CORE

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INVESTMENT APPROACH, DISTRIBUTION POLICY AND MANAGEMENT FEES ARE KEY TO VCT SELECTION, ACCORDING TO CORE GROWTH CAPITAL

"VCTs are usually associated with high risk, early stage investments, but they need not be," according to Stephen Edwards of Core Growth Capital, the Private Equity specialists. "There are a number of VCTs on the market at the moment, but investors should consider three factors when investing in VCTs: **investment approach**, **distribution policy** and **management fees**."

- **Investment approach**

  According to Core, VCTs can be divided into three categories of investment approach: private equity, AiM and venture capital. Chart 1 shows that the best performing VCT segment has been those funds which invest in Private Equity – where the investments themselves have generated positive returns, and have not just relied on tax relief. There has been a much greater volatility in the returns generated by AiM funds, and Venture Capital funds investing in earlier stage, less proven businesses.

  "Whilst the Private Equity approach is unlikely to deliver 10x returns from any investment, the risk of losing capital is markedly lower as these figures demonstrate. Private Equity investments are made into predictable, cash generative companies with proven management teams," explains Stephen Edwards.

- **Distribution policy**
  Investors should understand how they will get their investment out before they invest in a VCT. Whilst VCTs are listed vehicles, liquidity in the secondary market is very limited, and for most investors this is not a realistic exit route. Investors must therefore look at the policy of distributing both profits **and** original capital back to investors. "Many VCTs will distribute only profits back to investors, and will reinvest the original capital, creating an evergreen vehicle. Whilst this may suit some investors, it can be unclear as to how they will get their capital back. By a VCT adopting a full distribution approach to returning both profits and capital, investors have an assured liquidity route, without discount or tax, further reducing risk," explains Mr Edwards.

- **Management fees**
  Management fees can eat into investors' capital in the early years of a fund, meaning that less capital is put to work for investors, and ultimately less can be returned. Minimising ongoing fees, and linking managers' rewards directly to performance aligns the interests of manager and investor, and again, significantly reducing investor's risk.

Core VCT I & II plc

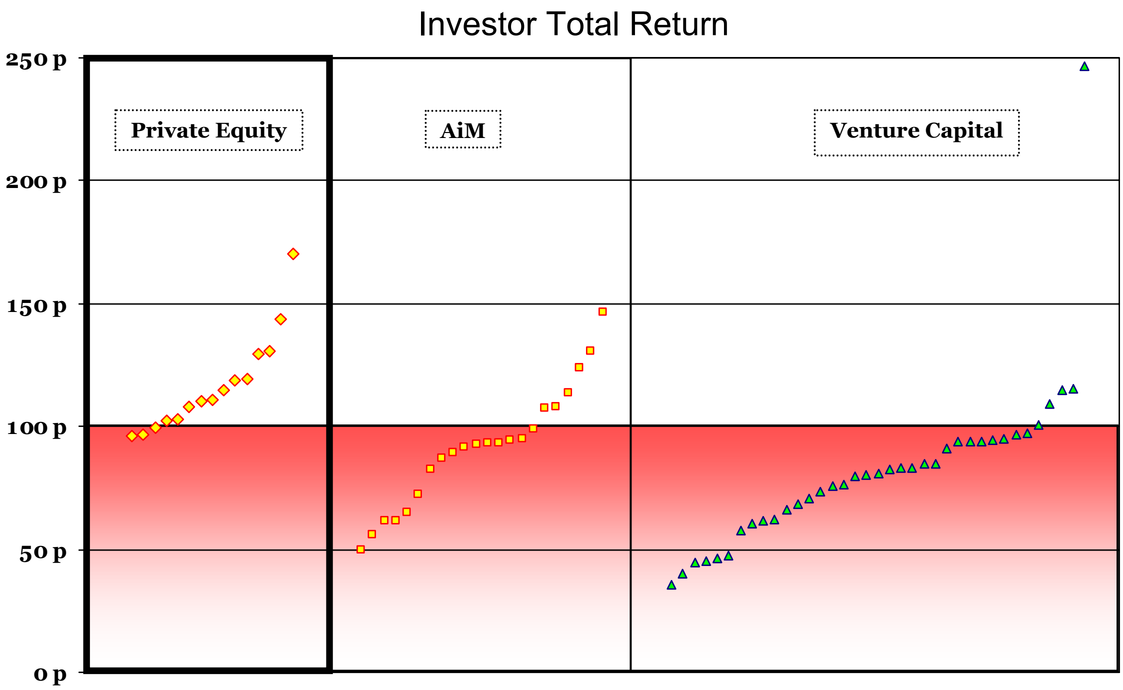
Core Growth Capital launched Core VCT I & II plc, which have a structure and investment approach designed to reduce investors risk <u>and</u> enhance upside leverage by investing exclusively in the most attractive segment of the market – private equity. Core has structured the VCTs to enable much larger amounts of £2 -5 million to be invested in each company, which reduces financial risk, and ensures that Core can plan the exit from the investment, typically in a 3 -5 year period.

