

# BARONSMEAD

Baronsmead VCT plc  
Baronsmead VCT 2 plc  
Baronsmead VCT 3 plc  
Baronsmead VCT 4 plc

## INVESTOR GUIDE

Offers for subscription  
to raise up to £4.135 million per Company and £16.54 million in aggregate

Issued by ISIS EP LLP  
January 2012



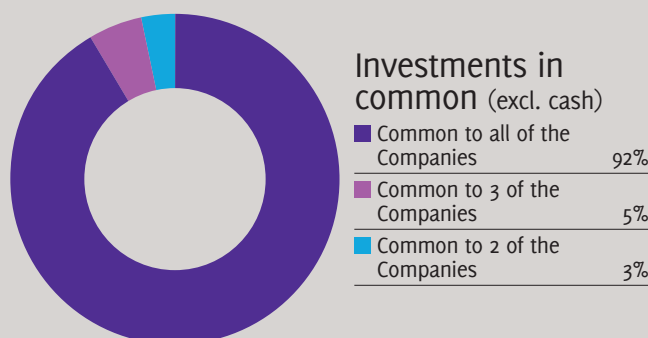
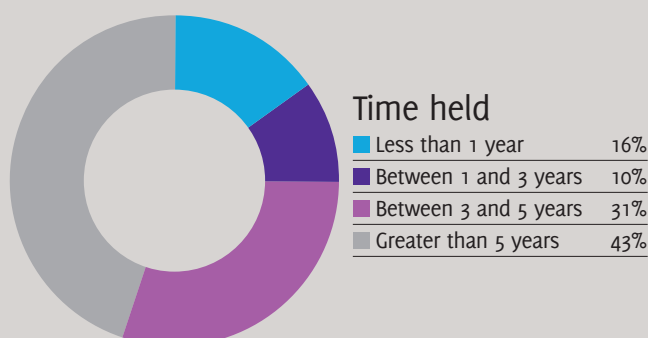
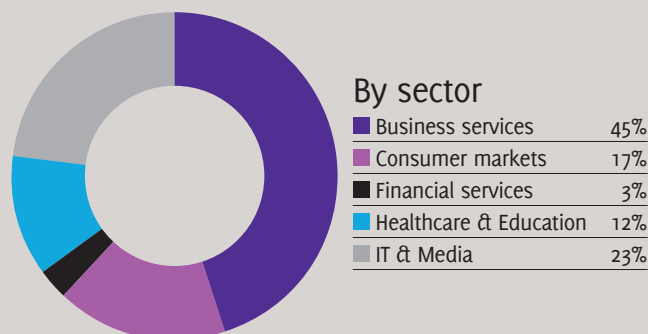
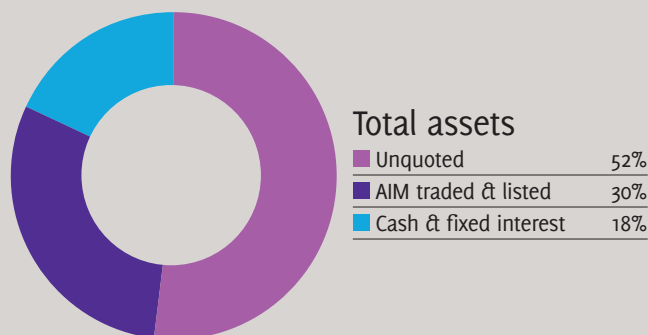
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 Baronsmead VCT 3 plc  
 Baronsmead VCT 4 plc  
 (“the Companies”)

Each Company is seeking to raise, approximately £4.135 million before expenses pursuant to their respective offers, this being the sterling equivalent of just under €5 million each (£16.54 million in aggregate) (“the Offers”)\*

\* At the date of launch of the Offers the exchange rate being €1:82.76p

A VCT is a particular type of investment company. They were established by the UK Government with the intention of encouraging investment in smaller, or “venture”, UK companies. Investment in a VCT is high-risk and for the long-term.

