

## **UKSA Campaigns to Improve the Performance and Governance of Venture Capital Trusts (VCTs)**

Unlike the situation in most quoted companies, private shareholders are the predominant holders of shares in Venture Capital Trusts (VCTs). UKSA, as the main voice for private shareholders in the UK, has commenced a campaign to improve the performance and corporate governance of such investment trusts.

The historic performance of VCTs has been very variable. For example, for generalist trusts founded in the years 1995 to 1997, the Total Return (net assets plus dividends reinvested) ranges from 171.9 pence for Close Bros VCT to 45.8 pence for Advent VCT, from an issue price of 100 pence. The worst case represents a negative annual return of 10.2%!

UKSA believes that many underperforming trusts could be improved, and that the cost structures of these funds needs careful examination and attention. For example, the cost ranges can be extreme as you can see from the following:

- Directors fees range from £26,000 for Oxford Technology 3 VCT to £79,000 for British Smaller Companies - the latter apparently require 8 directors which for such a small fund is odd to say the least. Directors are often paid similar amounts to those of much larger investment trusts (even those that specialise in venture capital).
- Audit fees range from £5,000 for Oxford Technology 3 VCT to £24,620 for Foresight Technology, when the latter seems grossly excessive for a fund worth about £25 million (and again larger than audit fees for a large generalist investment trust such as Dunedin Income Growth).
- Other expenses can range from £54,000 for Rensburg AIM VCT to £240,545 for Singer & Friedlander AIM2, which are both AIM based VCTs.

We are also not happy with the information provided in some cases to shareholders, which does not enable shareholders to understand what is happening to their investment. The worst performing VCTs, possibly unsurprisingly, often seem to be the most reluctant to reveal the full details of the portfolio and the past performance. Examples are some of the Murray and Quester VCTs.

Regretfully the boards of venture capital trusts also appear reluctant to change the fund manager, even when it is clear that performance is poor. However recently there have been a couple of changes, and UKSA would argue that more are required. Regretfully, in many VCTs, the tail wags the dog, instead of the other way around. The Fund Managers create the VCT, it's often named after them, they arrange the appointment of friends or associates as the initial directors, the Fund Management contract often has long term and onerous termination rights and thereafter the Fund Manager has a dominant influence on the operation of the VCT.

More information on these and other problems, and our proposed solutions, has been documented in two papers entitled "UKSA Report on Venture Capital Trusts" and "UKSA Guidelines for Venture Capital Trusts". These are available from our web site at [www.uksa.org.uk/VCTs.htm](http://www.uksa.org.uk/VCTs.htm), or via email or post from Roger Lawson on the main UKSA contact addresses.

UKSA is launching a press campaign and a linked marketing to shareholders of the poorest VCTs so as to try and stimulate some changes in these companies. Note however that we believe that venture capital trusts can be very sound investments. Many have given a better Total Return than the FTSE All-Share over the past 5 years, and with the substantial tax reliefs they provide have therefore proved a very sound investment. The key is to try and bring the poorest funds up to the standards of the best, or at least enable investors to judge bad from good.

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