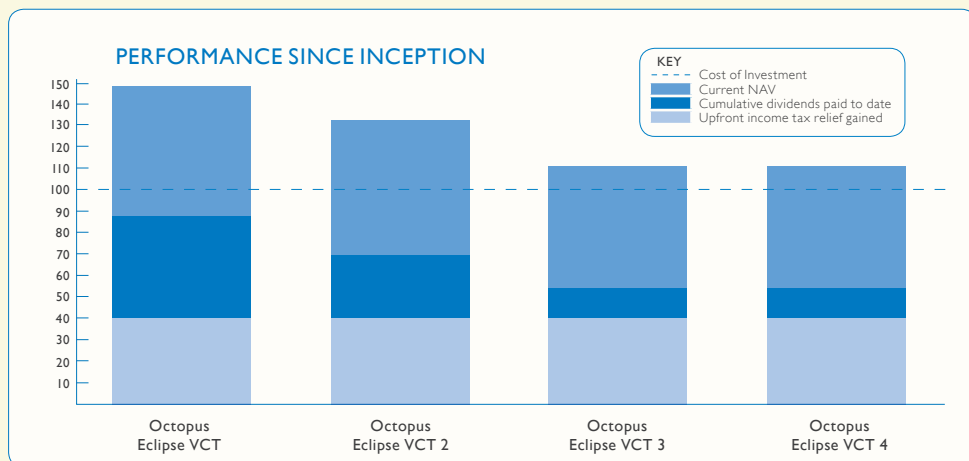


PERFORMANCE

Since the last update the net asset values (NAVs) of the Eclipse VCTs have fallen slightly. This is largely due to standard running costs, but also due to falls in the Alternative Investments Market (AIM), of which all four Eclipse VCTs have invested into. It was a busy period in terms of investment activity, with the sale of CSL Dualcom, a new investment into a company called Artesian and further investment into First Retail. Details of these can be found within the investment activity and portfolio highlights sections. The Eclipse VCTs have all paid a dividend since the last update. The next net asset values (NAVs) for Octopus Eclipse VCTs 1, 3 and 4 will be published in the interim accounts at the end of March. The NAV for Eclipse 2 will be published at the end of May. Eclipse VCTs 1 and 2 are now open for further investment. The trading environment remains difficult for small companies but that said, this year should be a good one to invest in new businesses.



DATA AT A GLANCE

The table below shows the NAVs of the VCTs. Historic information on dividends is also included. Regular tax-free dividends are one of the major benefits that VCTs can provide to investors.

	Current NAV	Total dividends paid	NAV plus total dividends
Octopus Eclipse VCT	60.2p	46.7p	106.9p
Octopus Eclipse VCT 2	62.1p	28.5p	90.6p
Octopus Eclipse VCT 3	56.3p	13.7p	70.0p
Octopus Eclipse VCT 4	56.3p	13.7p	70.0p

	Octopus Eclipse VCT	Octopus Eclipse VCT 2	Octopus Eclipse VCT 3	Octopus Eclipse VCT 4
% invested in qualifying holdings	81.2%	85.9%	79.8%	79.8%

INVESTMENT ACTIVITY

The Eclipse VCTs announced the successful sale of CSL Dualcom Ltd in December to Bowmark Capital for £32m. We originally invested in June 2006 and the investment has returned 4.3x cash on cash.

At the time of investment CSL had a strong product, in a growing market, and a dynamic management team. Octopus introduced a new chairman and worked closely with its management, introducing operating efficiencies that helped the business to mature. The company has continued to grow rapidly, more than doubling its turnover (from £5m to nearly £12m) recently. Today, CSL manages the signalling for over 125,000 intruder alarms located in commercial, retail and residential premises across the UK. Commenting on the sale, CSL's managing director Phil Hollett said: "We'd like to thank Octopus for their involvement and hard work. We look forward to continuing the growth story for many years to come."

The Eclipse funds made a new investment into Artesian Solutions Limited in December. More details on Artesian can be found within the Portfolio Company Highlights section.

There was also a small further investment made into First Retail. First Retail is the largest sports retail service provider to private health clubs and fitness clubs in the UK. Through its 'pro-shops' and 'cubes', First Retail sells a wide range of sports equipment and sportswear, including brands such as Nike, Speedo, Zoggs and Wilson. A pro-shop is a manned retail shop in a health club, while a cube is a lockable self-service display unit located close to the reception desk. Both pro-shops and cubes operate on a retail 'concession' model, where the health club keeps a percentage of sales, with First Retail taking stock risk and meeting in-shop staff costs. First Retail needed further funding to adequately stock its cubes and shops to maximise their potential. There have been a number of changes made to the company's business model of late, following the recent appointment of a new Chairman and Head of Finance.

