

PRODUCTS THAT PERFORM PEOPLE THAT LISTEN

OCTOPUS

AIM INHERITANCE TAX SERVICE



OCTOPUS
INVESTMENTS

The Octopus **AIM Inheritance Tax Service (Octopus AIM ITS)** offers a fast and flexible solution to inheritance tax planning and allows you to retain control of and access to your money.

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It is very important that you read and fully understand the risks involved with this investment so that you can decide whether it is right for you. The key risks associated with this product are explained on page 9 of this brochure.

Please note that all the figures and information provided within this document are correct as at 20 November 2009.

WELCOME TO OCTOPUS

Since its establishment nearly ten years ago, Octopus has created a wide range of innovative products designed to meet the needs of individual investors. We have more than 20,000 investors and more than £1 billion in assets under management.

Investing in traditional inheritance tax mitigation products can involve locking up money in a complex structure with a lengthy wait for it to actually become exempt from inheritance tax. That's why the Octopus AIM Inheritance Tax Service (AIM ITS) has been designed to offer you speed, access and control.

Instead of waiting for seven years, as with many other products, any investment you make is exempt from inheritance tax after just two years. Throughout the investment period, you always retain control of and access to your money. Octopus AIM ITS provides exposure to UK smaller companies that qualify under the rules relating to Business Property Relief (BPR).

What's more, if you are looking for an additional layer of protection, Octopus AIM ITS provides an optional life assurance policy to cover the value of your initial investment, if it has fallen at the time of death.



SIMON OCTOPUS CEO

We're the largest provider of inheritance tax solutions based around BPR in the UK, with more than £400 million already invested into our range of inheritance tax products. We also have substantial experience in investing in the UK Smaller Companies Sector.

I hope that you find this brochure clear and easy to understand. We always recommend that you seek independent financial advice before investing, but if you have any questions - or if it would help to speak to one of the fund managers - please call us on **0800 316 2298**.

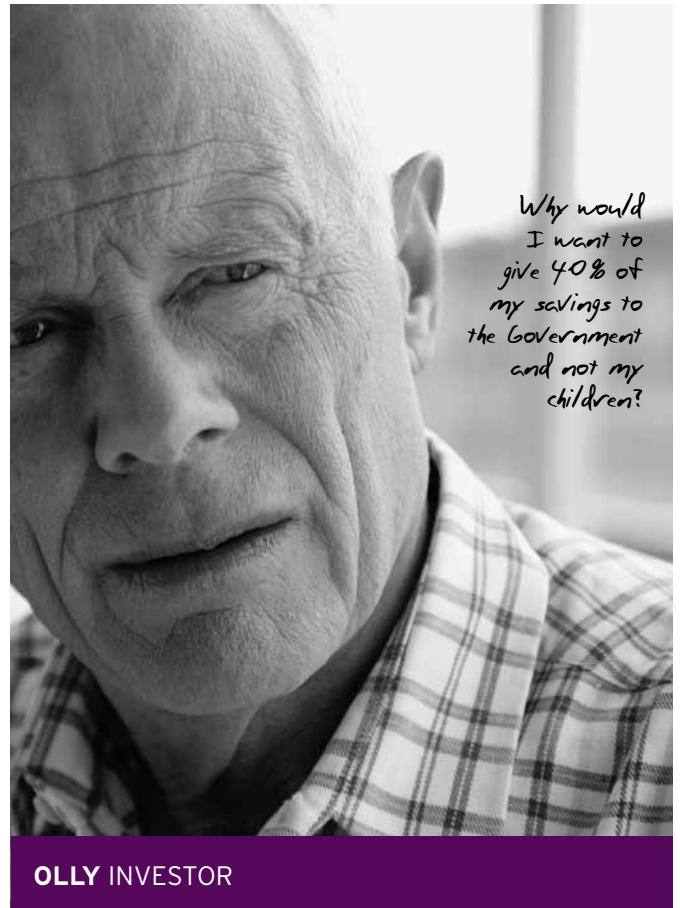
A handwritten signature in purple ink that reads "Simon Rogerson". The signature is written in a cursive, flowing style.

