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Rensburg AIM VCT AGM Report – Substantial votes against the directors

On the 26th July I attended the Annual General meeting of Rensburg AIM VCT. ShareSoc has been running a campaign on this Venture Capital Trust since October 2011 (see www.sharesoc.org/campaigns.html for background information). Our main concerns when we commenced the campaign were:

1. The historic long-term poor investment performance of this company, which we have suggested is the result of a focus on AIM company investments (a negative average annual total return of minus 0.7% per annum since formation according to independent sources). We proposed a change of "investment policy".

2. The wide discount of the share price to Net Asset Value.

3. The costs of fund management and administration (6.5% of net assets last year and 6.4% the previous year).

4. The corporate governance of the company.

There were about 7 ordinary shareholders who attended the meeting in the offices of Investec in Leeds (Investec now own the fund manager) compared with 2 last year. It was chaired by Richard Battersby who took over as Chairman of the company in the last year.

The meeting commenced by shareholder Roger Jackson complaining that he had been given the proxy voting counts on entering the meeting. I know Mr Jackson from a previous contact some years ago in respect of company secretarial matters, although I was surprised to see him at the meeting as he must now be very elderly. But he is a stickler for accuracy. In essence I believe the basis of his complaint was that issuing the proxy counts before people have heard what shareholders or the board have to say, and before votes are taken, rather pre-empts the outcome, or might influence it. They should be disclosed after each resolution is taken. I supported his stance on this matter by simply saying that it is not best practice to do this. However as it had been done the error was simply noted and we moved on. I will disclose the votes later in the article so as to keep you in suspense.

The Chairman then invited questions. What follows is a description of the dialogue, paraphrased or summarised for reasons of brevity.

The Management Fee. Firstly I welcomed the change in investment management fees (a new contract had been negotiated with the fund manager), but I questioned the fees paid on the non-qualifying portfolio – see the note at the foot of page 46 of the Annual Report. For example, blue-chip equities represent 33% of the total portfolio (see page 6), and potentially this means there is a management fee paid on those, but then an overall management fee on top of that of 1.5%, i.e. there is a fee on a fee. One of the directors confirmed that there was a fee of 0.5% paid on the blue chip fund. I suggested this should have been made clearer to shareholders as it was misleading to suggest that that overall management fees would be cut to 1.5% as given in the Chairman's Statement. Comment: regrettably this is yet another example of the company presenting a distorted picture to shareholders unless you dig very deeply in understanding the full background.

The Performance of the Company. I asked the Chairman to justify the statement in the Annual Report that says "*The Board continues to believe that …..investing in AIM companies offers greater potential returns than investing in the shares of unquoted companies…*" (page 3). Why is the board so resistant to change when the historic data shows otherwise. Specifically I pointed out that I had invested £23,000 in the company back in 2000, and the total return (dividends received and mid-price current valuation) was now only £13,236 so 43% of the investment had been lost – and that's even ignoring inflation.

Comment: it's worth pointing out that other shareholders might have done better because it depends when investments were made as they did new share issues at various times. Indeed at least one shareholder present had bought "second-hand shares" in the market when they were at a low point and hence was quite satisfied as investment performance had improved more recently.

I also pointed out that the claims made to be the best performing AIM VCT over 10 years were spurious when in reality most such VCTs that have been around that long have decided to exit from investing in AIM. For example, Amati VCT, Downing Distribution 1, Downing Income 1, 3 and 4 and Maven Income & Growth 5. In other words they have faced reality and changed their investment policy. I quoted from the last annual report of Maven Income and Growth 5 (previously called Bluehone AIM VCT) where they discuss the change of investment policy away from AIM: "*Your board is optimistic that the change of investment policy will deliver improved portfolio performance and increased revenues, creating the prospect for higher levels of dividend payments to shareholders…*"
The Chairman pointed out that I was ignoring the tax reliefs I obtained on the original investment, but I pointed out that those reliefs applied to all VCTs so what is important is comparing their performance against others. In any case, shareholders who invested originally expected a positive return from their investment regardless of tax reliefs.

Investment Policy. There was then some debate about the pros and cons of investing in AIM companies versus private equity deals. The board emphasised that they do have some private company investments but Mr Aynsz suggested that they do not necessarily have much control in those cases and getting out was no easier. The Chairman reiterated that the board was content with the existing investment policy.

Comment: the board just seems to be stubborn on this issue as any change of investment policy would not necessarily inhibit them from investing in both types of companies, but as few new investments are being made at present (cash is being returned to investors rather than reinvested in the main), it may be a somewhat minor issue.