## Summary of the Combined Portfolios\*



\* unaudited values for all four Companies' portfolios as at 30 November 2011

### Summary Statistics

	Total for all four Companies
Total net assets <sup>#</sup>	£234.7 m
No. of portfolio companies	72
No. of unquoted companies	21
No. of quoted companies	51
Average % of equity held in unquoted companies	45.6
Average % of equity held in AIM traded & listed companies	6.6

<sup>#</sup> unaudited net assets as at 30 November 2011

The Offers provide new investors and existing shareholders with the opportunity to invest into some of the largest and most established generalist VCTs, managed by one of the most experienced teams in the VCT industry. The additional funds raised under the Offers should enable the Companies to take advantage of anticipated investment opportunities, maintain liquidity and continue the payment of dividends and costs without reducing the overall amounts available for investment.

Potential investors should consult their professional or financial advisers before deciding whether and, if so, how much they should invest in the New Shares of the Companies. The risk factors associated with investing in VCTs set out in the Offers Document, along with the information and terms and conditions of subscriptions contained therein, should be read in full prior to any application for subscription in any of the Companies being completed.

## Investment objectives

Each Company is a tax efficient listed company which aims to achieve long-term investment returns for private investors. Funds raised under an Offer will be utilised by that Company in accordance with its individual investment policy. The Companies co-invest with each other enabling them to invest into larger transactions and into more established unquoted companies.

Collectively, the Companies have one of the largest pools of VCT funds raised before 6 April 2006. As a result, ISIS has the ability to continue to make investments under less restrictive VCT rules which allow the Companies to invest in companies with gross assets of up to £15 million pre-investment (£16 million post-investment).

There is no guarantee that a Company's investment objective will be achieved. The value of a VCT depends on the performance of the underlying assets. Shareholders may get back less than originally invested, even taking the available tax reliefs into account. Investment in smaller companies which are unquoted or traded on AIM, by its nature, involves a higher degree of risk than investment in larger companies.

## Track record

Since November 1995, the Companies have raised £288 million (net of expenses). In aggregate, as at 30 November 2011, the combined unaudited net asset values of the Companies were £235 million having paid dividends of approximately £144 million and having bought back shares at an aggregate cost of £35 million.

Since their respective launches, the Companies have paid average annual dividends of 6.1p per share (tax free to qualifying investors). Over the last five years the Companies have paid an average annual dividend of 7.3p per share (tax free to qualifying investors). A summary of the track record of each of the Companies since their respective launches is set out in the table below.

The difference in the investment returns between the Companies, as shown below, is largely a legacy matter and can mostly be explained by the six year period over which the Companies were launched, the market conditions during those times and the different amounts raised and, therefore invested in accordance with their respective cash resources.

For illustrative purposes only, based on the average Offer Prices per New Share and the average dividends paid (as set out in the table below), the yield (tax free to qualifying investors) on an equal amount invested under all of the Offers would have been 6.5 per cent since launch (based on NAVs as at 30 November 2011).

The figure in the previous paragraph is stated before taking initial VCT tax reliefs into account and is only an illustration and no forecast or projection is implied or inferred and is based on historical dividends.

Past performance is not a guide as to what might happen in the future and any change of governmental, economic, fiscal, monetary or political policy could materially affect, directly or indirectly, the operation of the VCTs and/or their ability to achieve or maintain VCT status. The ability of each Company to pay dividends in the future cannot be guaranteed.

	Launch date	Net asset value as at 30 November 2011	Average annual dividends paid per share since launch	Net asset total return for shares since launch*
Baronsmead VCT	Nov. '95	£55.8m	7.1p	250.9p
Baronsmead VCT 2	April '98	£64.6m	6.4p	229.9p
Baronsmead VCT 3	Jan. '01	£59.8m	5.8p	189.4p
Baronsmead VCT 4	Dec. '01	£54.5m	5.2p	163.5p
Total/averages	-	£234.7m	6.1p	208.4p

Notes: \*AIC methodology: NAV total return to the investor, including the original amount invested (rebased to 100p) from launch, assuming dividends paid were reinvested at the NAV of the Company at the time the shares were quoted ex-dividend.