Simon Rogerson
Chief Executive

THE PROBLEM

Millions of people needlessly pay inheritance tax rather than passing on their assets to their family.

- £3.8 billion was paid in inheritance tax in 2008†
- With typical inheritance tax solutions, the assets can take seven years to become exempt
- Traditional inheritance tax products can be inflexible and mean that you lose control of or access to your money



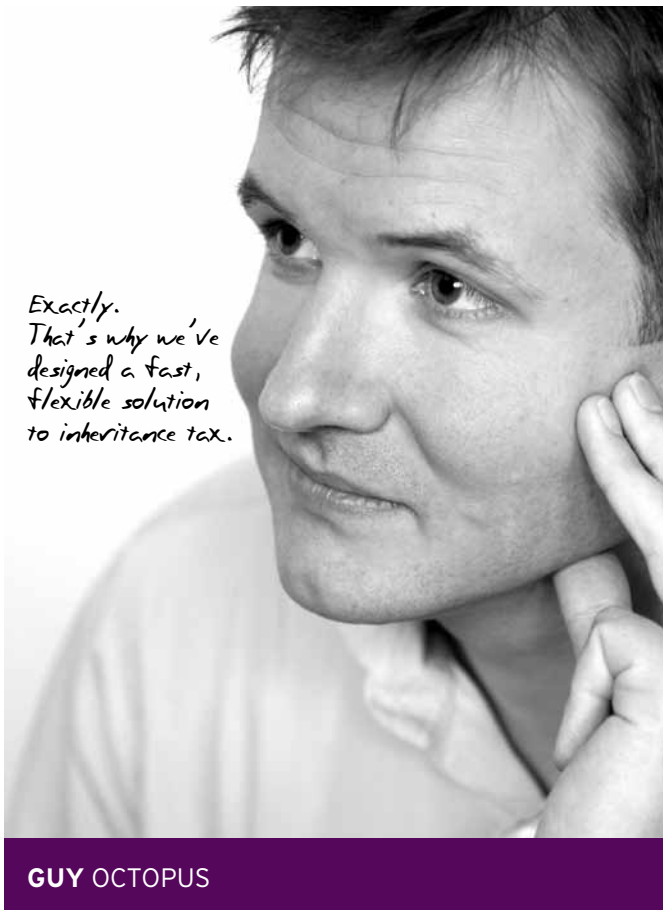
Investors want to protect their hard-earned assets and pass them on to ensure security for their families. Nobody likes the idea of their family losing up to 40% of their money to taxes, but that's what can happen. When you die, HM Revenue & Customs can claim 40% of your estate above a threshold of £325,000*.

There are a number of ways to limit your exposure to inheritance tax, such as the use of trusts. However, these structures typically take time to implement, a number of years to eliminate your IHT bill and cause you to permanently lose control of and access to your money.

That's why we launched the Octopus AIM ITS. It's a simple, more flexible solution to the problem. What's more, our range of IHT solutions have already helped a large number of investors to shelter hundreds of millions of pounds from inheritance tax.

† **Source:** HM Revenue & Customs, 2009.

* *The threshold above which your estate is liable for inheritance tax (based on the tax year to 5 April 2010).*



*Exactly.
That's why we've
designed a fast,
flexible solution
to inheritance tax.*

GUY OCTOPUS

SPEED

Unlike gifts and simple transfers into trust, which generally take seven years before they're fully exempt from inheritance tax, investments made by Octopus AIM ITS are exempt after just two years (provided the investments are also held at the time of death). This is because the portfolio invests in AIM shares that qualify for Business Property Relief (BPR) after two years. Investments will be made promptly after your application is received and it should take no longer than eight weeks to invest in qualifying companies.

CONTROL AND ACCESS

Unlike some other solutions, with Octopus AIM ITS you retain access to your investment. If your circumstances change and you want to dispose of your holding, you can. However, please be aware that money withdrawn from Octopus AIM ITS will no longer be shielded from inheritance tax.

