

FINANCIAL FIX: INGENIOUS VENTURES - MUSIC VCTS

Focus: Venture Capital Trusts (VCTs) provide an innovative opportunity, with significant downside protection, to invest in a portfolio of music companies (each, an Investee Company) that will be engaged in the creation and exploitation of intellectual property rights.

Strengths: managed by Ingenious Ventures - which is the venture capital arm of Ingenious Media plc, a specialist media finance business. It has proven experience of successfully structuring, promoting and managing investment opportunities across the entertainment industry and is the largest VCT of its kind in the UK with over GBP15 mn of funds under management.

Weakness: liquidity constraints

Opportunity: The immediate and long-term future of the recorded music industry is perceived as positive, with the uptake of digital and mobile distribution platforms driving overall revenue growth. This allows talented artists to continue building capital value in their intellectual property. By investing at an early stage, the Company believes that it will be able to obtain a beneficial position in the revenue streams of the Investee Companies as well as ensuring that significant distribution licences and/or minimum royalty agreements are put in place.

Threats: Changes in legislation concerning VCTs in general could restrict or adversely affect the ability of the Company to meet its objectives and/or reduce the level of returns that would otherwise have been achievable.

Risk Assessment

☐ = low ☐ = low/moderate ☐ = moderate ☐ = moderate to high ☐ = high

Investee company's ability to identify, secure and place a rights exploitation contract: ☐☐☐☐☐

Risk of "default"/ investment turning sour: ☐☐☐☐☐

Ability to recover full value of collateral in case of a default: ☐☐☐☐☒ collateral can easily be recovered

Ratio of Investee companies that have out performers vs. underperformer: too early to say

Risks posed by: constraints on selling the Invest company: ☐☐☐☐☐

Risk posed by loss of VC status: ☐☐☐☐☐

Risk posed by changes in legislation concerning VCTs in general: ☐☐☒☐☐

Risk posed by liquidity constraints: ☐☐☐☐☐

Competition: ☐☐☐☐☐ "there is none"

Especially from music stars/groups that launch themselves on the web: ☐☐☐☐☐ plan on working with them

Impact of free download of music on the internet: ☐☐☒☐☐

Key man risk: ☐☐☒☐☐

Performance Parameters

☒ =insufficient ☒☒ =adequate ☒☒☒ = satisfactory ☒☒☒☒ = good ☒☒☒☒☒ = outstanding

Ability to secure level of sales in recorded music and associated artists' rights generally ☒☒☒☐☐

Ability to earn dividends and realise capital ☒☒☒☒☐

Ability to identify talent ☒☒☒☒☐

Ability to forge deals with "established brands", with unknowns that have the potential ☒☒☒☒☒

Suitability to:

Inclusion in a conservative portfolio ☒☒☐☐☐

In a balanced portfolio ☒☒☒☐☐

In an opportunistic portfolio ☒☒☒☒☐

Annualised expense ratio: 2.5%

Ability to deliver uncorrelated returns to other asset classes

Equities ☒☒☒☒☐

Bonds ☒☒☒☒☐

Hedge funds ☒☒☒☒☐

Outlook

↑ upside potential ↗ upside to range bound ↔ range bound ↘ range bound to down ↓ downside potential

Scope for music VCTs: ↑

Barriers to entry are high - need high level of contacts in the industry

Conditions for relative out-performance Hit driven business

Conditions for relative under-performance : "flops"

Investment Insights

Min. holding period: 5 years

Base currency of share: GBP

Transparency provided: fairly high

Risk/reward compensation: moderate