a significant impact on the way in which funds raised will be deployed within this strategy, we have decided to highlight this within the Portfolio Construction section.

Prior to the changes in regulations in 2015, which acted to exclude all remaining energy generation activities as a qualifying investment post April 2016, capital raised was to be initially deployed in non-qualifying investments, detailed in the previous section. Following this, as and when appropriate 80% of the portfolio would be invested in the pipeline of qualifying investments in order to remain in line with the 70% qualifying investment required by HMRC.

Following the announcement, the investment manager altered the investment strategy, to ensure that 80% of the capital raised will be invested in three to five qualifying CHP investment opportunities prior to April 2016. We have been ensured that this is possible given the strong pipeline in place, and all parties involved understand the timely manner in which these investments must be completed. The whole sum of capital provided to an investee companies may not be required at the outset, in which case it will be invested into the non-qualifying Navigator strategy, and drawn down as appropriate. We have been assured that this will not have a negative implication on the return characteristics of the VCT.

DISCOUNT CONTROL MECHANISM

Triple Point VCT 2011 (B Share) is structured as a limited life VCT, and as such is launched with the intention to wind-up soon after the five-year holding period. Triple point have a strong track record of this, detailed within the next section.

However, within the Prospectus' it states *"TP11 aims, but is not committed, to offer liquidity to Shareholders through on-going buy-backs, subject to the availability of distributable reserves, at a target discount of 10% to net asset value"*. Within our due diligence, a target discount of 10% to net asset value is at the upper end of what we deem to be acceptable, however as a limited life VCT with a target wind-up we are not concerned by this.

HISTORIC RETURNS

The TP11 B Share class is investing in CHP, a different underlying asset class when compared to the previous TP VCTs. However, we have included the track record of all previous offers in Figure 2, 3 and 4, which Triple Point break down into Hydro, Generalist, and Hybrid share offers within their literature.

Figure 2: Total Shareholder returns from previous Triple Point "Hydro" Limited Life VCTs (latest NAV dates vary, please see the prospectus)

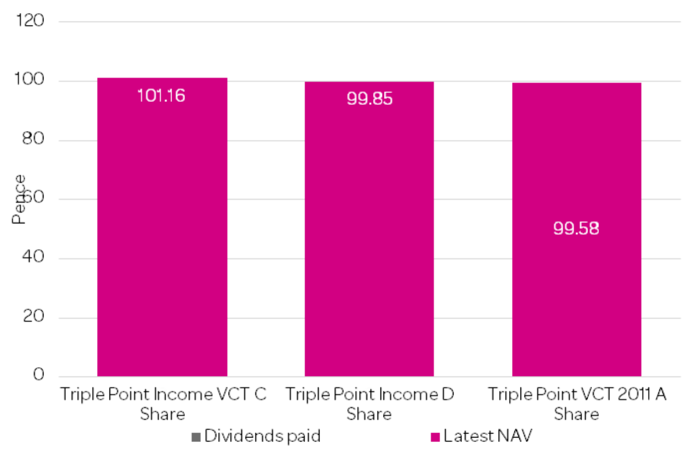


Figure 3: Total shareholder returns from previous Triple Point "Generalist" Limited Life VCTs (latest NAV dates vary, please see the prospectus)