FLEXIBILITY

The Octopus AIM ITS has been designed to give you choice - you can choose to take regular withdrawals to provide an income, or leave the investment intact.

OUR SOLUTION

The Octopus AIM ITS provides you with a fast, flexible solution to inheritance tax with optional capital preservation.

ADDITIONAL FEATURES

If you're looking for additional peace of mind around your investment, Octopus AIM ITS offers you a choice of two optional features:

Downside insurance: an optional life assurance policy that protects your estate against loss, if the value of your investment is lower than your initial investment, when you die. This gives you the security of knowing that whatever happens, your estate will receive at least the value of your initial investment. For more information on this option please see pages 10 - 11.

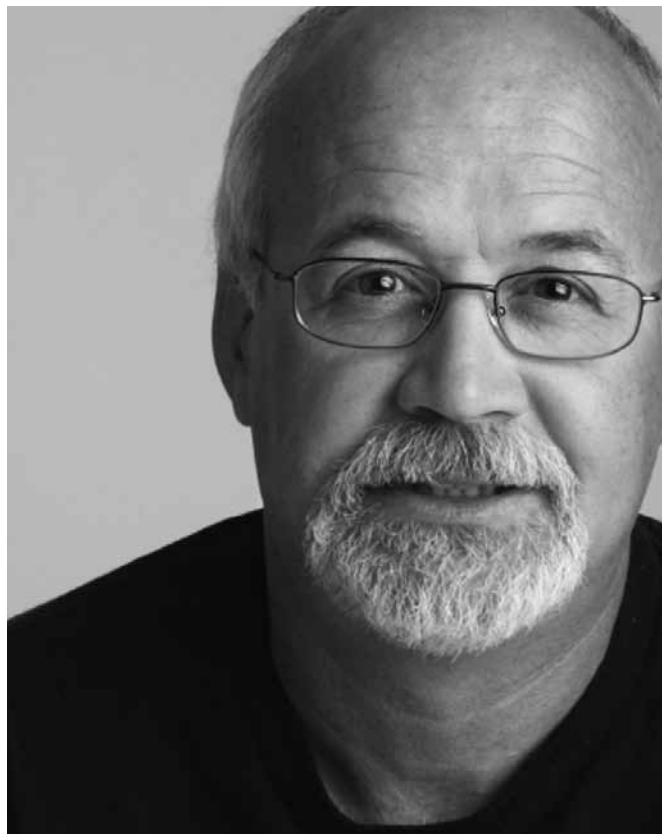
Term assurance: an optional term assurance policy that protects your estate from inheritance tax on your investment, should you die before the minimum two year holding period for BPR qualification has been met. For more information on this option please see page 12.

CASE STUDY

Let's look at an example to understand how an investment in the Octopus AIM ITS might work in practice.



By investing £300,000 in the Octopus AIM ITS, Mr Jones' estate can save £120,000 in taxes after two years.



