

To Spark VCT Shareholders

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## **Spark VCT Campaign – Update No. 2**

### **Report on AGM**

The Annual General Meeting of Spark VCT Plc took place on the 8<sup>th</sup> May in London. About 30 shareholders were present but several pointed out the inconvenient time of 10.00 am which makes it difficult for those shareholders outside the South East to attend and often makes it more costly than a later time.

Early on I stated that as I had a number of proxies I intended to call a poll on all the resolutions. The Chairman, Jock Birney, then asked the company's legal advisor whether I had enough votes to do so, who said I didn't. I queried this because usually the right to demand a poll is based on either a number of shareholders in person or by proxy, or 10% of the shares, and I surely qualified on the former basis. However as the Chairman made it clear that all the resolutions would pass even if all my proxies were used to vote against the resolutions, I let that pass. In reality on examining the Articles of the company at the end of the meeting, it seemed only two shareholders were needed to insist on a poll so the lawyer's advice was definitely wrong.

### **The Performance Fee**

I asked several questions about the performance fee, and commented that it had not previously been explained to shareholders that this fee which was paid to Spark Venture Management Ltd (the fund Managers) had actually been paid on to Messrs Holmes and Spooner under an earn-out arrangement put in place when they sold the Quester fund management business to Spark. This fee, as we have previously pointed out, was both unnecessary and unjustified. It cost the company over a million pounds, and was based on the payment of dividends that were not covered by profits – simply delaying the dividend payment would have avoided the unnecessary payment.

Mr Birney justified the payment on the basis that the fund manager had been successful in making realisations which enabled the dividend to be paid. But I pointed out that this also meant that the people responsible for the historic underperformance of the company by the failures in their investment management over ten years were going to be benefiting.

It seems that Andrew Carruthers, the representative of Spark on the board of the VCT, took part in the discussions on the payment of this dividend but did not vote on the matter – surely a questionable conflict of interest there?

I also asked Mr Birney how long he had known Holmes and Spooner, and he admitted that he had known Andrew Holmes for more than 30 years. This information was not disclosed to shareholders either of course.

If shareholders had been properly informed about these facts, they almost certainly would not have approved the dividend and the associated performance fee payment that was directly dependent upon it.

I asked the new incoming Chairman, Robin Field, to look into this matter to see if there was any legal action that could be taken to recover these amounts, and he agreed to do that.

We did learn from another question from the audience though that Holmes and Spooner had not been selling their shares back to the company of late, and they still held substantial numbers of shares.

### **The New Directors**

The three new directors (Field, Adams and Lockwood) briefly explained their backgrounds. I questioned whether the company needed a lawyer on the board (as that has been Adams main career – indeed he is a former partner of the company's legal advisors). Surely I said as the main problem in this company had been investment management, we need people who could judge the performance of the investment manager and some background in investing in early stage technology companies was therefore surely more appropriate. After all, lawyers can easily be hired when required. Mr Field explained that he saw a clear division between the board and the manager and Mr Adams' background and experience would be useful. However I voted against Mr Adams.

### **The Way Forward**

I asked Mr Field to explain how he was going to sort out the problems of this company and improve its performance going forward. In essence, what was his manifesto as the new Chairman? But I got a pretty wishy-washy answer with no specific commitments. I therefore voted against Mr Field also.

Note that so far as I am concerned the new board is very much "on probation", and needs to justify its appointment quite rapidly. We do not want another 10 years of inaction and underperformance. It is not sufficient to abdicate responsibility for competent fund management to the fund manager, and there are other issues to be looked at in respect of this company. For example should it be merged, wound-up or the manager changed?

I have written to Mr Field asking him to provide a report to shareholders within the next 3 months explaining what is being done, or what he plans to do. That should be long enough to formulate a strategy. Unfortunately Mr Field does not seem to believe in involving shareholders in the decisions about the future but I will be pressing him more on this if he fails to communicate with shareholders.

### **Voting**

All the resolutions were passed on a show of hands, and the proxy votes were also in favour although some of the directors got votes as high as 7% against them (these were apparently counted on the basis that any "open proxies" I received were voted against). However, UKSA did not canvas for proxies or recommend specific voting as I wished to hear the answers given at the meeting before deciding.

## **UKSA Membership**

We got a good response to our call for financial support for this campaign so we have more than covered our costs so far. Thanks to all those who contributed. If you donated more than £50 to this campaign you can claim free membership of UKSA for one year. There are many benefits of membership including a monthly newsletter and a variety of meetings where you can network with fellow investors. More information is present on this page of our web site: [www.uksa.org.uk/Membership.htm](http://www.uksa.org.uk/Membership.htm) . If you have donated more than £50 but have not yet claimed this benefit, simply call 020-8467-2686 to do so.

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*Note that all previous information issued by UKSA in respect of our campaign on the Spark VCT is present on the following web site page: [www.uksa.org.uk/Spark.htm](http://www.uksa.org.uk/Spark.htm)*