

Publication of Circular and Notice of General Meeting

Recommended Proposals to approve entry into a new Performance Incentive Scheme with Calculus Capital Limited (“Related Party Transaction”)

17 July 2023

Calculus VCT plc announces that a circular relating to a proposed new Performance Incentive Agreement, which is a related party transaction under the Listing Rules, has been approved by the Financial Conduct Authority and is being published today.

A copy of the Circular will be available for download on the Company's website <https://calculuscapital.com/investment-opportunities/calculus-vct/investor-information/> from the date of this announcement up to and including the date of the General Meeting and for the duration of the General Meeting.

In addition, a copy of the Circular will shortly be submitted to the National Storage Mechanism and will be available for inspection at <https://data.fca.org.uk/#/nsm/nationalstorage-mechanism>.

A notice convening the General Meeting is set out at the end of the Circular which proposes a single Resolution to approve the Related Party Transaction. The General Meeting will be held immediately following the conclusion of the Company's Annual General Meeting scheduled for 12.00 p.m. on 21 August 2023 at 1 Warwick, 1 Warwick Street, London W1B 5LR.

The Circular is expected to be posted to Shareholders by 28 July 2023 and extracts from the Chairman's letter to Shareholders are set out below.

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Recommended proposals to enter into a new performance incentive agreement with the Company's manager, Calculus Capital Limited ("Calculus Capital")

The Directors' Report contained in the Company's published annual accounts for the year ended 28 February 2022 referred to the board of the Company ("**the Board**") having recognised that the existing performance fee arrangements with the Company's manager, Calculus Capital, were no longer compatible with the current strategy of the Company. The Board resolved to undertake a review of the existing arrangements, and comparable arrangements within the VCT market, and communicate any proposed changes in due course.

Following the conclusion of that process, I am writing to you to seek Shareholders' approval for a new performance incentive agreement with Calculus Capital, to replace the existing incentive agreement.

As further set out below, it is proposed that the existing arrangements, which permit incentive payments to be made only following the payment of dividends totalling 105p per Ordinary Share, be replaced with an incentive scheme based instead on the achievement of realised gains made through the sale of investments by the Company. For incentive payments to become due under the proposed arrangements, two total return hurdles must also be satisfied and no payment may be made to the extent it would cause either of those hurdles not to be met.

Description of existing performance incentive arrangements

Under the current arrangements, Calculus Capital would be entitled to receive a performance incentive payment equal to 20% of distributions made by the Company to Shareholders once those Shareholders have received distributions equal to 105p per share. Distributions for these purposes are defined as dividends paid in cash and the consideration paid by the Company, on a per share basis, where it buys back shares from its Shareholders.

These arrangements were conceived when the Company was in its early stages as a 'structured products' VCT under the joint management of Investec Structured Products as well as Calculus Capital and operating in a very different market, regulatory environment and with a different strategy and return profile. No performance incentive has been paid historically under these arrangements and the Board do not consider any payment to be achievable in the foreseeable future.

Description of proposed new performance incentive arrangements

Under the proposed new arrangements, the incentive fees are only payable to Calculus Capital if:

- the Company's cumulative realised investment gains are greater than its cumulative realised investment losses since inception;
- the total return to Shareholders, made up of net asset value ("NAV") per share and dividends per share paid, ("**the Total Return**") is positive over a rolling five-year performance period; and
- the Total Return for the year preceding any payment has increased by at least 4.5% from the NAV per share at the end of the previous year.

If all three conditions are met, a performance fee equal to 20% of the excess realised gains (less previous performance incentive payments made) is payable to Calculus Capital. Excess gains are calculated simply by subtracting realised losses made on the disposal or write off of investments by the Company from realised gains made on the disposal of investments by the Company.

By way of illustration, if the new performance incentive arrangements were to have been in place as at the date of this document, the Company would have achieved excess cumulative realised gains of £326,997. However, this would not have resulted in an initial performance payment to Calculus Capital of £65,400 (ie 20% for such excess realised gains) being due in respect of the period ended on 28 February 2023 since both of the Total Return conditions set out above were not met at the relevant times.