MR JONES INVESTOR

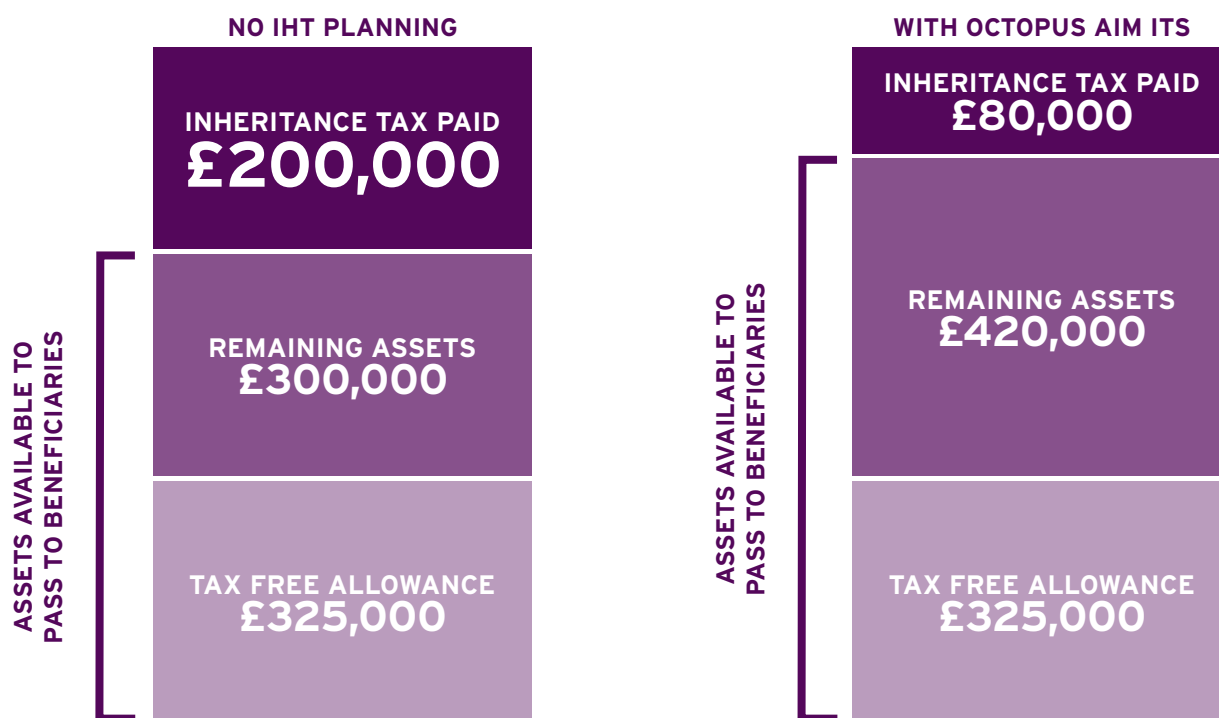
Mr Jones has an estate (including house, investments and savings) of £825,000.

He is 60 years old and is thinking of ways in which he can minimise his inheritance tax bill. If Mr Jones does nothing, his inheritance tax bill will be £200,000, equivalent to almost 25% of his assets.

Faced with this situation, Mr Jones decides to invest £300,000 into the Octopus AIM ITS. After holding the investment for two years, Mr Jones' investment is removed from his taxable estate potentially eliminating the entire inheritance tax bill for the amount invested (ie a saving of £120,000).

As the Octopus AIM ITS has built-in flexibility, should Mr Jones need to withdraw money before he dies, he can do so without affecting the inheritance tax relief he will receive on the remaining amount in the investment.

This example is for illustrative purposes only, based on current legislation and the tax-free allowance of £325,000 for the 2009/10 tax year. Tax rules and regulations are subject to change.



INVESTMENT IMPACT AFTER TWO YEARS	IHT PLANNING	WITH OCTOPUS AIM ITS		
		20% fall in value*	No change in value	20% increase in value
Total Assets	£825,000	£825,000	£825,000	£825,000
Less Tax-Free Allowance	-£325,000	-£325,000	-£325,000	-£325,000
Less Amount Invested	£0	-£300,000	-£300,000	-£300,000
Taxable Assets	£500,000	£200,000	£200,000	£200,000
Inheritance Tax Payable	£200,000	£80,000	£80,000	£80,000
Potential Inheritance Tax Saved	£0	£120,000	£120,000	£120,000
Value of investment at death	n/a	£240,000	£300,000	£360,000
Amount available to pass to Mr Jones' beneficiaries	£625,000	£685,000	£745,000	£805,000
Benefit of investing in AIM ITS	£0	£60,000	£120,000	£180,000

Assumes the investment is held for a period of at least two years and still held at time of death. This table is for illustrative purposes only and does not constitute advice.

* If the optional downside protection insurance was in place, it would pay out £60,000.

INVESTMENT STRATEGY

Octopus AIM ITS will invest in a diversified portfolio of between 20 and 30 established companies quoted on the Alternative Investment Market (AIM)

AIM is the London Stock Exchange's international market for smaller companies. It is the most successful growth market in the world and since its launch in 1995, over 3,000 companies have chosen to join the market, raising more than £60 billion.*

Unlike the main market, some AIM companies qualify for Business Property Relief, and it is through this mechanism that Octopus AIM ITS delivers fast inheritance tax relief.

