

Response Letter  
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**UK Shareholders Association**  
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16 April 2005

Dear xxxxxxxx,

Thank you for responding to our letter concerning the Singer & Friedlander AIM Venture Capital Trusts (VCTs). Specifically that refers to the original S&F AIM VCT launched in 1998, the S&F AIM 2 VCT launched in 2000, and the S&F AIM 3 VCT launched in 2001. Our concerns about these companies are as follows (figures below refer to the position in March 2005, or at the date of the last Interim or Annual Report):

#### **Singer & Friedlander AIM VCT**

1. The performance of this company has been very poor and it is one of the worst performing of all VCTs in respect of the total return to investors (the change in net asset value plus dividends paid). For example, it currently ranks bottom of all AIM funds launched in the 1997/1999 tax years according to data from independent fund analysts Allenbridge. On a total return basis, the company has lost on average over 8% of your investment every year. Net assets per share are now down to 36p (reference the last Annual Report) from your initial investment of £1. If you wished to sell your investment the current market price (the quoted nominal bid price for sales) is now less than 30p per share, so 70% of your investment has been lost, and even that price may not be achievable in practice.
2. Even in the last full financial year (to end September 2004) the net assets declined by a further 4%, when the AIM index rose by 22%. And we do not accept that the Chairman's explanation for this divergence in the last Annual Report is the full story.
3. We believe that this decline has primarily been caused by poor selection of investments which is surely the responsibility of the fund manager, Singer & Friedlander Investment Management Ltd. Therefore we consider that the company should review the existing fund management contract and communicate to the fund manager that the performance of the fund is not acceptable and must be improved.
4. The net assets of the company when last reported were only £5.2 million. In our view this is probably too small to be viable for a venture capital trust and there seems to be a general view in the venture capital industry that VCTs should preferably be larger than £10 million in net assets. The small size results in high administration and other overhead costs relative to the assets or profits of the company. We therefore suggest it would be wise for the board to consider a merger of this company with other similar VCTs, as other small, under-performing VCTs such as the Chrysalis VCTs have done recently.

5. Note that we recognise that the board has taken some steps to reduce the administration costs and the relevant contract was apparently renegotiated last year, but the total expenses (investment management fees and other expenses) were substantially higher than the income last year and represented 3.8% of the net assets at the year end.

### **Singer & Friedlander AIM 2 VCT**

6. This company shows a similar disappointing financial performance to the one above. Total annual return averages minus 6.4% (reference Allenbridge), and net assets per share are now down to 60p (from the last interim report). Net assets were £13 million so this is a reasonable size fund. Of course, the fund manager is the same, and indeed many of the portfolio investments overlap with the company above.

Again we would question why the directors have not reviewed the appointment of the fund managers, and considered a replacement.

### **Singer & Friedlander AIM 3 VCT**

7. The last company shows a better financial performance, although there is again overlap in the holdings with the above VCTs. With net assets of £31 million, the portfolio is of course substantially larger and more varied and the better performance possibly shows the advantage of size, or is it that the fund manager is learning from their past mistakes? Total return averages a positive 1.4% per annum (reference Allenbridge), and net assets were 95p at the last Annual Report. However it is worth pointing out that even this company has effectively after 4 years given you a negligible return on your initial investment (ignoring tax reliefs). It also compares unfavourably with other AIM VCTs launched in the same year such as Artemis and Unicorn.

8. One aspect of this company which we would question is the presence of two directors or employees of Singer & Friedlander Investment Management Ltd (the fund manager) on the board. In our view this tends to impact negatively on the independence of the board. Also there are now 6 directors of the company which is quite a large number for a VCT.

