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Octopus Titan VCT: reasons to recommend

Introduction

Octopus Titan Venture Capital Trust (VCT) is a tax-efficient investment vehicle that offers a way to invest into small UK early-stage companies, some of which have the potential to grow significantly and to transform their chosen field or even establish a new industry.

What is a VCT?

The UK Government introduced VCTs in 1995 as a way of encouraging people to invest into Britain's exciting, entrepreneurial businesses. This more dynamic sector of the UK market comes with higher risks for investors. Smaller companies often struggle in their early years and have a higher failure rate than larger companies so to encourage investment into this area, the Government added attractive tax reliefs. This is because investments in smaller companies can fall or rise in value much more sharply than shares in larger, more established companies. They can also take longer and be more difficult to sell. If your clients aren't comfortable with the risks involved with unlisted companies, this investment will not be right for them.

The continued support of a growing number of VCT investors is helping to fund even more UK smaller companies. According to the Association of Investment Companies, £728 million was invested in VCTs in the 2017/18 tax year, the highest amount invested for a decade, and at April 2018 the assets under management in VCTs stood at £4.3 billion.¹ Many companies supported by VCTs also benefit from having a representative of the investment manager on their board to provide expert insight and mentoring.

VCT money is helping to create jobs, reward innovation and bolster the UK economy. And to complete the circle, the VCT selling the shares it holds in successful underlying companies is good news for investors, as it means more potential for tax-free dividend payments.

Although VCTs invest in unlisted or AIM-listed companies, VCTs themselves are listed on the London Stock Exchange, and operate in a regulated environment. When investors purchase new VCT shares, they're entitled to claim a range of tax incentives on investments up to £200,000 each year. Specifically, investors can benefit from:

- Up to 30% upfront income tax relief on the amount invested, provided shares are held for at least five years. For a £10,000 investment in a VCT, £3,000 can be taken off an investor's income tax bill – providing the amount of income tax claimed doesn't exceed the amount of income tax due.
- If VCT shares are sold for a profit, the proceeds won't be liable for capital gains tax.
- If a VCT pays dividends, there is no tax to pay, and dividends don't need to be declared on a tax return.

However, it's important to remember that the tax benefits are there to compensate for the high risk of investing into small VCT-qualifying companies.

- The value of an investment in a VCT, and any income from it, can fall as well as rise and investors may not get back the full amount invested.
- Tax treatment will depend on personal circumstances and may change in the future.
- There is also no guarantee that a VCT will maintain its VCT status. If a VCT loses its qualifying status, tax advantages – such as tax-free dividends and exemption from capital gains tax – will be withdrawn from that point.

¹ Association of investment Companies, April 2018

- Additionally, whilst it has never happened at Octopus since we started offering VCTs in 2002, if a VCT loses its status within five years of an initial investment, investors will be asked to repay any upfront income tax relief that they have already claimed.

Octopus Titan VCT

Octopus Titan VCT is designed for those who take a long-term view to investing, are interested in investing in early stage UK companies, and who are looking for an investment that targets high levels of capital growth. Like most VCTs, rather than increasing the value of its shares, Octopus Titan VCT aims to return this investment performance back to shareholders in the form of regular and special tax-free dividends.

1. With more than £615 million in assets under management, Octopus Titan VCT is the largest VCT in the UK according to the Association of investment Companies, April 2018.
2. Octopus Titan VCT features a diverse portfolio of around 67 smaller, VCT-qualifying companies with the potential for significant growth. It typically invests small at the start, and then looks to commit follow on funding as companies develop and continue to hit their milestones. When the time is right, the VCT will sell its stakes in these companies and aim to return profits to investors in the form of tax-free dividends.
3. It's managed by Octopus Ventures who have a combined investment experience of over 150 years. They've earned a reputation for backing talented entrepreneurs and innovative companies with the potential to make an impact on the global stage.

Octopus Titan VCT has invested in companies that have since become household names, such as Secret Escapes, Zoopla Property Group and graze.com, as well as companies Octopus believes may become stars of the future, such as Memrise, Swoon Editions and Sofar Sounds. The Octopus Ventures team believe these companies (and many others in the portfolio) have the potential to deliver value back to investors in the form of tax-free dividends.

