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Mr R. Battersby
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Via Email.

Cc: P.Smart, Director

20 December 2011

Follow up to our meeting on Rensburg AIM VCT

Dear Mr Battersby,

Thank you for agreeing to our recent meeting. To follow up on that, I wish to make the following points which I suggest your board considers:

1. You do not appear to accept that the performance of the company is unacceptable. In addition you still believe apparently that it is possible to make good returns with an investment policy focussed on investing in the shares of AIM companies, despite the fact that other companies have changed their views on this and that the number of new share issues in AIM companies (at least those that VCTs can invest in) have been very few of late.

2. Indeed you appear to have adopted an unstated “defeatist” policy of returning cash that arises from realisations to shareholders via dividends so that the assets of the company are run down (they run down because you are not generating profits to cover the dividends paid out).

3. I acknowledge the boards stated position, that the fund is mature, is invested in accordance with the policies set out in the prospectus and is already practically fully invested in AIM stocks as well as non quoted companies which have not delivered the expected returns. Further, there are at present no cash balances available to invest in smaller unquoted investment targets. However, I did point out that the present policy of paying dividends from investment realisations at the expense of the balance sheet is unsustainable, and, unless there is a change of policy the pool of capital employed will have to be worked increasingly hard to generate any worthwhile return to shareholders.

4. As regards the first point above, I have attached some information in an Appendix which highlights the performance data which I believe is relevant. In summary it shows that AIM VCTs have historically under-performed generalist VCTs and over the period since launch, Rensburg AIM VCT has been a poor performer. Only recently has the comparative performance improved, and the time period concerned may not be long enough to give an accurate reflection of underlying performance.

5. As I said to you in the meeting, I have no criticism of the existing fund manager, but from past experience of AIM VCTs, however clever the fund manager they eventually cannot defeat the structural problems associated with investing in AIM companies.

6. The problems of investing in AIM companies were spelled out in the meeting. In essence only being able to buy shares in new IPOs (when the companies and their promoters can pick the best time to raise funds), then being locked-in effectively without any influence over the management or the ability to step in if problems arise – mainly because there is no investment agreement in place that gives you influence as there is in a typical VC investment in private companies.

7. You are in essence following a business model for Rensburg AIM VCT which has been shown not to work effectively over the last ten years. Other VCT companies, and I list some in the Appendix, have shown that they can produce good returns by following a different business model. This does not stop them from investing in AIM companies when they consider it justifiable, but there are other differences in their approach which has made them successful. Are you willing to learn from this past experience and from the companies who have been successful is the key question?

8. We also discussed the issue of paying out more in dividends than the profits the company is achieving, and I have sent you a separate note on that subject. Doing so over an extended period of time makes no sense because sooner or later the size of the company will shrink to such a size that it is not viable. At that point you will be forced into a costly merger with another VCT. But if that is the policy I think you should state so, and consult shareholders on whether this is what they want or not.

9. In addition, in our meeting we discussed the overall costs of running the VCT and the performance fees payable to the fund manager. I pointed out that the best VCTs have overhead charges of about 2.5%. Yours seem to be 3.5% even without the performance fees that will be payable next February. In essence, you have lower profits and higher fees than the best VCTs. High fees with low performance makes no sense because those fees can only be paid out of profits, which you have not generated over the years. This issue needs tackling.

10. There are three possible ways to improve the performance of an under-performing VCT:

    A – Change the investment policy.
    B – Change the fund manager.
    C – Reduce the administration and management costs.

11. The last item can only be done by renegotiating the fund management arrangements, or seeking a merger with another VCT to as to spread the relatively fixed administration costs over a larger fund – in practice these are often combined together. I suggest you need to take a tough stance on the issue of charges when any new contract with the fund manager is negotiated.

12. As I have already indicated, I do not see any great benefit from changing the fund manager in this case, particularly as recent performance has been adequate, unless it was required because of a change of investment policy. So we are left with options A and C.