Once investments have been made and realised, Core returns not just profits, but original capital back to investors, by way of tax free distributions of income and capital. This is uniquely possible within a VCT structure, and gives investors an assured liquidity route directly from the fund.

Core only invests approximately 70% of the fund into private equity opportunities. This leaves the rest of the fund managed for the first 3 years almost like a tax efficient cash deposit account – preserving capital, but beating the rates available for cash deposits, giving tax-free yield for investors. This leaves a cash balance of approximately 30%, to be returned to investors after year 3 in addition to the 40% income tax relief they would have received on the initial subscription, giving a total of 70% back after 3 years in a very low risk manner. Chart 2 summarises this profile for investors.

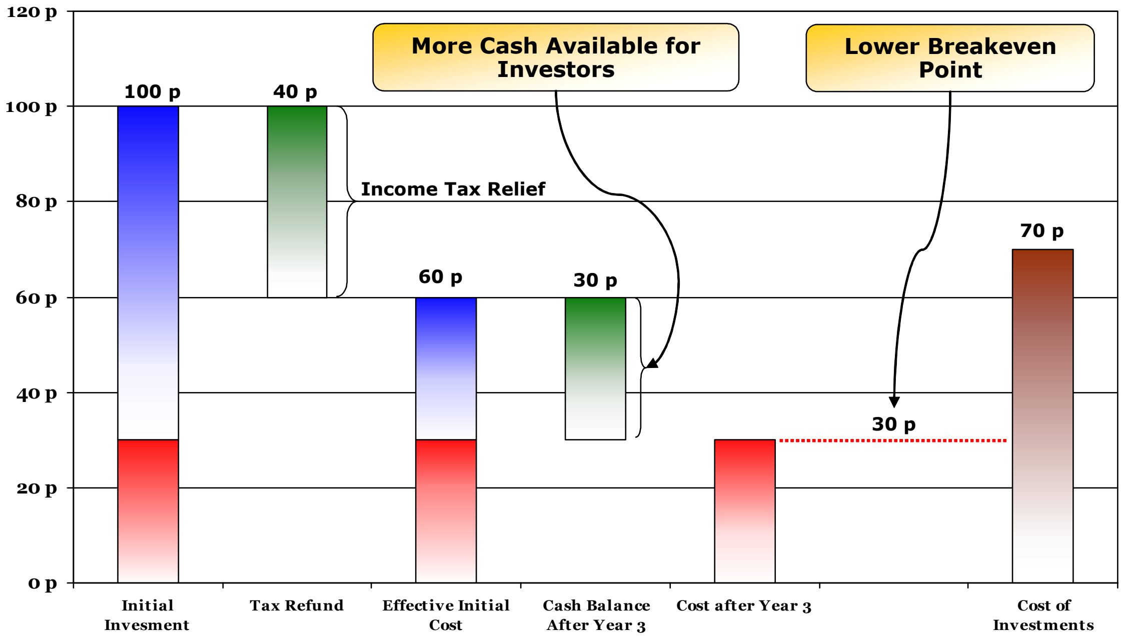
Core's incentives are purely performance based, and based only on cash distributions back to investors. Core makes nothing until investors have got all their 100p investment back (in tax relief and distributions directly from the VCTs), and its own returns (just like those of our investors) are structured to be tax free.

Chart 1



Source : *www.allenbridge.co.uk, as at 13th September, 2004, London Stock Exchange 13th September, 2004, Core Growth Capital LLP analysis of data extracted from the latest annual reports for all VCTs as at 30th June, 2004 where such data has been published, and excluding protected VCTs as these are no longer permitted. All data is weighted by initial funds raised as published on www.taxshelterreport.co.uk, and for an initial subscription price of 100p per share.*

Chart (2) Investor Profile



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Notes for editors

Core Growth Capital

Core Growth Capital was set up to take advantage of the opportunity that now exists to invest in small to mid-size private companies, typically valued at £5 to £25 million. Core has three principal partners – **Stephen Edwards**, who has an investment track record spanning over 10 years in the private equity industry, **Walid Fakhry**, a successful entrepreneur and private equity investor, and **Caparo plc**, a leading private, UK based industrial group.

Core Growth Capital is Authorised and regulated by the Financial Services Authority