Indeed, in 2016, there were three significant Octopus Titan VCT portfolio company sales, the proceeds of which enabled payment of a special dividend to investors in April. These include SwiftKey to Microsoft, Vision Direct to Essilor and Magic Pony Technology to Twitter. Since then Octopus Titan VCT sold its remaining stake in Zoopla Property Group in 2017 and more recently in 2018 exited Tails.com to Nestle Purina PetCare and partially exited Secret Escapes to Old Mutual. Please remember, however, that dividends are not guaranteed and that past performance is not an indicator of future performance.

Octopus Titan VCT five-year performance and how the performance is calculated

Year to 30 April	2014	2015	2016	2017	2018
Annual total return	9.6%	11.4%	7.2%	4.7%	4.3%
Annual dividend yield	5.6%	5.4%	9.2%	5.2%	5.3%
Total value	137.2p	147.7p	154.7p	159.2p	163.3p

The past performance of an investment is not a reliable indicator of future results.

The performance information above shows the total return of Octopus Titan VCT for the last five years to 30 April, the VCT's interim accounting period. The annual total return for Octopus Titan VCT is calculated from the movement in net asset value (NAV) over the year to 30 April, with any dividends paid over that year then added back. The revised figure is divided by the NAV at the start of that year to get the annual total return. Just to remind you, the NAV is the combined value of all the assets owned by the VCT after deducting the value of its liabilities (such as debts and financial obligations).

Total value shows the sum of the NAV per share in pence for the last five years to 30 April and cumulative dividends per share in pence since inception for the last five years to 30 April.

The performance shown is net of all ongoing fees and costs. The annual dividend yield is calculated by dividing the dividends paid per annum by the NAV at the start of the period. We have determined it would be incorrect

to compare the NAV of Octopus Titan VCT with those of other VCTs as different year-end dates for other VCTs would result in timing differences in each NAV calculation. Please note, the NAV per share may be higher than the share price, which is the price you may get for shares in the secondary market. On 27 November 2014, Octopus Titan VCTs 1, 3, 4 and 5 merged into Octopus Titan VCT 2, which was then renamed Octopus Titan VCT.

The key benefits of Octopus Titan VCT

- It's managed by the Octopus Ventures team who have combined investment experience of 150 years. They've earned a reputation for backing talented entrepreneurs and innovative companies with the potential to make an impact on the global stage.
- Because of its size, and the reputation of the investment team, Octopus Titan VCT attracts some of the best available investment opportunities in the market and looks to fund them further throughout their development.
- New investors will benefit from immediate exposure to around 67 existing portfolio companies. Octopus Titan VCT typically invests small at the start, and then looks to commit follow on funding as companies develop and continue to hit their milestones. When the time is right, the VCT will sell its stakes in these companies and return any profits to investors in the form of tax-free dividends.
- Octopus Titan VCT is targeting a regular dividend of 5p per share each year.
- In addition, the VCT will aim to pay special dividends when there are significant gains from the sale of portfolio holdings.
- Octopus Titan VCT is the only VCT which can be held in an ISA wrapper.

The key risks of Octopus Titan VCT

- The value of an investment, and any income from it, can fall as well as rise and investors may not get back the full amount invested.
- Investors should be prepared to hold shares for a minimum of five years. If they decide to sell their shares before then, they will be required to repay to HM Revenue & Customs any upfront income tax relief they've claimed.
- There is no guarantee that Octopus Titan VCT will maintain its VCT status. If Octopus Titan VCT loses its qualifying status, tax advantages – such as tax-free dividends and exemption from capital gains tax – will be withdrawn from that point. Additionally, whilst it has never happened at Octopus since we started offering VCTs in 2002, if a VCT loses its status within five years of an initial investment, investors will be asked to repay any upfront income tax relief that they have already claimed.
- There isn't an active market for VCT shares in the way there is for shares in big companies like BP and Vodafone. This means that if an investor decides to sell their Octopus Titan VCT shares, they may not be able to find a buyer, or they may have to accept a price lower than the net asset value of the investment. However, we will do our best to help investors sell their Octopus Titan VCT shares.
- Rates of tax, tax benefits and tax allowances do change. In addition, the tax benefits available to investors through this investment depend on an investor's own personal circumstances. To ensure VCT money continues to support Government policy objectives, HM Treasury can also change the definition of a VCT-qualifying investment in the future. This could impact the nature of new investments a VCT can make over time.
- Octopus Titan VCT invests in companies that are not listed on the main market of the London Stock Exchange. Investments in smaller companies can fall or rise in value much more sharply than shares in larger, more established companies. They can also take longer and be more difficult to sell. If your clients aren't comfortable with the risks involved with unlisted companies, this investment will not be right for them.