13. I do of course agree that any change in investment policy would need to be formally agreed by shareholders in a General Meeting. Likewise I suggest they should be consulted, at least informally, about dividend policy – as Proven VCT did.

14. The general impression you gave at the meeting was that you did not accept the points we made, and that you were unlikely to consider any substantial changes. If that is the case, after you have considered the issues, please let me know.

15. We are not likely to abandon our campaign to achieve some improvements in this company unless the board shows a clear commitment to do something.

16. One other issue I would like to raise is the lack of involvement of shareholders in determining the future of this company. You may not agree with what I am saying, but have you taken any real steps to determine the views of informed shareholders?

17. You apparently intend to only have three board members in future (and one is a representative of the fund manager with a vested interest in the matter). Could I suggest that you might consider setting up a "Shareholder Committee" which you could consult on these issues and others. This would be a representative group of shareholders (selected by shareholders) from whom you could easily get some comments and hence avoid the need for a confrontational approach with shareholders who disagree with your policies. ShareSoc has been promoting the concept of Shareholder Committees lately and have published a note on this subject which you can read here: www.sharesoc.org/Shareholder%20Committees.pdf

Lastly could I point out that we intend to publish this letter so that our campaign supporters are aware of what we have been saying to you.

I look forward to hearing from you in due course.

Yours sincerely

Roger Lawson
Chairman

The overall performance of Rensburg AIM VCT

I have previously pointed out that the best measure of the overall performance of a VCT is the "Total Return", i.e. the change in net asset value plus dividends paid out. I have also previously pointed out that the return since launch of Rensburg AIM VCT is -1.0% per annum as reported by Allenbridge in their Tax Shelter Report – see www.taxshelterreport.co.uk/vct_performance.htm where it shows the performance of all VCTs. In fact the current figure for Rensburg AIM VCT is now -1.2% per annum following more recent falls in net asset value.

You can see in the first table of that report (which shows VCTs launched more than 8 years ago), that Rensburg AIM VCT is one of the poorest. There are a few who are even worse (another AIM VCT is one who have now changed their investment policy), and three rather more specialist ones (two Oxford Technology ones and Kings Arms Yard which was also a technology focussed VCT originally).

There are of course many VCTs in that table that have delivered very considerable returns to shareholders over the years – companies such as Albion, Baronsmead (1, 2 & 3), Northern (1 & 2), Proven and British Smaller Companies. The average total return of all of those companies is 5.3%. In other words, over ten years they have generated more than 50% returns, whereas Rensburg AIM VCT has generated a loss of 10%! They can now afford to pay out dividends of over 5% per annum, without eroding capital.

The second Allenbridge table shows the performance of four AIM VCTs which were launched slightly later – they show a universally dismal performance.

Note that the Allenbridge reports are produced by an independent third party based on reported net asset values and dividends.

The Performance of AIM VCTs versus others

The AIC provides information on the overall performance of VCTs in a report they publish regularly. The end November 2011 report is here:
www.theaic.co.uk/Documents/Statistics%20publications/AICStats30Nov2011.pdf

If you refer to page 3, you can see that over 1 year, 5 years and 10 years, AIM VCTs have underperformed generalist VCTs – indeed the longer the period, the bigger the underperformance. Only over 3 years do AIM VCTs show a slight advantage which is probably because there was a large fall in the price of AIM shares in 2008 which has since been recovered.

Comparative recent performance of Rensburg AIM VCT

On page 36 of the same AIC report, the performance of AIM VCTs is compared. It is the best performing over one year, which is a very short period of course. Over 3 and 5 years, it is one of the better ones, but over 5 years it has still returned a negative overall performance as did most AIM VCTs whereas if you look at pages 32 onwards you will see most generalist VCTs produced a positive return.

In other words, although Rensburg AIM VCT has performed reasonably well recently in comparison with other VCTs, when viewed at over a reasonable period of time (so as to ignore any likely random short term fluctuations), it shows the same defects in performance as other AIM VCTs.