



7 August 2020

To the shareholders of Edge Performance VCT Plc

You will have recently received various documents from the VCT linked to their forthcoming meetings. We think it is important that you receive our view as well as that of the VCT directors. We are writing on behalf of The ShareSoc Edge Shareholder Action Group. See <https://www.sharesoc.org/campaigns/edge-vct-campaign/> for further information on who we are.

We have arranged a webinar on Friday 14 August at 4pm for shareholders to better understand the implication of the resolutions, and hence help determine how they should vote at the GM and AGM. Terry Back, Chair of the VCT, and members of the Action Group will be speaking with plenty of time for Q&A. To register go to <https://tinyurl.com/y5bpa52m> EIL, the Edge VCT manager, will be organising a second webinar on 17 August.

The Action Group was formed following the 2019 AGM, at which shareholders had voted for the removal of three directors. The members of the Action Group were concerned about the lack of progress of the sale of Coolabi, the historic performance of both the I and H class shares, and the costs and governance of the VCT.

Shareholder concerns have now been addressed to some extent by the announcement of progress on the sale of Coolabi which apparently may conclude before the year end 28/2/2021.

What the Campaign Achieved

The Board were forced to review the arrangements with the manager (see 13 May RNS). After a prolonged and at times very difficult engagement with the Directors, we negotiated and modified the Board's original proposal by re-establishing a cost cap for the evergreen H class and got agreement for a fairer sharing of costs between classes in years of major sales. We were unsuccessful in reducing the H class fees to 2.0% from 2.25%, nor getting the H class cost cap back in quickly enough.

We reluctantly endorsed the Board's proposal for a new investor agreement, while drawing the attention of shareholders to the following matters:

- i. The new deal, by removing the costs cap, provides extra payment to the manager, EIL, if Coolabi is sold in the period 2020/21; this money will be well spent if it incentivises a prompt sale of Coolabi.
- ii. If the Coolabi sale were to be completed quickly and funds returned to shareholders promptly the cost cap in the **existing** manager agreement would mean EIL would receive **no fees** for the year 2020/21 for managing the I Class.
- iii. The probability and timing of the proposed sale of Coolabi are unknown to us at the time of writing. Further information may emerge prior to the AGM. We recommended that shareholders **attend the pre-AGM webinars** and take account of any new information in considering how to vote on the new management agreement.
- iv. Some shareholders may wish to vote against certain directors to express dissatisfaction. However, the Board have claimed the removal of directors at the AGM could prejudice the sale process.

This position is not supported by all the leaders of the Action Group. Some oppose the re-election of Sir Robin Miller and of Terry Back.

The arguments in favour of the new agreement are:

1. The proposed manager agreement, which involves a reduction in investment management fees to zero for the I class from 1/3/21.
2. If the agreement is turned down, it may take considerable time to draw up a new agreement and it is debatable whether a revised agreement could be better for the I shareholders given the manager needs a year's notice period.
3. EIL have been involved in the Coolabi sale process to date, not least through David Glick of EIL being the Chairman of Coolabi, and replacing them with a new manager or disincentivising them in the midst of this process could potentially adversely affect the value received for Coolabi. The manager is motivated to exit at best value, as a successful sale is essential for future fund raising for the H class.
4. EIL now have no conflict regarding completing the deal this year and enabling dividends to be paid, as they still receive their full fees (and more) this year. Under the existing contract, EIL would receive no fees for the year 20/21 if all of the sale proceeds had been paid out. Thus shareholders and manager are aligned. Furthermore, the new deal provides the certainty to I class shareholders of zero investment management fees and a significantly reduced admin fee should any delay occur, putting an end to years of high fees and costs for a share class with only one significant asset.
5. If a successful Coolabi sale is concluded, and hence the H class is able to raise funds, then, when it does, a more suitable cap on expenses may be put in place.
6. Provisions and promises in the agreement that protect the H class shareholders and should prevent them being charged excessively at some stage in the future. In particular, the Board envisage that following a successful Coolabi sale, the H class will raise additional funds and the costs will then reduce significantly from the current position of being one of the highest in the VCT world. In any event, a 3.5% cost cap will be back in place by 1/3/22, at the latest.

The arguments against approving the new manager agreement are:

1. The existing manager agreement would provide no payment to the manager if the Coolabi sale was made and funds repaid to I class shareholders before 1/3/2021, whereas the proposed agreement provides up to c. £800,000 in respect of managing the I class in 2020/21, through the removal of the cost cap.

Arguments for the re-election of Sir Robin Miller and Terry Back as directors are:

1. As the current Board has offered Robin Goodfellow (a member of the ShareSoc Action Group) a director appointment, the potential exit of Coolabi, the reduction in expenses achieved in future years and the current Board's experience in dealing with such companies, it may be counter-productive at this stage to put forward hostile resolutions to appoint more directors and remove others, given the Board's "cooperation" over the last few months and the (hopefully) imminent sale of Coolabi.
2. The appointments of Sir Aubrey Brocklebank, Robin Goodfellow, and imminently a new director with very extensive industry experience, with Lord Flight retiring at the AGM, and Sir Robin Miller, as soon as the new director has settled in, will create a better Board.
3. Following the 2019 AGM, the directors have engaged with shareholders and representative of the Action Group and have listened to their views and concerns.