We believe that the primary reason for investing in the Octopus AIM ITS is to maximise the wealth available to pass on to your beneficiaries, whilst paying as little inheritance tax as possible.

For this reason, we only invest in established AIM companies. These companies must occupy strong market niches and must each have a proven management team with a clear record of success in growing the company's business. We'll only invest when we're confident that we've found the right company at the right price.

To understand and evaluate each investment opportunity, we go through a rigorous process that involves spending time with a company's management team, evaluating their competitors and assessing their financial projections.

* Source: LSE

THE INVESTMENT TEAM

The investment portfolio for Octopus AIM ITS will be managed by the Octopus Quoted Team, which has extensive experience and a strong track record of performance.

All five members of the team work exclusively on AIM mandates. They carry out over 500 company meetings per annum and manage funds of over circa £200 million in AIM quoted companies.

RICHARD POWER - LEAD FUND MANAGER

Richard joined Octopus in 2004 and has 15 years' experience managing UK smaller company funds. He previously worked at Close Brothers and Duncan Lawrie. Richard also manages the CF Octopus Partner Fund (UK Smaller Companies) which focuses on growing AIM companies.

ANDREW BUCHANAN - FUND MANAGER

Andrew joined Octopus in 2008 bringing 35 years' investment experience. Andrew previously worked at Close Brothers where he had managed AIM portfolios since 2001. Andrew launched the first fund to be focused on AIM in 1995.

KATE TIDBURY - FUND MANAGER

Kate joined Octopus in 2008 having previously worked with Andrew at Close Brothers running the AIM portfolios. Prior to that, Kate ran specialist ethical small and mid cap funds at Colonial First State.

EDWARD GRIFFITHS - PORTFOLIO MANAGER

Edward joined Octopus in 2004 to assist in the launch of the AIM portfolio service. Prior to that Edward worked at Schroders and State Street.

PAUL STEVENS - PORTFOLIO MANAGER

Paul joined Octopus in 2005 to help with the research and analysis of AIM companies.



JAMES OCTOPUS

THE RISKS

As with many investments, there are risks associated with investing in this product. We've tried to explain these risks as clearly as possible below.

This investment product may not be suitable for all investors. Potential investors are recommended to seek independent tax and financial advice before investing. Please note that Octopus is not able to provide you with advice about your suitability for this product.

INVESTMENT OBJECTIVE

The Octopus AIM ITS is designed to provide investors with long term capital growth through investing in a portfolio of AIM listed shares. The investment is designed to be held for the medium to long term, as investments in AIM shares have to be held for at least two years (and at the date of death) in order to benefit from inheritance tax relief.

RISK TO CAPITAL

We can make no guarantee about the level of capital gains or income that will be generated as this will depend on the underlying performance of the investee companies. The value of investments and the income derived from them may go down as well as up and you may not get back the full amount invested (unless you have selected the optional life assurance policy and this remains in force at the time of death).

Investments made by Octopus AIM ITS, because they are quoted on AIM, are likely to be higher risk than securities on the London Stock Exchange Official List. The past performance of Octopus AIM ITS is not a guide to the future performance of this product. Investments in shares in AIM companies are not readily marketable and the timing of any realisation cannot be predicted.

CURRENT LEGISLATION

Rates of tax, tax benefits and allowances described in this brochure are based on current legislation and HM Revenue & Customs practice and depend on personal circumstances. These may change from time to time and are not guaranteed.

The Octopus AIM ITS has been designed with UK resident tax payers in mind. If you are not resident or ordinarily resident in the UK for tax purposes, it may not be appropriate or advantageous for you to invest in the Octopus AIM ITS.

QUALIFYING INVESTMENTS

We will acquire for your portfolio, investments in AIM companies which we reasonably believe to be Qualifying Investments at the time of acquisition based on our understanding of HM Revenue & Customs interpretation of the current rules and regulations. Please be aware that we give no commitment that any such investment will remain a Qualifying Investment at all times thereafter.

