Proposed Disposal of Assets

VENTUS VCT PLC
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Ventus VCT PLC and Ventus 2 VCT PLC

Proposed disposal of assets

Further to recent announcements, the boards of Ventus VCT PLC and Ventus 2 VCT PLC (collectively the "Boards" and the "Companies") and Temporis Capital Limited ("the Investment Manager") have been carrying out an extensive review of the Companies' future. This is a joint announcement by both Companies.

Limited life

As discussed in previous publications, the existing assets have finite lives and the Companies are unable to make new investments into renewables due to the changes made since 2014 to the Venture Capital Trust ("VCT") rules[1]. Consequently, the Net Asset Value ("NAV") - being the present value of all the future cashflows generated by the assets - will start to fall as the remaining subsidy periods expire and operating lives decrease.

Increasing costs

The Boards, together with the Investment Manager, have endeavoured to reduce costs wherever possible to offset these headwinds. Achieved cost reductions have included a significant decrease in the future annual investment management fees payable to the Investment Manager[2]. Nevertheless, the Companies have significant fixed costs, including those to fulfil their requirement to be listed on the London Stock Exchange, that will increase with inflation[3]. This combination of falling NAV and rising costs will cause the Total Expense Ratio ("TER") - being total costs divided by NAV - to increase in the future.

It is clear to the Boards that, in the medium term, there may be an imperative to sell assets as increasing costs erode shareholder returns. The Boards and Investment Manager have therefore been analysing the options for Shareholders, by comparing the returns from selling now, to the returns from holding the assets for longer periods.

Value of the assets

The secondary market for the assets owned by the Companies has recovered from the disruption of the pandemic[4] and, in the opinion of the Boards, the Investment Manager and several financial advisers, is currently considered to be very favourable for sellers. The Boards recently sought indicative prices for the Companies' assets to confirm this view. This exercise has indicated that the sale of assets could be expected to deliver a premium of at least 25% and 32% to the respective weighted average share prices of Venus VCT PLC and Ventus 2 VCT PLC at the market close prior to this announcement[5]. The premium would be lower for the Companies' ordinary share classes and greater for the D share classes but nevertheless there would be a significant premium across all share classes.

It should be stressed that this evaluation is based on expressions of interest and not binding commitments and that they may or may not result in any or all of the Companies' assets being realised or at these levels. No forecast or projection is expressed or implied.

Considerations in assessing alternatives for Shareholders

The Boards have considered the potential returns and risks for Shareholders from remaining invested, as compared to selling the assets. As part of this process, the Boards have reviewed the specific tax advantages that Shareholders may benefit from due to the Companies' VCT status.

- **The current dividend payments will not be sustained from income**:
  - The assets are limited life, and as they age and pay dividends to the Companies, their value (the NAV) and therefore the Companies' share prices, will start to fall[6].
  - Future dividends will increasingly comprise a return of capital rather than a distribution of profits. As an illustration, if the assets generate a return to Shareholders of 3% per annum after the deduction of costs, and pay a dividend yield of 5% per annum, the NAV will fall by 2% annually[7].

- **The returns from shareholders remaining invested as compared to selling now are considered inadequate:**
  - The anticipated return to shareholders is estimated to be about 3% annually over the medium term as compared to the likely cash proceeds from a sale[8].
  - The Directors consider that these returns are inadequate when compared to the wide range of risks to which Shareholders would remain exposed. As an example, if long term power price forecasts were to fall by 10%[9], the equivalent return would be less than 2% annually.

- **The high costs offset the recurring tax benefits:**
  - The Directors do not believe that the continuing VCT tax advantages offered to Shareholders justify continuing to hold the assets.
  - As investors will be aware, future dividends paid by the Companies are tax free, including those pursuant to a sale of assets[10]. Equally, any capital gains or losses are tax free[11], meaning that any future falls in the share price[12] will not qualify for any reliefs on loss.
  - As set out above, the TER of the funds will increase over time; rising from around 2.3% of NAV in the near term to in excess of 3.0% in the long term[13]. This high TER is likely to offset all, or the majority, of the recurring tax benefits.

- **Shareholders will receive the sale proceeds without the loss of any historical tax benefits:**
  - As all shareholders that subscribed to the Companies' initial offerings have been invested for more than the five years required to maintain the income tax relief available on subscription, those investors that

claimed these reliefs should receive the proceeds without any loss of the income tax relief already claimed.

- **Shareholders may have the opportunity to obtain the initial 30% income tax relief from a subscription to a new VCT issue:**

    - Should they wish to, exiting Shareholders could use the opportunity to invest in a new VCT offering which would give those Shareholders that qualify a 30% relief on income in the year of subscription[14].

Recommendation to dispose of the assets and return the proceeds to Shareholders

In conclusion of this analysis, the Boards consider that it is in the best interests of all Shareholders to dispose of the Companies' assets and to return the proceeds to Shareholders.

Next steps

Having reached this conclusion unanimously, the Boards have appointed EY as a financial adviser to assist in an orderly sale of the Companies' assets. The sale will be subject to Shareholder approval, and a Shareholder Circular will be published in the coming weeks with further information and details of the General Meeting ("GM"). Prior to the GM, an online meeting will be organised where Directors can address any Shareholder questions.

The Directors of the Companies together hold 544,769 shares (1.84%) in Ventus VCT PLC and 1,410,860 shares (3.75%) in Ventus 2 VCT PLC, and have given irrevocable undertakings to support the GM resolutions.

Market Abuse Regulation

The information contained within this announcement is deemed by the Companies to constitute inside information as stipulated under the UK version of Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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[1] Examined in detail in the Capital Allocation Review in the 31 August 2019 accounts.
[2] As announced on the 25 June 2019 and on the 31 July 2020.
[3] As reviewed and discussed in the 29 February 2020 accounts.
[4] As highlighted in the 31 August 2020 accounts.
[5]The premium is calculated relative to the mid-market closing price on 26 February 2021. It should be noted that there is limited trading in the Companies' shares, and any Shareholder disposing of a significant number of shares would likely incur additional transaction costs (brokerage fees and dealing spread) that would increase the premium in this calculation.
[6] Historically the shares have traded at a discount to NAV, so if NAV falls in the future, the share price is also likely to fall.
[7] These numbers are illustrative only. As context, the Companies' weighted average dividend yield, as compared to the likely cash proceeds from a sale, is approximately 5% based on the annual dividends declared in the last twelve months (8p for the ordinary shares, 8p for the C class shares, and 5p for the D class shares).
[8] This represents the internal rate of return derived by comparing the cash that a shareholder would receive from a sale in 2021, with the receipt of dividends until a sale of the assets in 2026. The assumptions used to determine the value from the sale of assets in 2026 includes an increase in the asset life of the wind assets to 30 years, and a reduction in the unlevered discount rate for the hydro assets.
[9] As context, long term power price forecasts have fallen by 10% in the year to December 2020 and by 37% in the 5 years to December 2020.
[10] Subject to the individual shareholder meeting the requirements.
[11] Subject to the individual shareholder meeting the requirements.

[12] Historically the shares have traded at a discount to NAV, so if NAV falls in the future, the share price is also likely to fall.
[13] The TER has been estimated at 2.3% for the five years to 2027, increasing to in excess of 3% for the five years to 2037.
[14] Subject to individual tax status and other qualifying criteria.