Investment charges

All charges are paid for by the money invested in the VCT. The charges fall into the following categories: application fees, fund management fees and performance fees.

Application Fees

If investors apply through a registered financial adviser, they can choose to pay for the advice they received directly through Octopus Titan VCT. For example:

- Investors could request for the VCT to facilitate payment to their adviser of an initial fee of up to 2.5% of the investment amount and an ongoing fee of up to 0.5% annually.
- Or they could request the VCT to facilitate payment to their adviser of up to 4.5% of the investment amount as an initial fee, but with no ongoing fee.

This is up to investors to agree with their adviser. Investors should simply state their choice on the application form. If an investor agrees to an amount less than these maximums, the VCT will use the money left over to buy more shares for the investor. We do not offer investment or tax advice and we recommend investors seek professional advice before deciding to invest.

Initial and ongoing fund management fees

The Board of Directors for Octopus Titan VCT has appointed Octopus to provide services that are paid for by Octopus Titan VCT (including fund management and administrative costs). The fees paid by the VCT to Octopus include an initial fee of 3% of the amount invested. Octopus also receives an ongoing annual management fee of 2% of NAV. There is also an administration and accounting fee of 0.3% of NAV, which is paid by Octopus Titan VCT to Octopus quarterly in advance.²

Performance Fees

We want our investments to do what we say they will. When the performance of the companies we invest in exceeds expectations, we think it's fair to take a performance fee of 20% on all future gains. In order to do so the NAV plus cumulative dividends of the Octopus Titan VCT at the year end (31 October) must exceed the previous highest NAV plus cumulative dividends (net of performance fee already taken). In this case Octopus will charge a 20% performance fee on the excess. For full details on the performance fee and other fees please see the prospectus and Key Information Document (KID). Both documents are available on our website, octopusinvestments.com/titan.

² The investment management and administration agreements between Octopus and Titan VCT were signed in November 2014. In light of the present size of Titan VCT, the parties agreed in principle changes to the fees. These changes are intended to further enhance alignment between shareholders and Octopus, helping to ensure the focus remains on the optimal outcome for shareholders, as well as directly contributing to a reduction of Titan's running costs. Refer to page 26 of the prospectus dated 13 September 2018 for more information.

In summary - reasons for choosing Octopus Titan VCT

Octopus Titan VCT may be chosen as an investment because:

- At £615 million under management Octopus Titan VCT is the largest VCT in the UK and can attract some of the best available investment opportunities in the market.
- New investors will benefit from immediate exposure to around 67 existing portfolio companies.
- Investments will support smaller companies across the UK, helping to create employment and economic growth.
- The Octopus Ventures team has earned a reputation for helping early stage companies grow into highly successful businesses. They were among the first to see the potential in companies such as Secret Escapes, Zoopla Property Group and graze.com. The team could help investors to share in the success of companies in the form of tax-free dividend payments.
- Investors can benefit from up to 30% income tax relief on up to £200,000 in a tax year providing shares are held for a minimum of five years.
- Potential dividends are tax-free.
- There is no capital gains tax to pay if VCT shares are sold at a profit.

To find out more about Octopus Titan VCT please call our sales support team on 0800 316 2067 or email salesupport@octopusinvestments.com.

About Octopus Investments

Octopus currently has more than 700 employees and £8.3 billion of assets under management (Octopus, June 2018). We work with tens of thousands of clients and have built market-leading positions in tax-efficient investment, smaller company financing, renewable energy and healthcare. The focus will always be on doing the simple things well and on looking after each of our customers, day in, day out.

Important Information

These products are not suitable for everyone. Any recommendation should be based on a holistic review of your client's financial situation, objectives and needs. We do not offer investment or tax advice.

- The value of an investment, and any income from it, can fall as well as rise and investors may not get back the full amount invested.
- Tax treatment will depend on your circumstances and may change in the future.
- There is also no guarantee that a VCT will maintain its VCT status. If a VCT loses its qualifying status, tax advantages.
- VCT shares and investments in smaller companies can fall or rise in value much more sharply than shares on the main market of the London Stock Exchange. They may also be harder to sell.

We recommend investors seek professional advice before deciding to invest. This advertisement is not a prospectus. Investors should only subscribe for shares based on information in the prospectus and Key Information Document (KID), at octopusinvestments.com.

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