DOWNSIDE INSURANCE AND TERM ASSURANCE

To benefit from the optional downside insurance and/or term assurance available you must be able to answer 'yes' to all four questions shown on page 10. A full medical report is requested by the underwriters when a claim is made against the policy. Any incorrect information provided will invalidate the policy.

OPTIONAL DOWNSIDE INSURANCE

The Octopus AIM ITS comes with the option to protect against losses should your investment have fallen below its initial value when you die.

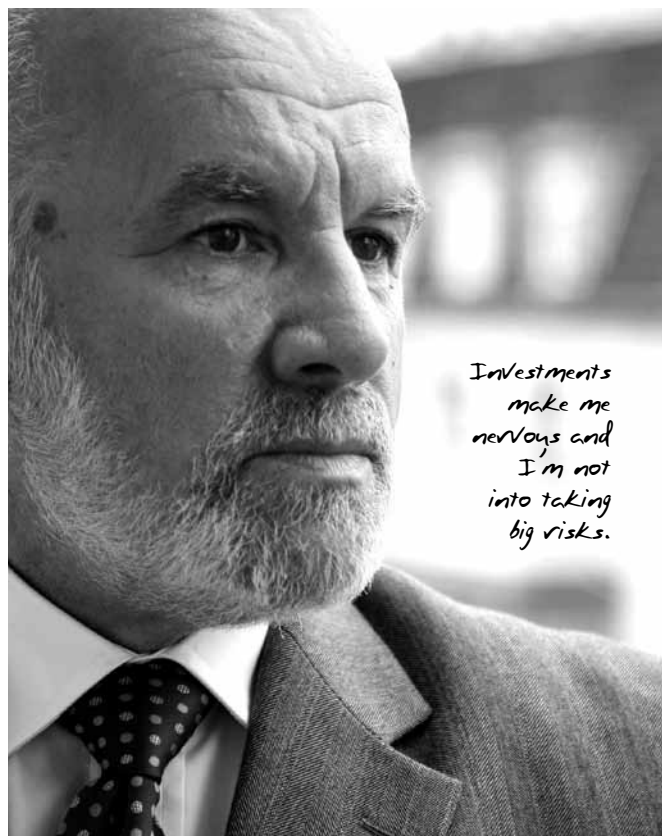
Although many people can appreciate the potential returns that can come from investing in UK smaller companies, it's also quite natural to be concerned about the risks.

That's why Octopus AIM ITS offers an optional downside insurance policy which is designed to protect the value of your original investment.

If the portfolio rises in value, you keep all of the increase to pass on to your beneficiaries. If, on the other hand, your initial investment has fallen in value when you die, the downside insurance policy will make up any shortfall. An annual fee of 2% applies for this policy. Please refer to the charges section for more information.

The additional downside insurance policy is available if:

- You are not currently receiving treatment for any symptoms, illnesses or injuries.
- You have not previously been advised to undergo any medical treatment or are awaiting any medical treatment.
- You have never had a proposal for Life, Critical Illness, Disability or Private Medical Insurance declined, postponed, withdrawn or accepted on special terms.
- You have not resided outside the European Union (EU) for longer than three months in a calendar year or travel frequently outside the EU.



MR THOMAS INVESTOR

We urge you to err on the side of caution when answering these questions as a detailed current and historical medical report will be requested by the underwriters after any claim against the policy. Any incorrect information will invalidate the policy.

LIFE ASSURANCE AND TRUST

The downside protection is provided by a life assurance policy with a specialist life assurance provider. In the unlikely event of the bankruptcy of the provider of the life assurance policy, the downside protection offered through this product will not be available. Octopus is not able to accept any liability for any loss suffered by an investor in this eventuality.

