ShareSoc
UK Individual Shareholders Society

PO Box 62, Chislehurst, BR7 5YB
Phone: 020-8467-2686
Email: info@sharesoc.org
Web: www.sharesoc.org

24 October 2012

Press Release

ShareSoc Recommends Voting Against New Performance Fee at Dunedin Enterprise Investment Trust

Dunedin Enterprise Investment Trust Plc has announced proposals for a new Performance Fee for the managers of this private equity investment trust. Like other such trusts, it trades at a substantial discount to net asset value. To tackle this issue they decided on a change of investment policy some time ago which involves selling some of their investments in third party funds and returning cash to shareholders. This will of course reduce the size of the fund significantly. ShareSoc certainly supports an active discount control policy in investment trusts so we did not oppose this change of policy.

It is now proposed to compensate the manager for the reduction, and the fact that the realisations of those investments might have to be done at a discount, by paying the manager a Performance Fee if they realise more than 85% of the net asset value (i.e. presumably a lower loss than might otherwise be expected, but based on a doubtful supposition in our view). They might get up to 1.5%, on a sliding scale, of the gross proceeds from these arrangements.

An Unnecesary Incentive Fee for Cancelling Undrawn Commitments
In addition, they will get the same applied rate on the associated "undrawn commitments", i.e. the commitments to subscribe cash for new investments in those funds which have not yet been "called off" by the fund manager. This is despite the fact that they get a management fee for cash held in the fund equivalent to what they got on undrawn commitments (so any cancelled commitments will get the same level of management fee).

In summary, these proposals simply look like the manager is being paid an additional incentive fee just to execute the policy decisions that the board has decided upon. But as the manager, that is what they are being paid for anyway surely? ShareSoc argues that a change of investment policy, and in particular a decision to reduce the size of the fund and return cash to shareholders should not cause any additional compensation to be paid to the fund manager.

New proposals could mean a large increase in overall fee percentage
The last realisation of third party funds (Capiton) was actually at a £0.2m premium (about 5%) to the carrying value in Dunedin Enterprise's accounts. If all third party fund investments were sold at that premium, the additional performance fee payable to the fund manager could be as much as £0.9m. This compares with the total investment management fee of £1.4m paid to the fund manager last year (which is primarily based on funds under management) and that is of course not affected by the new proposals.

ShareSoc therefore recommends that shareholders in Dunedin Enterprise vote AGAINST the new performance fee at the General Meeting (Resolution 2) on the 8th November (but vote FOR the tender offer – Resolution 1).

Continued over….

More Information

Note that the calculation of the new performance fee is very complex, and is documented on pages 26 and 27 of the circular (see http://www.dunedinenterprise.com/pdfs/DENT_Tender_Offer_Final%2016_10_12.pdf). It includes a cap on the performance fee payable under the scheme, and the fee is graduated depending on the extent of the discount/premium at which the assets are sold (as against their book value).

For further information, please contact:

Roger W. Lawson,
Chairman, ShareSoc
Telephone: 020-8467-2686
Email: info@sharesoc.org

Or; Stan Grierson, ShareSoc
Telephone 01628-522514

Note any members of the press who wish to receive a complimentary copy of our informative monthly newsletter should send a request to info@sharesoc.org . Our newsletters cover not just the affairs of our organisation but contain general financial news and commentary. An example of our past newsletters is available on our web site. You can also follow ShareSoc on Twitter from @ShareSocUK.

About the UK Individual Shareholders Society (ShareSoc)

ShareSoc represents and supports individual investors who invest in the UK stock markets (and who own as much as 30% of the shares in UK public companies in aggregate). We are a mutual association controlled by our members with "not-for-profit" articles and incorporated as a company limited by guarantee. The organisation is financed by member subscriptions, donations from supporters and by the services it provides to members. Associate Membership of ShareSoc is free and is open to everyone with an interest in stock market investment. More information on ShareSoc can be obtained from our web site at www.sharesoc.org .