

Lindsay Whitelaw, Artemis AiM VCT2

Q1. When was Artemis AiM VCT 2 launched and what are its characteristics?

Artemis AiM VCT 2 was effectively launched in March 2005. That was set on a date that cash was available for investment. We raised £40 million. The focus of the Fund is very similar to Artemis VCT, which is to predominately invest in AiM stocks, roughly 60-70% of the portfolio will eventually be in AiM stocks, with a balance invested in what we call pre-float placings. These are unquoted businesses that are on their runway to a float and we'd expect a float within 12 to 18 months of our investment. Then we're also looking to do one or two investments in the OFEX market as well.

Q2. How much of the Fund have you invested to date and in what sectors?

We've invested £18 million of the funds raised to date across a broad range of sectors. We're very keen to keep a diversity within the portfolio. But I would say that the investment approach has been measured so far. We, as many people watching will know, have the ability to invest the money over three years in qualifying companies. And we are maintaining a very high quality threshold before we actually invest that cash.

Q3. How important is strong dealflow in the VCT market?

Deal flow is one of the key aspects in the VCT market. Everybody says they have strong deal flow. The reality is that we actually do have strong deal flow and that's leverage for a particularly strong position in the AiM market. It's not just AiM VCT and 2 that are investing from Artemis in AiM. A number of the other funds that we manage are also investors in the AiM market, and that means that we are one of the key players in the UK in this arena. As a result when people are looking to raise money on AiM, we're certainly very high up on the list of people that they want to contact. So since we launched the Fund, the deal flow has been very strong indeed and we've had no issues there at all. Performance since investment has been solid and I would say good. We're sitting at around 99p in the asset value from our launch of about 94.75p. So I think that compares very favourably against the AiM index over that period. So it's early days but we're very happy so far.

Q4. Can you highlight some of the investments made?

As I said, we've invested across a number of sectors, but I think there are a number of investments I would just highlight as a flavour of what we've been doing. For instance a company called Bango that we invested in

several months ago. Now this is a play-on-the-mobile internet market and what Bango have is a platform effectively, that allows the provision and the billing, and the cash collection of data over mobile internet phones. It's a play-on-mobile internet catching on which we take a positive view on. And we also believe management are capable of building a platform position that they can leverage, effectively what Bango does. It's agnostic as to network operator or content and so it's very easy to adopt. And effectively it facilitates trade on the mobile internet, which has been a key barrier to development thus far. So we're confident that the stock has a good future. And certainly it has performed strongly to date.

Q5. Is there a holding that you are particularly pleased with?

Another investment that we've highlighted is a stock called Imprint. And this is a stock that we've known since the early days of AiM VCT. And it was actually a start-up in the recruitment market, and it was a start-up in 2001 when the recruitment market was on its knees. But we backed a proven management team, whose argument was you could only build a good recruitment company in a depression, because that was when you could actually recruit the good fee earners. We bought into that idea, the stocks performed extremely well and we were very happy when we got a chance with VCT 2 to make an investment recently when they made an acquisition. They are now up to 265 fee earners, turnover will be around the £40 million mark this year and it's arguably the fastest growing recruitment company in the market. And we believe it's well placed for future growth as well.

Q6. Can you give us an example of a star holding?

An example of an investment that has gone well for us thus far was actually an unquoted investment that we made which managed to float within a few months of our investment. This is a company called Accsys Technologies, which is in a very interesting area. It effectively is involved in the acetylation of wood, which is a process that has been known for a while but hasn't been cost effective up till now, and we believe Accsys has a cost effective method. And what effectively it does is it can take a soft wood or a man made wood and turn it into as durable a product as the hardest of the tropical hardwoods. But at a fraction of the costs and there's also the environmental savings that go with that, which is very topical at the moment.

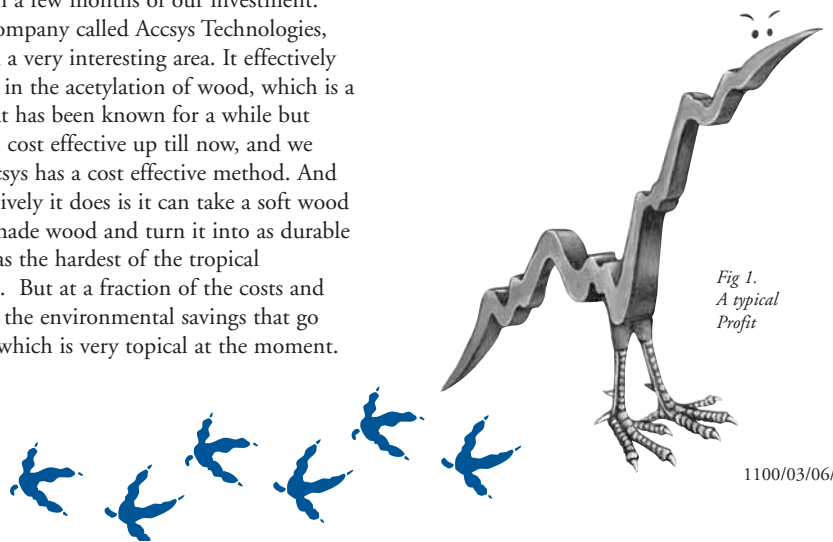
Now we believe that this technology has world wide opportunities and while the technology at the moment is still only at pilot stage so undoubtedly there's risk, you know we really believe that the technological risk is actually quite low at this point and that there's a significant commercial opportunity. We invested in this stock when it was 43 cents, and it floated at €1 and it's now trading at about €1.12, so it has been a good stock for us and we believe there's further to go.

Q7. Is a company like Artemis interested in getting involved in the VCT market?

We often get asked why did we get involved in VCTs because obviously there's a lot of other aspects going on at Artemis. I think our thinking remains, as it was, and that is that this is core to what we do. You know one of the core dynamics of Artemis is investing in the UK smaller company market. We have a considerable expertise across the team that we have and we felt that this fitted full square with that. So it wasn't an adjunct to something that we did, it was just very central to what we did. We thought it was an area that we could add value in and we still hopefully believe that.

Risk Warning

Issued by Artemis Investment Management Ltd, which is authorised and regulated by the Financial Services Authority. It does not constitute an offer, invitation or solicitation to deal in securities. The value of shares in a VCT, and any income from them, can fall as well as rise and you may not get back the amount originally invested. Investment in a VCT carries a higher risk than many other forms of investment and potential investors are strongly advised to seek professional advice. In particular, a VCT's shares although listed may be difficult to realise and a VCT's underlying investments in the securities of smaller or unquoted companies and in companies in specialist sectors can involve greater risk than investment in larger, more established firms. Existing tax levels and reliefs may change and the value of reliefs depends on individual circumstances. If a VCT loses its HM Revenue & Customs approval tax reliefs previously obtained may be lost.



*Fig 1.
A typical
Profit*