ShareSoc
UK Individual Shareholders Society

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

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Rensburg AIM VCT Voting Recommendations

Please vote against the directors' re-election

Shareholders in Rensburg AIM VCT should have received, or will soon do so, the Annual Report of the company and a Notice of the Annual General Meeting (AGM) to be held on the 25th July in Leeds.

ShareSoc recommends that you vote AGAINST the re-election of all the directors (resolutions 4, 5 and 6) for the reasons given below.

Please ensure you return the proxy voting form, and in addition, attend the AGM if possible.

As you may be aware, ShareSoc has previously criticised the performance of this VCT and other aspects of the company and we wrote to all shareholders in October 2011. We have raised three specific issues:

1. The long-term performance of the company.

2. The investment policy of the company which is focussed on AIM companies (and which probably explains the historic performance).

3. The high fees paid to the investment manager.

Since raising these issues (and a subsequent meeting with the directors where there appeared to be a reluctance to make substantial changes), some things have happened. Firstly the company has undertaken an active share buy-back policy which has narrowed the discount to net asset value at which the shares trade (and hence enables shareholders to exit at a reasonable price if they wish to do so). Secondly a revised management fee agreement has been negotiated which should reduce the costs substantially.

However the investment policy has not changed and the company continues to support a focus on AIM investments, even though as the Manager states in the Annual Report there is a "*greatly reduced level of Initial Public Offering (IPO) activity on AIM*" thus making new investments difficult. Indeed only two new investments were made last year, and as the company is returning cash to shareholders via dividends and buy-backs, the net asset value of the company declined substantially. In the long-term, if this policy is continued it will surely prejudice the viability of the company unless more funds are raised.

The Annual Results

We issued a note to shareholders analysing the financial results for the year on the 1st June (see www.sharesoc.org/Rensburg%20AIM%20VCT%20Newsletter%204.pdf). In summary this showed that the claimed performance of the company, as outlined in the Annual Report, is not quite as it appears.

Why you should vote against the directors

The board continues to resist any change to its investment policy and we question whether the board is independent in all respects. The three directors are Richard Battersby, Barry Aynsz and Peter Smart. Mr Battersby was first appointed to the board in January 1999 and has hence been associated with the company for 13 years. Mr Aynsz and Mr Smart have both served on the board for almost 14 years. The Combined Code of Corporate Governance that applies to UK public companies questions whether non-executive directors who have served more than 10 years can be considered independent. Hence the company has had to specifically justify their re-election which they do on page 12 of the Annual Report. We suggest those arguments do not stand up to scrutiny.

In addition Mr Aynsz is an employee of the fund manager and hence is not independent. It is now generally considered bad practice to have the fund manager on the board of an investment company. Also Mr Smart has declared an interest which is spelled out on page 34 as he acts as a consultant to a firm providing services to the company.

The new Investment Management Agreement (IMA)

Resolution 10 on the AGM agenda is to approve a revised IMA. This is certainly a big improvement on the previous agreement and should result in significant reductions in the cost of running the company. The removal of any performance incentive fee is particularly welcome. For that reason, and to ensure that the previous agreement ceases, we recommend you vote in favour of that resolution. However, the terms of the agreement are not perfect because the fund manager collects 1.5% of the Net Asset Value (which includes both qualifying and non-qualifying investments), but the company also directly pays fees for "monitoring the company's non-qualifying equity portfolio" (see page 46) so there appear to be two level of fees on the same assets. Clearly a question to be raised at the AGM is why the directors chose to agree to this.

Other Resolutions

We also recommend you vote against Resolution 12 (notice of General Meetings) which we consider unnecessary. This resolution varies the rule imposed by an EU Directive which was designed to protect the interests of smaller shareholders. In respect of Resolution 3 (approval of the dividend), most shareholders may wish to vote in favour as you may be able to invest the cash more favourably than the company, but it is of course worth pointing out that the dividend well exceeds the earnings of the company last year – which were in reality negative. As regards all other resolutions (numbers 1, 2, 7, 8, 9 and 11), we recommend voting in favour.

Summary

The change in the Investment Management Agreement is a very positive move and the active buy-back policy is welcomed. But we still think the directors should consider a change of investment policy so as to improve the longer term investment performance. However the directors are unwilling to do this. For that reason and those given above, we think a change of directors is well overdue. I do of course personally intend to attend the forthcoming Annual General Meeting of this company to raise pertinent questions on its affairs, and I would encourage you to attend also. Please call 020-8467-2686 now if you have any questions.

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