Rationale for the revised performance incentive arrangements

The existing performance incentive fee arrangement has been substantively unchanged since 2010, having been conceived of when the Company was in its first years of operation, with a co-manager in the form of Investec Structured Products, and in a period when the regulatory landscape for VCTs was markedly different.

The purpose of any performance fee arrangement with a fund manager is to incentivise that manager to perform,

to enable it to attract and retain key staff and to align the interests of the manager with those of investors. The existing arrangements are not achieving those goals and so it is the opinion of the Board that they need to be refreshed.

With that in mind, we have surveyed the market for other arrangements which we believe are well structured to achieve the above aims and consulted with leading market commentators on what they consider to be optimal in terms of providing protection and value for money for shareholders.

A key element of the proposed new arrangements is that performance incentive fees would only be paid out based on realised gains made on disposals. A common weakness of certain of the VCT performance fee structures we reviewed, in the Board's opinion, is where these are based simply upon unrealised "paper" gains.

By combining a requirement for overall positive returns, the achievement of a 4.5% value hurdle in the lead up to any calculation, and the important requirement that fees are only then payable where actual, realised gains exceed realised losses, the Board believe that the proposed arrangements ensure shareholders' position is well protected while allowing the manager to be appropriately incentivised.

Related Party Transaction

As Calculus Capital is the investment manager of the Company, the entry into the new performance incentive arrangements described above will constitute a related party transaction under the listing rules of the FCA (the "Listing Rules") (the "Related Party Transaction"). Accordingly, the approval of Shareholders for the Company's entry into the Related Party Transaction is required in accordance with Listing Rule 11.1.7(3).

John Glencross, as the chief executive of Calculus Capital and a non-independent director, did not take part in the Board's consideration of the proposed new arrangements, nor vote on the Board's decision to put the Related Party Transaction to Shareholders for their approval at the General Meeting.

A notice convening the General Meeting is set out at the end of this document which proposes a single Resolution to approve the Related Party Transaction. The General Meeting will be held immediately following the conclusion of the Company's Annual General Meeting scheduled for 12.00 p.m. on 21 August 2023 at 1 Warwick, 1 Warwick Street, London W1B 5LR.

The Board, which has been so advised by Beaumont Cornish Limited, the Company's Sponsor, considers the Related Party Transaction to be fair and reasonable insofar as the Company's shareholders are concerned. In providing its advice to the Board, Beaumont Cornish Limited has taken into account the Board's commercial assessment of the effects of Related Party Transaction.

Risk factors relating to the Related Party Transaction

If the Related Party Transaction is not approved by Shareholders, the existing performance incentive arrangements will continue. As noted above, the Board and Calculus Capital consider that it may be more difficult to recruit, retain and incentivise quality investment management personnel without an appropriate incentive scheme in place. This may affect the performance of Calculus Capital, which may in turn impact the performance of the Company's portfolio and, thereby, returns to Shareholders, as the ability to pay performance incentive fees is an important component of management returns payable to an investment manager and, accordingly, an investment executive's remuneration package for managing a venture capital portfolio.

Recommendations

The Board are of the opinion that the Related Party Transaction to be proposed at the General Meeting is in the best interests of the Shareholders as a whole and unanimously recommends that you vote in favour of the Resolution.

The Board, with only the exception of John Glencross who is ineligible to vote his shares, intend to vote, in respect of their own holdings of 37,455 Ordinary Shares (representing 0.05% of the voting rights in the Company), in favour of the Resolution.

Under the Listing Rules, Calculus Capital as a related party is not entitled to vote on the Resolution to be proposed at the General Meeting to approve the Related Party Transaction. Calculus Capital does not hold any shares in the Company and has undertaken to take all reasonable steps to ensure that its associates shall not vote on the Resolution and to include procuring undertakings not to vote from its employees.