If you choose to have the life assurance policy written into trust, under current tax rules this could mean that your beneficiaries may not have to pay inheritance tax that would ordinarily have to be paid by your estate on any payout under the policy. This product is designed primarily to be an inheritance tax planning product. Trusts are subject to taxation. In respect of any other taxation which may apply to any portion of any payout, you are encouraged to seek professional advice as individual circumstances vary. However, please note that tax and trust legislation may change and therefore we are not able to make any guarantees, nor do we accept liability for the suitability of the trust in meeting individual requirements.

In the unlikely event that in the future it becomes impossible to obtain ongoing appropriate life assurance cover at an economic rate, Octopus reserves the right to discontinue the protection.

That's why we developed an option for more cautious investors.



PAUL CHIEF OPERATING OFFICER

In December 2004, Mr Thomas invested £100,000 in Octopus AIM ITS and selected the optional downside insurance policy.

The following examples illustrate the possible returns if Mr Thomas had passed away during the peak of the portfolio's performance in June 2007 versus a timeframe in March 2009 when the value was at its lowest.

EXAMPLE

If Mr. Thomas had decided not to undertake any IHT planning his £100,000 would, after paying the IHT, have reduced to £60,000 when he passes away. With his AIM ITS investment and associated downside insurance policy, if he passed away in March 2009 when the portfolio was at its lowest, he would still pass over £100,000 to his dependents, a saving of £40,000. However, if he passed away in June 2007 he would have an additional £75,000 to pass on as the value of the portfolio would be £175,000.

	NO ACTION	WITH AIM ITS	
		JUNE 2007	MAR 2009
Initial Investment	£100,000	£100,000	£100,000
Value of portfolio at death	£100,000	£175,000	£65,000
Profit/Loss on portfolio	£0	£75,000	-£35,000
Gross payout from downside insurance policy	£0	£0	£35,000
Inheritance Tax	-£40,000	£0	£0
Total value passed to beneficiaries (includes gross insurance payout)	£60,000	£175,000	£100,000

This table is for illustrative purposes only and does not constitute advice. Past performance is no guide to future performance.

NOTES: The maximum amount that can be covered by the downside insurance policy is £250,000. The downside insurance policy is provided to Octopus by a specialist life assurance provider that is experienced in structuring policies of this type. Tax may be payable on any payout which can be avoided by setting it up with a trust as the beneficiary. Octopus can provide draft trust deeds. You should always take professional advice on any taxes that may apply.

TERM ASSURANCE OPTION

Shield your assets from the impact of inheritance tax from the beginning.

Throughout the brochure we refer to the need for you to hold onto your investment for two years before it is outside your estate. However, it may be that you want to remove the financial impact of inheritance tax from the beginning of your investment. We can arrange for a life insurance company to provide you with a term assurance policy that will pay out the value of the inheritance tax bill (i.e. 40% of the amount you invest) should you die within the first two years. Please note, to qualify for the term assurance you must be able to answer 'yes' to all four questions shown on page 10.

This is an optional feature of the product, but if you'd like to get a quote for the term assurance you should fill in the relevant section of the application form. We will then advise you of the cost for the term assurance and you can decide whether to take out the cover or not. The cover will start from the receipt of the premium payment.

Terms and conditions apply to the term assurance policy. In the unlikely event of the bankruptcy of the provider of the term assurance policy, the protection offered by the policy will not be available. Octopus is not able to accept any liability for any loss suffered by an investor in this eventuality.

You can arrange to write a trust which will keep any payments from the term assurance policy outside of your estate for inheritance tax purposes. If you decide to take the term assurance option we can provide you with the draft trust deeds.

CHOICE OF GROWTH OR INCOME

Flexibility to make your investment work the way you want it to.

GROWTH

If you have sufficient income from other sources, you can maximise your protection against inheritance tax by choosing the growth option.

INCOME

Alternatively, you can choose to take regular withdrawals from your investment either monthly, quarterly or annually. However, please remember that this will reduce the amount that you have remaining in the investment.

TAX ON YOUR INCOME

Growth on your investment will only be taxed when you withdraw money from the fund by selling shares. This will normally be taxed as a capital gain.



CONTROL OVER YOUR INVESTMENT

After two years, hold it, or put it into trust - the choice is yours.