Arguments to vote against the re-election of Sir Robin Miller and Terry Back as directors are:

1. Sir Robin's failure, over many years, to address the need to progress the Coolabi sale and address the cost issues that have impacted shareholders so dearly.

2. In our opinion, Terry Back did not fully engage with shareholders nor the Action Group.
3. The Board has failed to incentivise David Glick and EIL to do the sale optimally - as quickly as possible and for as high a value as possible. Coolabi chose its adviser in June/July 2019. A sale process should not be allowed to drag on. This one has. (Covid is a convenient excuse, but has not hindered many people from working from home). The most likely candidates were pretty evident immediately and they have the deep pockets of cash rather than earn outs, deferral and never-never money. A slow deal is usually a sign of a bad deal or no deal.
4. The Board retracted (we think in May 2020) the protective notice to EIL to terminate their contracts, which we think it issued in early 2020. We believe such notice should have been given much earlier, and that the subsequent retraction limited the Board's negotiating power to agree further reductions in the fees payable to EIL.
5. If the Board had accepted Richard Roth's offer to join the Board post the AGM (which had been suggested by the Chairman at that meeting), we believe the cost issues in the renegotiation would have been settled much, much earlier and more beneficially to shareholders. It is disappointing that such a well qualified, available, willing and shareholder friendly candidate was not given greater consideration.
6. The Board still lacks sufficient shareholder friendly directors. This Board and previous Boards have opted for the easy life in failing to negotiate hard to reduce costs: without more change this may continue.

The situation remains complex and may change substantially over the coming weeks. Our "support" of the Board's proposal is based on the information available to us at the time of writing.

The launch of our Campaign not only provided impetus to the Board but provided it with leverage to negotiate with EIL. In such negotiations, it is always helpful to have a strong, determined, powerful 3rd party to apply pressure, as Board and manager still have to work together afterwards. The history of the Board's previous negotiations without such a 3rd party does not make good reading.

Campaign Objectives	Objectives achieved?
1. Change some members of the Board, to create a Board clearly focussed on:	Yes. Flight will leave at AGM, Miller soon after. 3 new directors appointed (Brocklebank Nov 2019, Goodfellow and new Chair designate at the AGM).
a. accelerating the process of looking for exit of the (essentially a single) investment for the I share class, given the limited life nature of that VCT;	Yes. Announcement now made about sale process for Coolabi. Advisers appointed.
b. ensuring that the I class shareholders are not incurring excessive costs (currently in excess of £1m a year to manage what is essentially a single investment) until this investment is exited;	Yes. Nil manager fee for 2021/22 for I Class. Other costs have been reduced and some focus now on costs. Excess (potentially payable to EIL) has been negotiated to be waived. £133k recovery should be paid to the VCT from EIL; £65k has been agreed, other £68k agreed in principle with exact details on a handshake.

Campaign Objectives	Objectives achieved?
c. reducing the operating costs of Edge Performance VCT to enable the H share class to be viable by itself, once the remaining investment of I class is realised and the sale proceeds are paid to the I class shareholders;	Yes. Admin fee reduced to £50,000 from £324,000. Other costs have been reduced and some focus now on costs. Agreed in 2020/21, allocation of costs to H Class will be done so that H Class shareholders are not penalised by the Coolabi sale, but this will be to the detriment of I class shareholders. New Cap for H class agreed of 3.5%, from 1/3/2022 and subject to potential further reduction in the event of fund raising, but may only start after 2 years of uncapped fees.
d. determining the best long term strategy for the VCT.	Unclear. Board have announced their intention to raise funds for H class after a Coolabi sale but surely this will only be viable with a stellar Coolabi exit.
2. Highlight the concerns of many shareholders about the current situation.	Yes. Board have engaged with the ShareSoc Edge Shareholder Action Group.
3. Persuade the Directors of Edge Performance VCT to engage with its shareholders and discuss appropriate manager agreements, other costs and what strategy might be.	Yes. See above.
4. Deter other VCT boards from approving egregious management fee arrangements.	Not yet. When campaign outcome is widely published, the deterrent objective will hopefully be met.

Campaign Costs

ShareSoc have spent c £2,500 on this campaign. The Campaign leaders have donated huge amounts of their time pro bono. ShareSoc is a not-for profit organisation that campaigns and represents individual shareholders and works for their benefit.

Support the Campaign

The best way to support the campaign is to vote at the AGM as the main campaign purpose was to get a better situation for shareholders, and hence it would be useful to both the Board and Action Group to understand the views of the shareholder base.

In addition, if you support the types of situation where we are seeking to make change, please join ShareSoc (£45 p.a. membership fee) <https://www.sharesoc.org/membership/full-membership/>

and /or make a donation to the Edge Campaign (£50, £100, £500 or whatever you can afford). see <https://www.sharesoc.org/campaigns/edge-vct-campaign/>

Please also join and support our VCT Investors Group www.sharesoc.org/campaigns/vct-investors-group/ . Through your support, we can continue this campaign, and others, to make your investing experience more successful.

Yours faithfully,

The ShareSoc Edge Shareholders Action Group