## Regular dividends

The dividend policy of each Company is to seek to maintain a regular flow of dividends to its shareholders, and is set out on the inside front cover of the Annual Report and Accounts which are available on request or can be downloaded at [www.baronsmeadvcts.co.uk](http://www.baronsmeadvcts.co.uk)

The Board of each Company has sought to maintain a regular flow of dividends to its shareholders over time. It has done so through the retention of some of the profits realised from the sale of investments for the payment of future dividends, where it has been possible and appropriate to do so. Each Board intends to continue this strategy in the future where appropriate, and at the sole discretion of the Board of that Company, should it consider it in the best interests of its shareholders, and subject to the legal and regulatory requirements at the time.

It is the intention of each Company that its Shareholders will receive dividends twice each year. As dividends are normally paid with respect to the half-year and final results, as shown in the table below, it is anticipated that investors who invest in each of the four Offers will receive two dividend payments, four times a year.

The ability of each Company to meet its dividend policy objective cannot be guaranteed and depends primarily on the level and timing of profitable realisations of investments. As a result, there may be variations in the amounts and timing of dividends paid year on year. The value of the investment, and the dividend stream from a Company, can rise and fall.

	Interim reporting date	Normally paid	Financial year end	Normally paid
Baronsmead VCT	31 March	May/June	30 September	January/February
Baronsmead VCT 2				
Baronsmead VCT 3	30 June	August/September	31 December	April/May
Baronsmead VCT 4				

## Share buy-back policies

Each Company buys back its Shares if, in the opinion of its Board, a repurchase of Shares would be in the best interests of its shareholders as a whole. Historically, the repurchase price has represented an approximate discount to net asset value of circa 10 per cent. The Manager works closely with each Company's broker to minimise the bid-offer spread, which has averaged approximately 1p per share for each Company in the two years to 30 November 2011.

Trading in VCT shares is not particularly active, so shares tend to be valued at a discount to their net asset value and may be difficult to realise. As a result, shareholders may be offered a price which is less than the full value of a Company's underlying assets.

The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable. While each Company has sought to buy back its shares in the past there is no guarantee that there will be any buy-back or other opportunity for shareholders to realise their holdings in the future.

## Experienced Manager

ISIS EP LLP ("ISIS") is the investment manager of the Companies and has managed VCTs since their inception in 1995. As at 30 November 2011, ISIS managed approximately £650 million on behalf of its venture capital trust and institutional clients.

The Manager takes an active role in helping the portfolio companies to grow through organic development and/or acquisition, providing expertise from within its own team and helping to source external support when required.

## VCT Tax Reliefs

Subject to meeting certain qualifying conditions, investors in VCTs benefit from a range of attractive tax reliefs as an incentive to help promote investment in small companies which also meet certain criteria. In summary, for the current tax year to 5 April 2012, these tax reliefs are:

- 30 per cent. income tax relief on the initial amount invested in new VCT shares;
- tax-free dividends that do not need be declared; and
- tax-free capital gains on disposal

These tax reliefs apply to individual investors aged 18 or over, who are UK tax payers and subscribe for VCT shares in their own name. The tax benefits are subject to a current annual maximum investment of £200,000 in VCTs. An investor must hold their VCT shares for a minimum of five years to retain the up front 30 per cent. income tax relief and, therefore, investment in New Shares through the Offers should be seen as long term.

The tax reliefs described are those currently available. The tax rules or their interpretation in relation to an investment in the Companies and/or rates of tax may change during the life of the Companies and can be retrospective. The value of tax reliefs depends on the personal circumstances of holders of shares in the Companies, who should consult their own tax advisers before making an investment in the Companies.

