

To Artemis Shareholders

January 2010

**UK Shareholders' Association**

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**Artemis VCT Shareholder Action Group – Campaign Success Update**

It is very pleasing to be able to report that the Company has now agreed to rescind the Revised Management Arrangements (RMA) in their entirety and to revert to the manager's original remuneration arrangements, back dated to 1 April 2009 (subject to shareholder approval). An announcement to the stock exchange to this effect was made by the Company on 20 January 2010. The committee's calculations (as set out below and in previous notes and updates) show that this will have the effect of materially reducing the manager's fee relative to the RMA and thus preserve substantial shareholder value.

Over the past few months the committee has been strengthening its case in order to resubmit its arguments to the Company and thus persuade the board to change its mind. Shareholders will have noticed that the forms of words used by the Company to define the basis of calculation of the RMA have changed significantly over the past ten months:

The original version in the merger documentation stated that "*The fee shall be calculated as 25% of the increase in the net asset value ... subject to a maximum amount payable of £2 million ... and a minimum of 1.4% per annum ...*" ;

The version describing the amended RMA in the Interim Management Statement for the four months ended 31 July 2009 defined "*a management fee of 1.4% per annum of the average net asset value of the Company. In the event that a performance related fee is earned in respect of that 24 month period, that fee, taken together with the management fees paid over the period, will be restricted to a maximum aggregate amount of £2 million*";

The latest version of the amended RMA appearing at Note 3, page 33, of the Annual Financial Report for the year ended 30 September 2009 defines "*a fee calculated as the higher of 25 per cent of the increase in adjusted net assets ... over a performance period or 1.4 per cent per annum of the average monthly adjusted net assets*";

with the added complication that the performance period referred to will in the first instance be 2 years from 1 April 2009, rather than 6 months.

Any reasonable interpretation and application of these definitions leads to radically different results. Using the most recent statement, the Committee's calculations show that over the two year period to 31 March 2011, relative to the manager's original remuneration arrangements, the latest amended RMA yields for the manager:

- the maximum £2 million fee (compared to a corresponding fee of only £1.29 million under the manager's original remuneration arrangements) for increases in net asset

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value and market capitalisation of more than 10.26% per annum relative to their respective 31 March 2009 values

- a greater fee for increases in net asset value and market capitalisation of more than 6.49% per annum relative to their respective 31 March 2009 values

and calculations show also that for the original remuneration arrangements to yield a fee of £2 million, market capitalisation over the two year period would have to increase by an astronomical 62% per annum.

It is noteworthy that the AiM All Share Index and net asset value have increased by c68% since the date of introduction of the RMA. For the six month period to 30 September 2009 the fees accruing to the manager pursuant to the RMA amounted to £1 million, whereas the original remuneration arrangement would have yielded a substantially lower fee of £311k.

There thus remained no question in our opinion that the RMA, as amended, are not in the best interests of shareholders, and we were determined to re-present our case to the chairman of the Company.

Since last September requests for a further meeting had been made of the chairman with a view to revoking the RMA, as amended, and to reverting to the manager's original remuneration arrangements. Up until Christmas, the chairman had not agreed to a meeting, and the committee felt that there was no alternative therefore but to make preparations for mobilising shareholder support to make the necessary changes at the Company. Such preparations are well advanced but were suspended when the chairman finally agreed to meet in January.

At the meeting the committee re-presented its arguments that demonstrate that the RMA, as amended, are not in the best interests of shareholders. The chairman, accompanied by another director and the company secretary, maintained its position, but agreed to consider the matter further. Within a matter of days the board of the Company informed the Committee that it had formulated a recommendation to revoke the RMA in their entirety and to revert to the manager's original remuneration arrangements, back dated to 1 April 2009. The Company made an announcement to the Stock Exchange to this effect on 20 January 2010.

It goes without saying that it is essential that shareholders vote in favour of revoking the RMA in their entirety at the general meeting to be called by the Company for this specific purpose.

The stock exchange announcement can be found at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-detail.html?announcementId=10347569>

Finally we would like to thank all those shareholders who supported the campaign and thus contributed to its success. The committee will remain in place for the foreseeable future and intends to maintain a watchful eye on the performance and activities of the Company and its manager.

On behalf of the Artemis VCT Shareholders Action Group

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*Note that all previous "Update" notes on Artemis that we have issued are present on the following web site page:* <http://www.uksa.org.uk/ArtemisVCT.htm>

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