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To all Rensburg AIM VCT Shareholders
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Newsletter No. 1

Additional information on Rensburg AIM VCT Plc and the Shareholder Action Group, including comments on the Half-Yearly Financial Report and the letter to shareholders from William Cran.

This note is supplementary to the information sent to shareholders in Rensburg AIM VCT in Oct 2011 (present on our web site at: www.sharesoc.org/campaigns.html).

The letter from W.Cran to shareholders

All shareholders have been sent a letter from William Cran, the Chairman of the company, commenting on the campaign by ShareSoc. These are our notes on this letter:

1. Mr Cran complains that I never raised any complaint about the performance of the company until a few months ago. Well better late than never is all I can say. Other shareholders have written in the past complaining about the performance. Or as one shareholder put it "I'd mentally written off this investment". Mr Cran complains that I did not send his letter to me to shareholders, but this is hardly surprising as I did not agree with many of the points he made. In addition it is not appropriate for ShareSoc to incur costs in printing and postage to distribute his views. Mr Cran also complains that I did not attend the last AGM (back in July). I wrote to Mr Cran advising him I could not attend due to other commitments (not helped by his holding the AGM in Leeds) and raising the issues that are now being put to you. I hoped the board would tackle the issues I raised without me or ShareSoc taking further action but clearly they chose not to do so. Only after further correspondence was it decided to write to all shareholders. I certainly plan to attend the next AGM.

2. He suggests that as they are now "*fully invested this appears to us to be an inappropriate time to change our strategy*". The company has probably been fully invested for many years (at least as far as they wish to be so), and in any case I did not suggest that they needed to change the existing portfolio rapidly, if at all. The key issue is to change future investment policy so new investments are not solely or primarily in AIM companies. So I do not understand the logic of Mr Cran's statement. There was nothing in my note to shareholders or the letters to him that suggested immediate disposal of any existing holdings, particularly the successful ones.

3. Mr Cran alleges that a change of investment policy will "*immediately curtail the high dividend stream*". This is simply a fallacious claim which cannot be substantiated because, as I have explained above, there is no demand to instantly change the portfolio. This claim is no doubt being made so as to dissuade you from supporting our campaign. The dividends paid by AIM companies are generally low, and might well be higher from private equity investments (some of which could be in loans). But in any case, some of the dividends being declared by the company of late are not being paid out from the overall profits of the company or dividends received from their investments, but are effectively a return of capital (i.e. a return of your own money so you may be being misled about the sustainable level of profits and dividends of the company) – see below for more comments on this. But if shareholders wish to continue to receive dividends paid out from cash realised on the disposal of holdings, there is no reason why that policy cannot continue. It has no link to investment policy.

4. Mr Cran highlights several past successful investments made by the company, without of course discussing the failures or poorly performing ones. But this is irrelevant – the key issue is overall performance and the overall return to shareholders.

5. Mr Cran rightly points out that investors in the company invested at different times and at different prices, and my particular investment was at a disadvantageous time. However, the performance figures I quoted were not based on my investment, but from when the company was formed. To obtain a figure for your own gross return (ignoring tax reliefs), take the number of shares in Rensburg AIM VCT that you currently own and value them at 38p each (the current "bid price", i.e. the price you would get if you sold them), then add to that all the dividends received since you originally invested. Deduct what you originally invested (i.e. the overall cash cost) and see if you have made a profit or not!

Don't forget to take into account that in real terms over the period of your investment there has been substantial inflation so the value of your money has declined - about 35% over the past ten yours - so you should deduct that as well to obtain the real return.

6. Mr Cran complains about the timing of our campaign, the fact that it might "divert our efforts" and "result in substantial costs for the company". These are all arguments typically used by boards when they do not wish to do anything about issues brought to their attention by shareholders. He also claims that it "*could reduce our ability to continue our present dividend and share buy back policy*". WE SIMPLY DO NOT AGREE WITH THAT STATEMENT AND THERE IS NO EVIDENCE PROVIDED THAT IT WOULD DO SO.

In summary, Mr Cran chooses not to challenge the information we sent you, but to distract you with irrelevant information, and to make misleading comments. Do not let it deter you from supporting our campaign.

The Half-Yearly Financial Results (published 28/10/2011)

These results were disappointing, and showed a decline in the net asset value per share from 51.6 to 45.1p over the previous six months. There was a loss of 1.55p per share. Despite that dividends were declared for the half year totalling 3.5p (and 4.5p had been paid in those six months). Obviously the company is paying out more dividends than it has profits.

