



5 May 2013

Graphite Enterprise Trust – Annual Report and Voting Recommendations (Update No. 3)

This note is to give our shareholder contacts on Graphite Enterprise Trust an update on the position of the company, some comments on the contents of the Annual Report and voting recommendations for the forthcoming Annual General Meeting (in London on the 13th June).

The key issue with this company, which was the reason we started a campaign on it, was the previously high share price discount to Net Asset Value. That was 34% at about the time of the previous AGM and when we commenced writing to shareholders. It is now 22% which is obviously a substantial improvement.

Although the company has not implemented a specific discount control mechanism as we would have preferred to see, the company has been undertaking an active investor relations programme to promote the merits of the company and its relative value (see page 5 of the Annual Report). In addition, the company has benefited from a general reduction in the discounts on private equity investment trusts which are no longer as unfashionable as they became in the recent past. It is also possible that our own publicity on the intrinsic value represented by the high discount might also have had a beneficial effect and contributed to new investors looking at the company.

At 22% the discount is still higher than we would like to see, when ideally it should be less than 15%. But it may not warrant further active circulation of information on our part so this may be one of the last communications you will receive from us on this company, unless the situation worsens again.

I am likely to attend the AGM in person to make some comments on the company's position and would encourage you to attend also. I hope to see you there.

Company Performance

With an increase of Net Asset Value of 10.9% (higher in the underlying currencies) during the year, this was somewhat less than their FTSE All-Share benchmark. In reality the performance in the last year (at the time of writing) according to the AIC seems to be very similar to the average of all private equity investment funds. So in summary, an average performance.

AGM Resolutions

One issue we previously raised about this company was the presence of three directors on the board who had served for more than nine years. One (Michael Cumming) is stepping down at the AGM but that still leaves the Chairman Mark Fane, (appointed in 2000) and Peter Dicks (appointed 1998) on the board which is not ideal. The explanation given in the Annual Report (see page 75) for this breach of the UK Corporate Governance Code is very pedestrian and does not really justify their persistent presence. Shareholders may therefore wish to consider voting against their re-election.

Shareholders are recommended to vote against Resolution 11 (altering the minimum notice for General Meetings from 21 days as laid down by the Companies Act to 14 days) as ShareSoc has never seen a good justification for such a change, particularly when many shareholders might have difficulty in voting within the lesser period. Such resolutions are routinely put on AGM agendas when they should not be as there was a good reason for the change in the Companies Act to make 21 days the norm.

We see no particular reason to vote against any of the other resolutions.

Summary

It is apparent that our campaign on this company has had some impact and we would encourage those readers who have not yet become a Member of ShareSoc to do so and help to support our activities. Click on this web link for more information: www.sharesoc.org/membership.html .

Otherwise thanks for your support.

Roger Lawson
Chairman

More background information about the campaign on Graphite Enterprise Trust is present on this web page where further news will be posted as it becomes available: www.sharesoc.org/campaigns3.html . You can register your support for this campaign on that web page if you have not already done so. If you no longer have an interest in Graphite Enterprise Trust shares, please let us know.