OUTLOOK

With the UK economy struggling to achieve growth, and with consumers still facing a squeeze of high unemployment, high inflation and static wages, these remain uncertain times for many UK companies. That said, we remain cautiously optimistic about the future. We still believe that interest rates in the UK will be held at low levels at least until the second half of the year, which is a plus for smaller companies. Furthermore, as the sale of our holding in CSL Dualcom illustrates, well-managed, profitable businesses are still highly sought after.

Part of our role is to help some of the more vulnerable portfolio companies to weather difficult times like these. When we can, we take steps to help strengthen the management teams, and support those businesses we see as having long-term potential. Many of these companies are now showing improved trading results, illustrating the underlying strength of their businesses and the people who run them.

We cannot predict when the economic environment for UK companies will improve, so investors are again asked to be patient. What we can do is look for opportunities to exit from mature companies when possible (such as CSL Dualcom), invest in companies we think have an opportunity to improve their business (such as First Retail) and look to fund new investments when appropriate, such as Artesian Solutions.



“With this support from Octopus, we now have the financial resources to fully express our vision for this exciting market.”

Andrew Yates, CEO and co-founder Artesian Solutions

Artesian Solutions

Artesian Solutions offers a ‘Software as a Service’ (SaaS) platform to help sales teams achieve better results. It provides a service that helps large enterprises build stronger and deeper customer relationships and helps them translate those relationships into revenue. The Artesian product automates the search for sales and market intelligence from the web and social media and delivers sales leads, opportunities and insight, about a client or prospective client that a sales person can then use to help develop a more focused ‘marketing intelligence’ approach.

The system is currently being used by over 6,000 sales and marketing professionals, reducing the cost, time and effort they spend on filtering information from the web and social-media. Customers include Barclays, Santander and HSBC. It enables them to identify and close bigger deals faster, accelerate their sales performance, and improve their credibility in front of their customers. The investment made by the Eclipse funds will enable Artesian to grow its sales and marketing team and move into new business-to-business sectors.

TOP 10 HOLDINGS

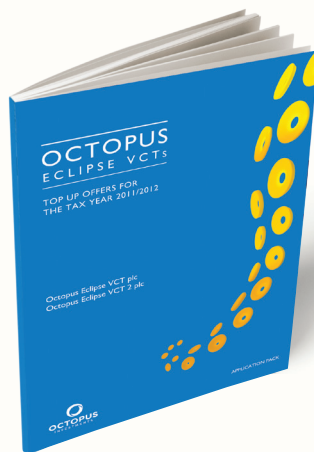
Top 10 overall holdings as at 31 December 2011			
1	History Press	6	Plastics Capital
2	Hydrobolt	7	Luther Pendragon
3	Audio Visual Machines	8	The Kendal Group
4	Tristar	9	Bruce Dunlop International
5	Brandspace	10	First Sports Group

ECLIPSE VCTS: ACCESS NEW SHARES VIA TOP-UP OPPORTUNITY

Octopus Eclipse VCT and Octopus Eclipse VCT 2 are raising 2.4 million across both funds. As well as delivering 30% upfront income tax relief (assuming shares are held for five years), the VCTs provide access to established portfolios of companies and a target dividend stream of 5% per annum.

Investors who commit to the market at a time like this will be doing so when opportunities to invest, and the number of deals, should both be increasing. Banks are still limiting their lending to smaller companies which has led to a rise in demand for equity funding. For the young, dynamic companies with good growth potential, these are the times in which they can weather the storm and make significant progress. Although past performance should not be used as a guide to future performance, historical empirical evidence supports the view that, during periods where an economy is moving from a recession to recovery, stronger investment returns can be found.

You can find more information on our website. If you are interested in investing please speak to your financial adviser. As the top-up is a relatively small one we do expect it to fill quickly.



TALK TO OCTOPUS

We want to make sure the information we send you is interesting, useful and easy to understand. And we take your feedback very seriously. If you have any comments about this update or any questions about your investment we'd love to speak to you. Just call 0800 316 2295 or email comms@octopusinvestments.com

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