If a Company's VCT status is lost, an investor could lose the tax reliefs available on VCT shares, resulting in adverse tax consequences, including, if the relevant shares have not been held for the minimum five year holding period, a requirement to repay the income tax relief obtained. Furthermore, should a Company lose its VCT status, dividends and gains arising on the disposal of Shares would become subject to tax.

# Summary terms of the Offers

Each Company is seeking to raise approximately £4.135 million before expenses pursuant to their respective Offers, this being the sterling equivalent of just under €5 million each (£16.54 million in aggregate)<sup>1</sup> – at the date of launch of the Offers the exchange rate being €1:82.76p.

## Minimum aggregate Investment

Subscribers must subscribe a minimum aggregate of £4,000, with a minimum of £1,000 per elected Offer and thereafter in multiples of £1,000 per Offer. There is no minimum overall subscription level for the Offers so investors can be assured that the Offers will proceed.

## Maximum aggregate Investment

Whilst there is no maximum aggregate subscription in the Offers, the limit for obtaining VCT tax reliefs on investments in VCTs is £200,000 in each tax year.

## Costs of the Offers

ISIS will, in respect of services provided pursuant to the Offers, receive a fee of 4.75 per cent. of the gross proceeds of each Offer. Out of this fee, ISIS will pay both initial and trail commission to authorised advisers and all other costs in connection with the Offers. ISIS will be responsible for any costs in excess of this amount. The net proceeds of each Offer, assuming full subscription, will, therefore, be approximately £3,938,587.50.

## Commission payable to introducing advisers

**Initial commission on the aggregate amount invested**  
3 per cent. initial commission with no trail commission, or 2 per cent. initial commission plus trail commission.

### Trail commission on the aggregate amount invested

0.4 per cent. for 4 years, with the last payment in January 2016, provided that the intermediary continues to act for the shareholder.

## Investment pricing

The offer price of New Shares in each Offer will be calculated separately using the latest published net asset value (“NAV”) of an existing share in the relevant Company at the time of allotment divided by 0.9525 (to allow for issue costs of 4.75 per cent.) rounded up to the nearest 0.1p per share (“the Pricing Formula”). An illustration of the application of the Pricing Formula, based on the most recently published NAVs per existing share as at 30 November 2011, is set out below.

The actual offer price of New Shares in each Offer will depend on the latest published NAVs of the Companies at the time of allotment.

## Illustration of investment pricing

	Unaudited NAV per share as at 30 November 2011 (p)	Example Offer Price per New Share (p)
Baronsmead VCT	72.62	76.3
Baronsmead VCT 2	94.58	99.3
Baronsmead VCT 3	99.98*	105.0
Baronsmead VCT 4	93.58*	98.3

\* After accounting for dividends paid on 9 December 2011.

<sup>1</sup> The maximum amount to be raised under each Offer is approximately £4.135 million. The maximum number of New Shares to be issued by each Company is as follows: 7,664,038 Baronsmead VCT New Shares, 6,802,227 Baronsmead VCT 2 New Shares, 5,993,753 Baronsmead VCT 3 New Shares and 5,821,596 Baronsmead VCT 4 New Shares. Each Offer will close once fully subscribed or once that Company has reached its individual maximum number of New Shares which may be issued.

## Allocation of Subscriptions

Subscribers may elect to invest equally in all of the Offers or invest different amounts under one or more of the Offers, subject to the Offers being open at the time the Subscription Form is received as detailed in the Application Procedure on page 7 of the Offers Document. The number of New Shares allotted by a Company will depend on the latest published NAV of an existing share in that Company (plus the amount of any reinvested adviser commission).

