

VCTs are higher-risk investments and are generally considered to be long-term investments. Clubfinance Ltd offers an execution-only service; Clubfinance does not give advice or recommendations. VCTs are complex products and are not suitable for all investors. If you have any doubts as to the suitability of a particular VCT, or VCTs in general, or you require advice of any kind, you should seek a personal recommendation from a professional adviser. Do not invest in a VCT unless you have carefully thought about whether you can afford it and whether it is right for you.

Please refer also to the risk warnings and other information contained within the Prospectus or other offer document for the VCT that you have chosen, together with Clubfinance's Terms of Business. Make sure you understand the risks and benefits before investing.

### **General**

- As high-risk investments, VCTs may only be suitable for wealthier investors as part of a diversified investment portfolio.
- If a VCT does not reach its minimum investment level, it may decide not to go ahead and return your application. Near the end of the tax year, there may not be time to invest in a different VCT. (This is less likely for 'top-up' issues to existing VCTs.)
- When considering an investment in new VCT shares via a top-up offer, it may be cheaper to buy shares already in issue on the secondary market even though the new shares may attract Income Tax relief.
- The VCT may not be able to invest as quickly as hoped. This may reduce the return on your investment and the investment may lose its VCT status.
- Trail (renewal) commissions, and therefore the corresponding rebates from Clubfinance, are only paid if you continue to hold your investment, may cease if you transfer your shares to a nominee account, and will cease if the VCT is wound up, if Clubfinance is no longer your intermediary, if regulatory changes mean it can no longer be paid, or under other circumstances such as the VCT winding up or a change in VCT manager. Further restrictions may apply – please refer to the relevant Prospectus / Securities Note / offer document.
- Please note that Clubfinance usually receives the first payment of trail (renewal) commission (if any) on VCTs at least one year after the offer closes (rather than one year after the date of an application).
- Past performance is not a reliable indicator of future results.

### **Underlying investments**

- VCTs invest in small companies and each VCT will invest in a number of these, typically early-stage, young companies. There is a risk that these companies may not perform as hoped and in some circumstances they may fail completely. Small companies have a higher failure rate than large established companies.
- Investments in these small companies will generally not be publicly traded or freely marketable and may therefore be difficult to sell. There will be a big difference between the buying price and the selling price of these investments. The price may change quickly and it may go down as well as up.
- Some previous Budgets have changed the size of company that qualifies for VCT investment purposes, meaning that funds raised by VCTs in different tax years can have different investment restrictions. This may mean that current VCT share offers are more or less risky than previous offers in terms of the size of companies they invest in. Changes have also been made to other VCT investment requirements, which may mean that some current offers are more risky than in the past. Future Budgets may make further changes relating to the investments VCTs make.
- VCTs are allowed to invest some of their money in investments that don't qualify as small companies under the VCT rules. Whilst some VCTs invest in cash-based investments, others invest in more risky investment vehicles which may raise their overall risk profile.
- Individual VCTs may use, or be able to use gearing (borrowing money to invest) or derivatives. This strategy may result in:
  - movements in the price of the VCT's shares being more volatile than the movements in the price of underlying investments;
  - the investment being subject to sudden and large falls in value; and
  - you getting back nothing at all if there is a sufficiently large fall in value in the investment.
- Smaller VCTs may invest in fewer companies than larger VCTs, resulting in higher risk. Similarly, investing in a single VCT may be more risky than spreading your investment between more than one VCT.
- Investment strategies vary between VCTs, so some are riskier than others.

**Long-term investment**

- VCTs are a long-term investment. This reflects the five-year holding period to retain tax relief, the limited secondary market for VCT shares and the nature of the investment. It can take some time for investments in smaller companies to perform and for the VCT to realise the returns on its investments.

**Taxation**

- VCTs are subject to special tax considerations. Please refer to the individual VCT Prospectus or other offer document for a taxation summary and the taxation consequences for investors generally. However, please be warned that:
  - taxation levels, bases and reliefs can change;
  - the summary will be based on assumed rates of taxation;
  - the reliefs stated will be the ones which currently apply; and
  - taxation levels, bases and reliefs depend upon your individual circumstances.
- If certain criteria are not met, for example, if you do not hold the investment for five years or if the VCT does not invest enough of its funds in qualifying investments within the time allowed, the tax breaks can be withdrawn and you will have to repay any tax relief given.
- Upfront income tax relief on a new issue of VCT shares could be reduced (or may be nil), if you dispose of shares in the same VCT within 6 months before or after the actual share issue date of the new shares.
- Changes in tax or other legislation may adversely affect the value of a VCT.
- Income Tax relief cannot exceed your Income Tax liability.
- If you are unsure about your tax situation, you should seek professional advice.

**Charges & performance fees**

- The levels of charges for VCTs may be greater than for other investments, such as Unit Trusts and Open Ended Investment Companies.
- Some initial charges will reduce your initial investment. Other upfront and ongoing costs, fees and charges will be paid by the VCT and will reduce the value of your investment. These may include performance fees.
- Some costs borne by the VCT will be fixed in nature. If a VCT is smaller than expected these fixed costs will have a greater impact on performance.

**Security of capital**

- As with any asset-backed investment, the value of a VCT depends on the performance of the underlying assets, so you may get back less than you originally invested, even taking into account the tax breaks.
- VCTs are investments that can fluctuate in value. In addition, the income distributions from VCTs (if any) can also fluctuate.
- VCT investments may be subject to sudden and large falls in value, you could get back nothing at all.

**Limited secondary market**

- VCTs are listed shares and following issue can be bought and sold like other shares. However, this secondary market is limited - this may make VCT shares hard to sell. To partially address this issue, some VCT managers offer a buy-back facility, normally at a discount to the net asset value. Buy-back facilities can be withdrawn.
- As Income Tax relief is only available on newly issued VCT shares, demand for 'second-hand' shares may be lower.
- You may have difficulty selling this investment at a reasonable price and, in some circumstances it may be difficult to sell it at any price.
- Shares in a VCT may trade at a discount (below the value) of the underlying assets held by the VCT.
- There is a restricted market for VCTs, and it may therefore be difficult to deal in a VCT's shares, or to obtain reliable information about its value.