### **Factors Affecting All The Companies**

9. The audit fees, and other "non-audit" fees (presumably VCT status monitoring costs and interim reviews), paid to the auditors seem excessive in all three of these companies. The figures are as follows for the last full financial years:

| <b>Company</b> | <b>Audit Fee (£)</b> | <b>Non-Audit Services (£)</b> |
|----------------|----------------------|-------------------------------|
| S&F AIM VCT    | 19,975               | 14,688                        |
| S&F AIM 2 VCT  | 19,975               | 17,626                        |
| S&F AIM 3 VCT  | 19,975               | 27,467                        |

The auditors are PricewaterhouseCoopers in all three cases, and it is interesting to note that the audit fees are the same in all of them although the size of these companies and the number of portfolio holdings vary substantially. How do the audit fees compare to other VCTs? Well a few examples are: The AIM VCT: £11,000, Baronsmead: £14,000, Rensburg AIM: £8,000, Northern Venture: £9,000 (and some of these are non-AIM VCTs where portfolio valuation is probably more debatable). Or compare the above fees with those of Dunedin Income Growth, a large general investment trust with net assets of £390 million whose audit fee last year was £11,000! The writer of this note, as a shareholder in S&F AIM 2 VCT has complained about the level of these fees at both the last two Annual General Meetings, but to no great effect.

10. One aspect of these companies which appears poor is shareholder communication. There is little information provided on the Singer & Friedlander web site (no copies of Annual or Interim Reports for example, or recent regulatory announcements), and the companies seem to do little to involve or interest their shareholders in the activities of the fund manager. As a result, attendance at AGMs has been very poor - for example, the writer has attended meetings of S&F AIM 2 VCT where he was the only ordinary shareholder.

UKSA believes that these companies and the fund manager could do a lot more to explain to shareholders the reasons for poor performance and the problems the companies face, whereas at present the Annual Reports typically give the impression that the problems are temporary, the results unexceptional and the prospects positive.

### **UKSA Guidelines for Venture Capital Trusts**

11. UKSA has recently produced a report on venture capital trusts and a set of "guidelines" for how they should be managed, which can both be seen on our internet web site at [www.uksa.org.uk/VCTs.htm](http://www.uksa.org.uk/VCTs.htm) (alternatively we can supply them in paper form upon request but there is a charge of £5 in that case to cover the cost). Anyone with an interest in VCTs would certainly find these reports of interest. Although the Singer & Friedlander VCTs are better than some others in such matters as information disclosure, in summary it is clear that while substantial fees have been paid to Singer & Friedlander Investment Management, and to the various "administrators", the returns to shareholders have been very poor. We would question whether these companies have truly been managed in the most effective manner and in the best interests of shareholders.

12. We suggest as a first step that you write to the relevant chairman of the company expressing your dissatisfaction on the above issues and asking him to take action accordingly. You should write to: one of the following:

Singer & Friedlander AIM VCT: John Carrington  
Singer & Friedlander AIM 2 VCT: James Hambro  
Singer & Friedlander AIM 3 VCT: Christopher Moorsom

The address for all three is c/o Singer & Friedlander, 21 New Street, London, EC2M 4HR. It is best to do so in your own words, but if you are short of time, please use the template letter attached. A representative of UKSA will be attending any future general meetings of these companies and we have also asked for a meeting with each of the Chairmen. Our future actions to pursue these issues will depend on the response of the directors.

If you have any questions or comments on the enclosed, please contact me via phone, email, fax or letter.

Yours sincerely

Roger Lawson  
Communications Director

To the Chairman  
Chairman  
Singer & Friedlander AIM \_ VCT Plc  
21 New Street  
London  
EC2M 4HR

Dear Mr \_\_\_\_\_,

I have recently received a communication from the UK Shareholders Association (UKSA) related to the Singer & Friedlander AIM Venture Capital Trusts, and I agree with their concerns on these companies. Specifically I wish to request that you consider the following points:

1. The performance of the fund manager.
2. The apparently excessive fees paid to the auditors and other aspects of the cost structure of these companies.
3. The other issues specific to your company mentioned in the UKSA letter.

I would also request that you review the "Report and Guidelines for Venture Capital Trusts" recently published by UKSA with a view to adopting their recommendations in all respects for operation of the company.

Yours sincerely

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Name  
Address