Winding Down of the Company. I pointed out that with few new investments being made, and cash being returned to shareholders (in effect their own capital has been returned to shareholders via dividends), that the net assets have been shrinking and sooner or later the company will shrink to an unviable size. What does the board intend to do then? Should they not be facing up to this problem now? One director said they did have a model that enables them to monitor this issue and it shows that there is no short term problem (the exact time of when it would become unviable was not disclosed).
The options that might be available to the company if they became too small were discussed. For example a wind-up, but that was generally not supported by shareholders, particularly those who claimed capital gains roll-over relief. A merger with another company was another option – for example there are a number of other AIM VCTs still in existence. Some discussions had taken place in the past with such companies, but it was agreed the costs were high (up to £300,000 although I pointed out these costs were typically recovered over 2 or 3 years). I urged the board to have discussions with other VCTs regarding a merger.

Re-Election of the Directors. I covered the arguments as to why ShareSoc was opposing the re-election of the three directors. Firstly I referred the board to the letter which they sent to shareholders after I first circulated shareholders with a note on the issues at this company. Your letter said: "*We believe adopting Mr Lawson's proposal will immediately curtail the dividend stream*". I pointed out that in our subsequent meeting with the directors Mr Smart said: "*that this was because of a misunderstanding about what your objective was*". In other words it was a mistake. I said that in essence their letter to shareholders was grossly misleading. They had jumped to an erroneous conclusion and had made no attempt to correct this "mistake" in any subsequent communication to shareholders. I suggested it had distracted shareholders from the main issue. Mr Smart said he understood from our meeting that we had concerns about the dividend policy. That was certainly so because of the points covered above, but that meeting took place after the letter had been sent to shareholders and our original note said nothing about dividend policy. A change in investment policy would not necessarily involve any change in dividend policy.

I suggested on the grounds that the board approved that letter to shareholders (although it had been written by the former Chairman), that they should be removed and it was sufficient justification alone.

Independence of the Board. I also questioned whether the board was really independent (and hence should be changed). I pointed out that the Chairman has been associated with this company for 13 years. In addition Mr Aynsz works for the fund manager – it is no longer seen as best practice to have a fund manager on the board of investment trusts – and Mr Smart also has past business associations with the company. But the latter said he had done only minor legal work for the company in the past and when questioned denied any business associations with the fund manager.
Another shareholder said that he did not know the background of myself or any other potential new directors but I said I and my supporters had not put ourselves forward as directors. I said to the board that I would like to see the board consider this matter and it would be up to them to identify potential new directors.

Votes against the board. Based on the proxy vote counts (final results below), I suggested that with such a considerable vote against the three directors, they should consider their position. Certainly in a large public company the size of those votes would certainly encourage a director to step down.

However it was disclosed that the vote turn-out (as a percentage of all votes available) was only 12% - that is more disappointing than I have seen in other VCTs even, and particularly so bearing in mind almost all of them would have been sent a voting form (i.e. no nominee system problems here), and ShareSoc had reminded many of them to vote – but I pointed out not all as we did not have the resources to write to all of them.

Poll Results. There was some question about whether we had enough votes to requisition a poll, but as only five shareholders needed to support it we did have enough. A poll was then taken which took about 20 minutes. The three directors got between 26.5% and 28.5% against their re-election. Votes against Remuneration were 11.7% (although we did not oppose that) and against 14 days notice of AGMs of 18.8% (which we did oppose). In many respects not an unexpected outcome bearing in mind the difficulty of getting the shareholders to vote at all, to respond to the communications sent to them, to understand the issues, and the fact they had been grossly misled by the communications from the company. We may do better next year if we find it necessary to give the same recommendations.

One shareholder queried the fact that the poll figures supplied seemed difficult to reconcile with the previous proxy counts. They were similar but some votes were up and some down (shareholders can change their votes at the meeting but with few there that seemed unlikely). The Registrar said she would look into that.

Summary. The results of our campaign on this company have been very positive overall even though we have not yet managed to get the investment policy changed. The share price discount has narrowed due to the introduction of an active share buy-back programme (so shareholders who want to exit can do so at a fair price).

The investment management agreement has been renegotiated to a much better basis, with no performance fee (I congratulated the Chairman on that after the end of the meeting). Cash is being returned to shareholders rather than re-invested in new AIM companies but shareholders need to remember that the cash dividends are being paid not from profits but out of capital so they need to reinvest the cash elsewhere rather than spend their "fictitious profits".

This demonstrates that campaigns on companies can be effective, although the result tends to be as with any battle – the outcome may not be as simple a victory as one hoped for. Thanks to all the shareholders who supported our stance with their votes and to those who attended the AGM.

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