

To all Artemis VCT plc shareholders

August 2009

**UK Shareholders Association**  
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## **Artemis VCT Plc - Revised Management Arrangements are Not in your Interest**

Dear Shareholder,

At the recent General Meetings of the two Artemis VCTs to merge the Companies, there was a resolution to amend the basis of remuneration of the fund manager, Artemis Investment Management Limited. This resolution was carried but there was a significant percentage of the votes cast which were against the resolution. Amongst those dissenting voters were Dr Paul Castle and Mr Ian Read, who had each formally expressed their concerns in detailed submissions to the Company prior to the meetings, and who have now formed a Committee under the auspices of UKSA. The Committee has recently met with the Chairman of the Company to reinforce the view that the Revised Management Arrangements ("RMA") are not in the best interests of shareholders and are much too favourable to the Manager.

The Committee further believes that the details of the RMA and its effects were not adequately explained in the documentation sent to shareholders, and that therefore most shareholders might not have been fully aware of their economic impact. If they had been aware there is a strong possibility that they would not have approved of the proposals, and cast their votes accordingly. The attention of the FSA has been drawn to the possibility that the documentation did not meet the requisite fair and reasonable test. In addition because of the manner in which the merger process was structured, the shareholders of VCT1 did not have the opportunity of voting directly on the RMA.

The Company's pre-existing arrangements for remunerating the Manager comprised an annual management fee and a performance incentive. No performance incentive has been paid to date; and quite justifiably – the Company has performed very poorly, with material declines in net asset value and share price since inception.

The new RMA pays the Manager a performance related annual fee based on the increase in the Company's net asset value, subject to a minimum payment and a maximum of £2 million. This new scheme has no performance hurdle, will benefit from general rises in the stock market/AIM, and has been introduced when the prevailing bear market, particularly for AIM stocks, was at its nadir. If the net asset value falls further, then the starting point is ratcheted down to the new lower value for the purposes of the calculation. For very modest increases in net asset value (and market capitalisation) the RMA pays out more to the Manager than the pre-existing management fee and the maximum payment of £2 million per annum is unlikely to be difficult to achieve, and under circumstances where shareholders continually suffer substantial losses on their original investment.

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In conclusion the Committee and UKSA believe that the RMA represent an outrageous and totally unacceptable transfer of value from shareholders to the Manager, and a number of independent commentators concur with this view. The RMA rewards the Manager for past failure and for increases in net asset value in the future which may not be related to its performance. The Committee and UKSA believe that the Company should re-open discussions with the Manager with a view to renegotiating the Manager's remuneration arrangements to align them more properly with shareholders' interests. Accordingly, we wish to gauge the extent to which shareholders would be supportive of an initiative to seek to modify the remuneration arrangements of the Manager.

Please return the return the reply slip below for more information. This is of course just one of the ways that the UK Shareholders' Association campaigns on your behalf. We are also asking for donations to support the cost of this campaign.

Yours sincerely



Roger Lawson  
Communications Director, UK Shareholders Association

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**Artemis VCT Campaign**

Yes I am interested in supporting your campaign in respect of Artemis VCT Plc  
Please record my interest.

Name/  
Address

***Please amend  
name & address  
if not correct.***

Telephone (optional): \_\_\_\_\_

E-mail address (if available): \_\_\_\_\_  
*(Please write clearly in capitals. Note that we will send information via email in preference as it costs less).*

Yes I will also make a donation to your campaign – the suggested contribution is at least £15 to register your interest, but more in proportion if you held more than 10,000 shares). All donations are voluntary. I enclose my cheque for £\_\_\_\_\_ (make payable to the UK Shareholders Association).

If you wish to be removed from our mailing list please tick here:

Terms and conditions. Note that the UK Shareholders Association warrants that any contributions made in respect of this matter will be used solely to promote the interests of the shareholders of Artemis VCT Plc.. If we subsequently determine at some point that no further action is necessary, then any funds remaining will either be returned by UKSA to contributors pro-rata to their total contributions, or may be used for any charitable purpose to promote the interests of UK shareholders in general by UKSA. Money paid to UKSA for this campaign will be accounted for separately, and any expenses incurred likewise, and a statement of income and expenses will be supplied to contributors at appropriate points in time, but no less than annually. The UK Shareholders Association (UKSA) is a "not for profit" company limited by guarantee – see [www.uksa.org.uk/About.htm](http://www.uksa.org.uk/About.htm) for more information. The Artemis VCT Shareholders Action Group is a group operating under the constitution of UKSA. (ML48)