## Expected timetable of the Offers

Launch date	12 January 2012		
Allotments	Date of NAV	Announcement of NAV*	Date of Allotments
1st Allotments	31 January 2012	17 February 2012	20 February 2012
2nd Allotments	29 February 2012	6 March 2012	7 March 2012
3rd Allotments	30 March 2012	4 April 2012	5 April 2012
Close	5 April 2012 (unless closed or extended before that date)		

\*The NAVs to be announced on 17 February, 6 March and 4 April 2012 will comprise valuations of the unquoted investments as at 31 December 2011 and valuations of the AIM-traded and other listed investments as at 31 January, 29 February and 30 March 2012 respectively, provided that the Board of each Company shall have the right at its sole discretion to use a more recent valuation of any unquoted investments if it believes that there has been a material change in the value of such investment since the last valuation date and the date of the announcement of its respective NAV.

Each Board may close its Company’s Offer earlier than the date stated above or may extend such Offer. Each Board further reserves the right to accept a Subscription and to allot and arrange the listing of New Shares in its Company in respect of Subscriptions received for its Company’s Offer on or prior to the closing date of such Offer as that Board see fit, which may not be on the dates stated above.

## Management and administration

Details of the management, administration, monitoring, arrangement and performance fees charged by ISIS and co-investment arrangements are shown in the “Report of the Directors” section of each Company’s Annual Report and Accounts which are available on request or can be downloaded at [www.baronsmeadvctcs.co.uk](http://www.baronsmeadvctcs.co.uk)

## Annual running costs

Annual running costs, including fees payable to ISIS, Directors’ fees, professional fees and the costs incurred by each Company in the ordinary course of business (but excluding any performance fees payable to ISIS and irrecoverable VAT), are capped at 3.5 per cent. of each Company’s net assets, any excess being met by ISIS by way of reduction in future management fees.

ISIS is paid an annual management fee equivalent to 2 per cent. of the net assets of Baronsmead VCT and Baronsmead VCT 2 and 2.5 per cent. of the net assets of Baronsmead VCT 3 and Baronsmead VCT 4, which in each case is paid quarterly in arrears. The total expense ratios of Baronsmead VCT and Baronsmead VCT 2 as at 30 September 2011 were 2.5 per cent. and 2.4 per cent. respectively. The total expense ratios of Baronsmead VCT 3 and Baronsmead VCT 4 as at 31 December 2010 were 3.0 per cent. and 3.1 per cent. respectively. For each Company these percentages are stated with reference to the average total shareholder funds for the respective Company over the last financial year.

# Important Information

This document is issued by ISIS EP LLP (“ISIS”) and constitutes a financial promotion for the purposes of section 21 of the Financial Services and Markets Act 2000 (“FSMA”) and has been approved, for the purposes of that section only, by ISIS which is authorised and regulated by the Financial Services Authority in the United Kingdom pursuant to the FSMA.

In approving this document ISIS is acting solely for the Companies and no one else and will not be responsible to anyone other than the Companies for providing the protections afforded to ISIS’s regulatory clients or for providing financial advice in relation to the subject matter of this document.

If you are in any doubt as to what action to take, you should contact an independent financial adviser who specialises in advising on the acquisition of shares and other securities. The levels and bases of reliefs from taxation described in this document are those currently available. These may change and their value depends on an investor’s individual circumstances.

This document and the information contained herein does not constitute a prospectus nor form part of any sale, solicitation or any offer or invitation to buy or subscribe for any securities in the Companies. Any decision to invest in New Shares in the Companies should be made solely on the basis of the information contained in the Offers Document issued by the Companies in connection with the Offers and dated 12 January 2012. Investors’ attention is specifically drawn to the risk factors on pages 13 and 14 of the Offers Document. No reliance is to be placed on the information contained in this document in making any such application. Copies of the Offers Document can be obtained from ISIS or downloaded at [www.baronsmeadvcts.co.uk](http://www.baronsmeadvcts.co.uk). Potential investors are advised to consult their financial or other adviser.

No person has been authorised to issue any advertisements or give any information, or make any representations in connection with the Offers, other than those contained in the Offers Document dated 12 January 2012 and, if issued, given or made, such advertisements, information or representations must not be relied upon as having been authorised by any of the Companies.