The minimum investment is £30,000 and there is no maximum.

Once you become an investor, you can make additional contributions of £10,000 or more at any time. However, remember each 'top up' will take two years to become inheritance tax exempt.

We understand that circumstances can change, so if you need to withdraw any of your investment this can easily be arranged. This will however impact the amount you have shielded from inheritance tax. Normally, withdrawals take ten days to process, although very large transactions may take a few days longer.

You have several choices once the investment falls outside your estate for inheritance tax purposes (i.e. two years from the date of the original investment into the underlying holdings). Your decision depends on the level of control you want to retain over your investment.

HOLD THE INVESTMENT

You can continue to hold the investment yourself. This will give you maximum control and allows you to withdraw all or part of your investment at any time.

PUT IT INTO A TRUST

If you are confident that you do not need access to the capital, you might consider gifting all or part of the investment into a discretionary trust. This has a number of advantages:

- You can arrange for the trust to pay you a set level of income every year.
- You can determine how the assets within the trust are used (to pay school fees for example).
- Gifting into a trust prevents the assets being tied up in the probate process.
- After seven years, the investment can be transferred into other assets.
- You do not have to pay the potential 20% entry-tax that can apply to gifts into discretionary trusts.

We can provide a range of draft trust deeds, please contact us for further information. We recommend that you seek specialist professional advice before establishing a trust.

THE CHARGES

If you have any questions about the charges set out below, please call us on **0800 316 2298**.

There is an initial charge of 5%, which will be deducted from the amount invested, of which 2.5% may be payable to your financial adviser, if you have one. If appropriate, your financial adviser will also receive an annual trail commission of 0.5% per annum paid by Octopus.

There is an annual management fee of 2% plus VAT of the value of your portfolio, paid quarterly in advance.

Octopus will apply a 1% dealing charge on all transactions within the portfolio.



MARGARET INVESTOR

COST OF THE OPTIONAL DOWNSIDE INSURANCE

The annual cost of the optional downside insurance is 2% of the gross value of your investment in to Octopus AIM ITS and this fee is taken from your portfolio. This will be used to pay the annual premium for the downside insurance policy which will cover any loss should your initial investment have fallen in value when you die.

COST OF TERM ASSURANCE

To cover yourself against inheritance tax within the first two years of the policy you can request a quote via the application form.

DIVIDENDS

The dividend income in your portfolio, typically between 1% and 2%, will partly offset the annual charges.



NOREEN RELATIONSHIP MANAGER

WHAT NEXT?

If you have any questions please contact your financial adviser in the first instance. You can call us on **0800 316 2298** or visit us at **octopusinvestments.com**

If you decide to invest, please complete and return the application form enclosed with this pack.

If you require additional application forms please visit **octopusinvestments.com** where all of our literature can be downloaded. Alternatively, please call us on **0800 316 2298**.

Application packs for products contain a full customer agreement. Please be sure to read through this carefully in order to familiarise yourself with the terms and conditions of investment. Again, if you have any queries, please just call us or contact your financial adviser.

We know how important making the right investment decision is, and we want you to feel comfortable and informed about investing with us. We recognise that in the current climate, many investors have concerns, so please feel free to call us at any time with your questions or queries. We're here to help and we're always happy to hear from you.

IMPORTANT INFORMATION

This document constitutes a financial promotion under Section 21 of the Financial Services and Markets Act 2000 and is issued by Octopus Investments Limited.

Your attention is drawn to the risk factors set out on page 9. Nothing in this document should be regarded as constituting legal, taxation, investment, or other advice and prospective investors are advised to consult their own professional advisers before contemplating any investment.

Any decision to invest in this product should be made on the basis of the information contained in this brochure, and the terms and conditions attached to the application form.

Any references to tax laws or levels in this document are subject to change. Past performance is not a guide to future performance and may not be repeated. The value of shares can go down as well as up and you may not get back the full amount invested. You should consider an investment in this product as a long-term investment.

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The information in this document was captured on 20 November 2009 and therefore may not be current.

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