

Pembroke VCT Consumer Duty and Value Assessment

This document has been produced for Pembroke VCT Plc by Dorey Financial Modelling. Pembroke VCT meets and exceeds the overall standard of behaviour as defined in **The Consumer Principle, Principle 12** and other elements of the **Consumer Duty**. The Pembroke VCT was compared against a number of comparators within this assessment.

This document evidences a range of qualitative and quantitative metrics and a **value assessment** for Pembroke VCT in support of consumer duty obligations to:

- act in good faith towards retail customers;
- avoid causing foreseeable harm to retail customers;
- enable and support retail customers to pursue their financial objectives.

Pembroke VCT adheres to the rules and guidance for firm conduct that represent key elements of the firm-consumer relationship, as follows:

The governance of products and services

The Board regularly considers how it meets regulatory and statutory obligations and follows voluntary and best-practice guidance, including how any governance decisions it makes impact its stakeholders both in the short and long term. Peer analysis in the governance section of this document identifies that Pembroke VCT's management and control is investor facing and amongst the most experienced in industry. Pembroke VCT maintains readable risk disclosures in line with consumer duties and European industry peers and maintains adequate financial resources.

Price and value

PRIN 2A.4 Consumer Duty in the FCA handbook stipulates that manufacturers must provide fair value to retail customers in the target markets and carry out a value assessment of its products. We have provided comprehensive peer group analysis to demonstrate the fair value of Pembroke VCT's product offering. Pembroke VCT has met all consumer objectives by complying with performance information requirements set out in Annex 4A of the UK PRIIPs regulation.

Pembroke VCT total investor returns and dividends are comparable with industry peers over the past nine years.

An analysis of returns indicates that Pembroke VCT has similar market sensitivities to other UK VCT funds. Sensitivity analysis has highlighted that movements in the FTSE AIM All Share, Small Cap and UK technology sector coincide with moves in the valuation of Pembroke VCT, particularly during market stress.

Consumer understanding

We have assessed the quality of consumer communications in terms of promoting consumer understanding, as well as communicating investment outcomes, including both good and poor investment outcomes. We have also qualitatively compared communications to investors, and how holding VCTS such as Pembroke VCT will help consumers meet their financial objectives.

We have also assessed Pembroke VCT's market conduct in terms of transparency and accountability of its financial objectives relative to the peer group.

Consumer support

Pembroke VCT ensures investor support is available through contact details on the PRIIPS KID and the Pembroke VCT website. Consumers may sell their shares on any dealing day, however, an entry of up to 5% may be charged from Pembroke VCT and normal broker charges and bid/offer spreads apply. Pembroke VCT works to ensure that it is easy to sell or buy Pembroke VCT but acknowledges that the secondary market is limited.

Pembroke VCT Consumer Duty and Value Assessment

Our assessment against the cross-cutting rules is as follows:

- 1. Act in good faith toward retail customers.**
Pembroke VCT meets or exceeds our criteria for setting expectations and transparency.
- 2. Avoid foreseeable harm to retail customers.**
Pembroke VCT's target market is specific.
Financial outcomes are set reasonably within the UK KID proxy performance analysis.
- 3. Enable and support retail customers to pursue their financial objectives.**
Pembroke VCT is seeking to provide shareholders with an attractive income and capital return by investing its funds in unquoted companies that meet the relevant criteria for a VCT.

Overall, on the basis of the above assessment, Pembroke VCT provides good overall value for its investors in the context of the Consumer Duty.

Actions to be taken

Pembroke VCT has been excellent in its communications regarding the risks that investors are exposed to. Specifically, how economic conditions are highly influential on smaller companies and therefore the holdings of Pembroke VCT.

The long-term performance of the VCT sector has been good over the last decade. We note that over the last year Pembroke VCT has successfully exited several companies with multiples on capital invested and is working to exit poor performers. The clarity and transparency over communications is commendable.

The trading conditions across the market have been challenging due to uncertainty around US policy, and global interest rates rising over the last 12 months. These are factors that have been shown to increase discounts to NAV on many collective investment vehicles. Against these challenging conditions, Pembroke's total return performance has been good both in absolute terms; against peers; and on a risk adjusted basis.

Pembroke VCT's costs are also competitive in relation to its peers and delivering value for investors.

In terms of written information Pembroke is performing very strongly and we understand that Pembroke is considering interactive elements to enhance engagement which is commendable.

We have also suggested considering objectives over a longer defined time horizon (e.g. ten years). While Pembroke VCT is closer than many of its peers in this regard, we recommend introducing a clear and achievable "total investor return target."

Target Market Statement

How we have defined the appropriate target market for a VCT

Defining the VCT's target market is a key part of the process, helping to ensure the product is designed, managed, and distributed appropriately.

Pembroke VCT began by identifying the product's features and benefits, gaining a clear understanding of what the VCT offers, its purpose, and the advantages it can provide to investors.

Based on these findings, they then defined the target customer and developed a profile of the type of investor most suited to the product.

Setting a target market for a VCT requires thorough analysis and ongoing monitoring, particularly given the tax treatment and the high-risk nature of the investment.

Distribution Strategy

To reduce the risk of Pembroke VCT being purchased by consumers outside the defined target market, the decision has been made to distribute the product through financial intermediaries as well as direct marketing to retail customers. The primary distribution channel is financial intermediaries.

By focusing on this channel—financial intermediaries—Pembroke VCT is able to maintain oversight of how the product is presented to customers and ensure this is monitored on an ongoing basis..

Pembroke VCT Target Market

The target market for the Company has been defined as retail investors who receive financial advice, or those with prior knowledge and experience of VCTs or other complex tax-efficient investments such as the Enterprise Investment Scheme. It may also include investors who are sufficiently experienced to invest directly or on an execution-only basis, provided they are seeking VCT tax reliefs and are capable of bearing financial loss. Experience of investing in smaller quoted companies, such as those within the FTSE 350, or in unquoted companies may also be relevant. The Company is not intended for those who fall within the 'negative target market'.

In practice, the appropriate target market is expected to have knowledge and experience of investing in listed investment funds, single company shares, or high-risk and volatile assets. It may also include those who have owned, managed, or held senior positions in a business, or who have previously invested in VCTs, EIS/SEIS or inheritance tax products. A good understanding of VCT rules and tax reliefs, along with an awareness of the limited liquidity associated with such products, is also important.

In addition, suitable investors should have the financial position and capacity to bear loss. This includes having an income tax liability, having already considered the use of other tax-efficient vehicles such as pensions and ISAs, and being able to accept the risk of losing their entire capital as well as the potential illiquidity of the investment. Target investors should also be willing to commit to a medium- to long-term investment horizon of at least five years.

The negative target market consists of investors who are seeking capital protection, those with a low tolerance or capacity for loss on the funds to be invested into the product, individuals who lack sufficient knowledge of the risks involved in VCTs or comparable products, or those with an investment horizon of less than five years. The product is also not suitable for investors who have not considered the use of other tax-efficient investment routes such as pensions and ISAs.