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Oxford Technology Shareholder Action Group - Corporate Governance Issues and Recommendations

The Committee that runs this Action Group has considered the current status of the Oxford Technology VCTs, and has formulated the following views on how they should be improved in regards to structure and corporate governance. We have communicated these views to a number of the parties concerned.

The Companies Act (2006) requires all PLCs have at least two directors and the current AIC guidelines on corporate governance for investment trusts (Feb 2013) state that the majority of directors should be independent of the fund manager. A review of the 110 VCT funds (excluding the 4 Oxford Technology VCTs) listed on Trustnet, indicate that approximately half of the VCTs do not have a manager representative on the board of directors (for example: Baronsmead, Mobeus, Foresight and Albion). For the funds which do have a manager on the board (for example: Octopus, Maven and Northern), the boards consists of at least three directors, two of whom are independent.

The 4 Oxford Technology VCTs currently have just 2 directors on each board, one of whom is a manager representative and the other being an independent chairman, therefore these boards do not have a majority of independent directors. In addition two of the independent directors have served on the board since the inception of the first Oxford Technology VCT over 15 years ago; this is contrary to the FRC mandated UK Corporate Governance Code (2012) which stipulates a maximum of 9 years' service for independent directors.

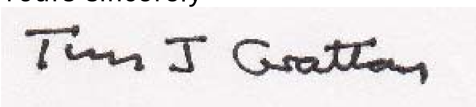
Up until 2010, each of the four Oxford Technology VCT boards, consisted of five directors, one of whom was the manager and all four boards comprised the same directors. In September 2010 there was a change in the listing rules that prohibited the majority of the board being made up of persons who are also directors of other companies managed by the Company's investment manager. The corporate structures were then changed in response to the rule change, such that each of the four independent directors assumed the chairmanship of one of the four VCTs and then resigned as director from the other three boards. This left 4 VCTs, with 4 separate boards, with each board consisting of just two directors (i.e. one independent director and the manager). Since this change in board structures OTM have introduced a system whereby all 5 directors meet as a group for board meetings. This arrangement with an enlarged board of directors, could give rise to a situation whereby an individual director might influence a VCT investment decision regarding investee companies in which they hold shares themselves, by VCTs in which they hold no official office. They could therefore be construed as being shadow directors with potential conflicts of interest.

There are both regulatory and cost constraints concerning any proposed new board structure. The current structure is clearly unacceptable from a corporate governance perspective, but given the small size of the funds and their lack of income to service ongoing running costs, they are unlikely to be viable as standalone VCTs if best practice principles are adopted for each individual VCT.

It is therefore proposed the boards of directors are refreshed and strengthened to bring them up to the absolute minimum required to comply with corporate governance guidelines, so each board should consist of 2 independent directors with no manager representative. It is proposed that as soon as the new boards are in place, the directors should conduct a strategic review to look at possible ways forward for the VCTs which would ensure compliance with VCT rules and good corporate governance whilst keeping costs to a minimum, thus enhancing shareholder value. It is not possible to pre-empt the outcome of the strategic review, but the options may include merging the VCTs, putting the VCTs into controlled run off, changing strategic direction, or some other change.

Should the strategic review conclude that a merger of the 4 VCTs was in the best interests of shareholders, it should be possible to adopt best practice corporate governance principles for the merged VCT with little or no increase in ongoing running costs compared to the pre-merger situation.

Yours sincerely



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