Perhaps you thought companies could not do that? But Venture Capital Trusts are peculiar in that they can pay dividends out of profits realized on individual investments while ignoring other losses. Of course the net result of this is that the assets (and hence the longer term earnings power and dividend paying capability of the company) declines.

Since the half-year end, as the report mentions, the net asset value per share has declined further to 44.8p per share. Some of this decline, and those in the half-year, undoubtedly reflect general declines in the AIM market which is of course a rather volatile market (probably even more than the general stock market which was also volatile in that period). But you do of course need to look at the longer term performance which is what our analysis of the company was based on.

Apart from the issues of historic performance and whether performance can be improved unless the investment policy is changed, there are the following questions that you should consider:

The discount at which the shares trade

The shares often trade at a substantial discount to the Net Asset Value per share (NAV) so you may not even achieve a fair price for your shares even if you chose to sell them. For example, on the 28th February 2011, the "bid price" was 26% below the NAV. At comparable dates in previous years, it was 27% and 34%. The discount has recently narrowed so it is now only 16%. Why has the discount narrowed? Perhaps because more shares are being bought back by the company, following the reintroduction of a buy-back policy, as this is the dominant influence on the share prices of most VCTs where there is little other trading. The company also reports a more active secondary market in the shares. But a point worth making is that good quality VCTs try to minimize the discount to typically less than 15% - this ensures shareholders (or their executors) can exit at a reasonable price when by force of circumstances they find it necessary to sell their shares. Historically Rensburg AIM VCT has not achieved a reasonable discount level, possibly because there are too many sellers due to the disappointing overall performance of the company.

The costs of fund management and administration

Another issue with this company is the high cost of fund management and of administration (the expenses that come out of the fund value). For the year ending February 2011, the total of Management Fees and Expenses were £1.34m (see page 20 of the Accounts). That is 6.3% of the fund value at the year end. That is a very high figure in comparison with most VCTs – good VCTs have overall fees of less than 3.0%. Although Rensburg AIM VCT has an agreement with the manager that caps investment management fees at 3.5% of the fund assets, last year there was an amount charged in the accounts of £724,000 in "Investment management long term incentive" fees in addition (see page 25 of the Accounts) which accounts for the very high percentage that year. But even in the prior year it was 3.6%.

This level of charges in a normal investment trust would be seen as grossly excessive. The original justification for high fees in many VCTs was the potential high return from investing in small companies, but these returns are not being achieved.

We suggest that the board needs to examine the investment management agreement and consider whether the costs of managing the fund, and other administration expenses could not be reduced. One way to do this (which has been followed by many other VCTs which have faced difficulties) is to merge with another VCT so that costs can be spread over a larger capital base.

The corporate governance of the company

One of the directors of Rensburg AIM VCT is Barry Anysz who is employed by the fund manager. This is contrary to best practice, as obviously he is not truly independent.

The Chairman, William Cran, has been on the board of the company (or its predecessors) for 15 years – well past the recommended period. Although he has announced his retirement, it seems the intention is only to have three directors going forward (see page 3 of the Annual Report) with Mr Anysz still present.

We question whether the existing board arrangements provide proper independence from the fund manager which is so important in a VCT where the company itself has no employees and the directors are all non-executive – hence they tend to rely on the fund manager for advice in respect of many matters.

Irrespective of what the board might decide to do to improve the performance of this company, we would like to see some fresh blood on the board.

Summary

In essence Rensburg AIM VCT has not been a successful investment so far as many shareholders in the company are concerned. A simple question you should ask yourself is this: would you have got a better return from your original investment by putting the cash invested on deposit? As spelled out in our original note to shareholders, based on an analysis by an independent third party, Rensburg AIM VCT has generated an overall negative total return for shareholders over the years since formation. It is certainly not achieving the returns obtained by the best Venture Capital Trusts.

CHANGES ARE NEEDED TO THE COMPANY IF RETURNS ARE TO IMPROVE, WHICH THE BOARD IS OBVIOUSLY RELUCTANT TO CONSIDER

Please do support the campaign by registering as a member of the Shareholder Action Group. Call 020-8467-2686 now if you have any questions.

Yours sincerely

Roger Lawson
Chairman

More background information about the campaign on Rensburg AIM VCT is present on this web page where further news will be posted as it becomes available: www.sharesoc.org/campaigns.html