## Key Risks Associated with Investing in VCTs

*Long-term investment* | Investing in VCTs should be regarded as a long term investment. Any change of governmental, economic, fiscal, monetary or political policy could materially affect, directly or indirectly, the operation of the VCTs and/or their ability to achieve or maintain VCT status.

*Past performance and the risk of capital loss* | The past performance of the Companies is not a guide to their future performance. There can be no guarantee that the investment objectives of any of the Companies will be achieved. The value of a VCT depends on the performance of the underlying assets and the value of the dividend stream from the Companies can rise and fall. Shareholders may get back less than originally invested, even taking the tax reliefs into account.

*Risks inherent in investing in small companies* | Investment in smaller companies which are unquoted, or traded on AIM or PLUS Markets, by its nature, involves a higher degree of risk than investment in larger companies, including those traded on the main market. Investments held by the Companies may be difficult to realise. The fact that a share is traded on AIM does not guarantee its liquidity.

*Liquidity risk* | Trading in VCT shares is not particularly active, so shares tend to be valued at a discount to their net asset value and may be difficult to realise. As a result investors may be offered a price which is less than the full value of the underlying assets. The spread between the buying and selling price of such shares

may be wide and thus the price used for valuation may not be achievable. Whilst the Companies have sought to buy back their shares in the past there is no guarantee that there will be any buy-back or other opportunity to redeem your interest in the future.

*Tax risk and legislative risks* | The tax rules or their interpretation in relation to an investment in the Companies and/or rates of tax may change during the life of the Companies and can be retrospective. The value of tax reliefs depends on the personal circumstances of holders of shares in the Companies, who should consult their own tax advisers before making an investment in any of the Companies. Changes in legislation concerning VCTs (whether pursuant to the draft legislation to be included in the Finance Bill 2012 or otherwise), in particular, in relation to qualifying holdings and qualifying trades, may limit the number and structure of qualifying investment opportunities and / or reduce the level of returns which might otherwise be achievable.

*Charges and performance fees* | Charges and performance fees for VCTs may be higher than unit trusts and open ended investment companies.

## The role of ISIS

Prospective investors should take their own investment and tax advice before investing in VCTs, based on their own circumstances. The clients of ISIS are the Companies. ISIS will not advise any prospective investor on the merits of investing in any of the Companies or on their tax position and nothing in this document constitutes such advice. Nobody associated with ISIS is entitled to lead you to believe otherwise.

## Further information on VCTs

For further information on VCTs please access the following links:

- Current legislation – The Inland Revenue:  
<http://www.hmrc.gov.uk/businesses/tmventure-capital-trusts.shtml>
- The financial regulator of VCT managers – Financial Services Authority:  
<http://www.fsa.gov.uk>
- The VCT industry trade association – The AIC:  
<http://www.theaic.co.uk>

To locate:

- An IFA: <http://www.unbiased.co.uk>
- A Stockbroker – <http://www.apcims.co.uk>

## For further information about the Companies

For details of individual investment objectives and dividend policies and to obtain other useful information on the Companies please see the following websites where you will find additional information about each Company, view information about other investments and be able to download copies of the Annual and Interim reports:

[www.baronsmeadvct.co.uk](http://www.baronsmeadvct.co.uk)  
[www.baronsmeadvct2.co.uk](http://www.baronsmeadvct2.co.uk)  
[www.baronsmeadvct3.co.uk](http://www.baronsmeadvct3.co.uk)  
[www.baronsmeadvct4.co.uk](http://www.baronsmeadvct4.co.uk)

Copies of the Offers Document are also available from the above noted web sites. A copy of this Investor Guide and the Offers Document is available from RAM Capital Partners LLP



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Promoter to the Offers  
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[www.ramcapital.co.uk](http://www.ramcapital.co.uk)



**Investment Manager**  
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