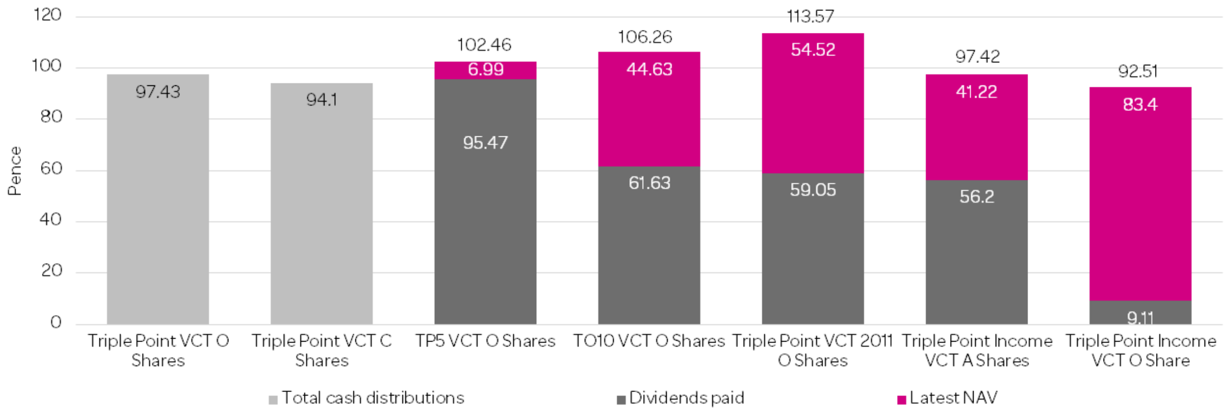
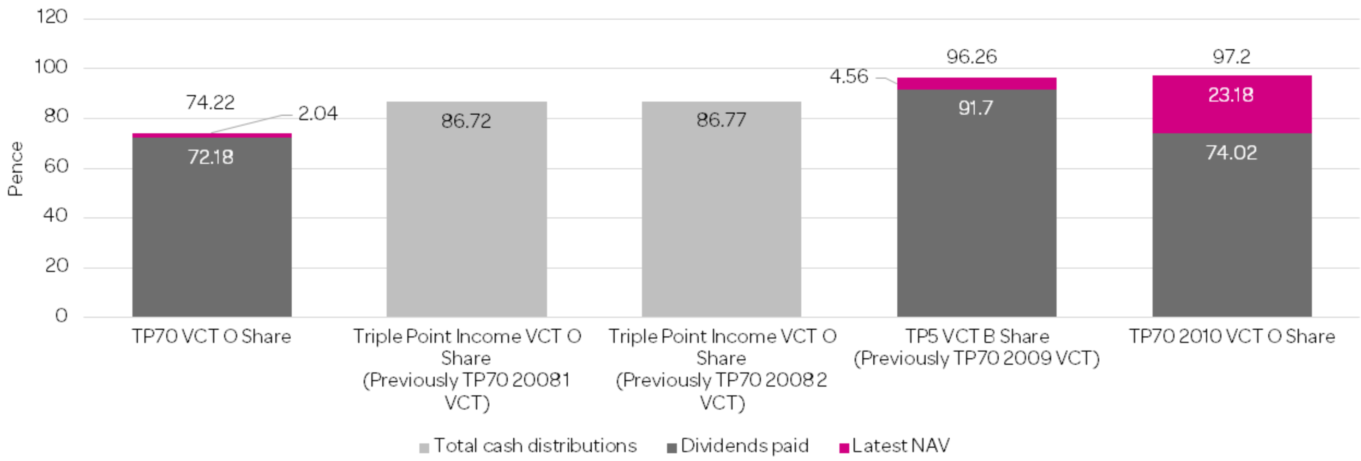


Figure 4: Total shareholder returns from previous Triple point "Hybrid" Limited Life VCTs (latest NAV dates vary, please see the prospectus)



The performance of the TP11 Ordinary shares (see Figure 3) has been impressive, with total shareholder returns of 113.57p (please note the current NAV is unaudited), and has exceeded the target return. This follows the realisation of a number of Solar and Anaerobic digestion investments in 2015. In addition, the TP11 A Shares, which launched in 2015 (see Figure 2), has a current NAV of 99.58.

As a limited life VCT, a key attribute that we analyse is the timely and successful exit of the underlying investee companies following the five year holding period. Triple Point have a strong track record in this respect.

It is important to note that the VCTs that launched between 2007 and 2009 (including Triple Point Income VCT (previously TP70 2008 1 & 2), TP70 O Share, TP5 B Share) invested in a difficult economic environment, and have returned less than is expected by the later VCT tranches. With respect to TP70 2007, we understand that the final payment has now been made (following the final prospectus), and the total cash distribution was 74.7p. This disappointing return can be attributed to the non-qualifying portfolio, which was invested in a GAM hedge fund, and was in fact a leveraged position. As noted above, this investment strategy is no longer in place within the non-qualifying portfolio.

FUTURE RETURNS

The Triple Point VCT 2011 (B Share) strategy is targeting capital preservation while offering an attractive yield. More specifically, it is targeting a total return pf 110-115p, which equates to a tax free IRR is 9-10% per annum. It is expected that the first dividend payment of 5p will be made in the financial year ending February 2019, targeting a 5p dividend in the financial year ending Feb 2019, followed by a regular 5p dividend per annum. However, this is dependent on distributable reserves and is not guaranteed.

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. 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 and have a time horizon of greater than 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.

Next steps:

To download an application form please visit:

eqinvestors.co.uk/vct/offers

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