

## LETTER FROM THE CHAIRMEN OF THE CORE VCTs

If you are in any doubt about the action to be taken, you should immediately consult your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000 if you are in the United Kingdom or from another appropriately authorised Independent Financial Adviser if you are outside the United Kingdom.

If you have sold or otherwise transferred all of your Shares in Core VCT plc, Core VCT IV plc or Core VCT V plc (the "VCTs"), please send this letter, as soon as possible, to the purchaser or transferee or to the stockbroker, independent financial adviser or other person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This letter is supplemental to and refers to and should be read in conjunction with the Circular to Shareholders dated 9 June 2011 (the "Circular") which described the Proposals. Terms used within this letter shall have the same meaning as those defined in the Circular.

23 June 2011

Dear Shareholder,

### Introduction

The purpose of this letter is to provide all Shareholders with answers to specific questions that have been raised since the publication of the Circular.

Under the Proposals, the six Portfolio Companies will be transferred to Core Capital I LP (the "Fund"), where new capital of £46.8m has been raised to support the growth plans of the portfolio and provide some liquidity for Shareholders through the payment of a capital distribution of 10p per Ordinary Share.

The six Portfolio Companies being transferred no longer qualify for VCT funding due to their size alone and must therefore rely on other sources of financing.

We hope that the answers set out below will be helpful to Shareholders in reviewing the Proposals.

### Transaction rationale

- *What is the objective of the transaction?*

The objective of the transaction is to secure the funding needs of the VCTs' portfolio companies as well as retaining the VCT status of the three VCTs for Shareholders. At the same time, the transaction preserves the Manager's involvement in and control over the investments that have already been made, achieves equal capital ranking alongside the New Investors, and reduces the overall funding risks for the VCTs.

Whilst it may be possible to seek to raise equity funding directly into the underlying companies, it is the Manager's and the Boards' view that implementing this option would be particularly unattractive to Shareholders. Likewise, the Manager investigated seeking funding from debt providers but these resulted in unsatisfactory terms.

- *Why not sell one of the companies and re-invest the proceeds into the remaining companies that require further investment?*
- *Could you have sold the entire portfolio instead of raising new money?*

One of the first options that the Manager explored was selling one or more of the assets and using the proceeds to fund the rest of the portfolio. However, it would not be possible to reinvest the proceeds from such realisations since these additional investments would then breach the VCT qualifying tests. Specifically, the VCT tests breached are the gross assets, number of employees, and fund concentration tests.

Selling one or more of the companies in the current market conditions is not an attractive option. Most of the companies have contractual restrictions on sale or transfer of shares and any sale would require the co-operation of management and other stakeholders. Further, in the view of the Manager and the Boards, an attempted sale of the whole portfolio at this stage, would be unlikely to maximize the potential value for Shareholders.

- *Why is the transaction so complex?*

The structure is complex but best achieves the Proposal's objectives whilst maintaining VCT status, namely to:

- Support the development of the Portfolio Companies
- Support the acquisition of further shares in the Portfolio Companies to increase participation in the value growth that is expected to be created from the new investment
- Provide early liquidity for Shareholders by way of an enhanced interim dividend of 10p per Ordinary Share
- Provide additional cash headroom to allow the VCTs to invest further in the Residual Portfolio should that be desired

As stated in the Circular, confirmation has been received from HMRC that the Proposals will not affect the existing VCT tax status.

## **Discount and Net Asset Value ("NAV")**

- *How can shareholders be sure that 17-19% is a fair market rate discount?*

This transaction aimed to raise the required funding at the lowest possible discount. The Manager conducted an extensive marketing process that began in September 2010 and has involved the boards of the VCTs at every stage. The Manager approached a large number and range of investors (over 30 institutions) and explored several transaction types.

The outcome was the current offer from the New Investors which the Boards of the three VCTs have recommended to their respective shareholders.

## **Core Capital I LP portfolio composition**

- *What is the rationale for the new Fund portfolio composition?*

The composition of the portfolio being transferred into the Fund was negotiated with the New Investors. The VCTs' objective, whilst providing the required funding for the portfolio as a whole, was to balance the mix of discount and potential growth in value for the companies being transferred as well as those remaining directly held by the VCTs.

The remaining portfolio consists of companies that do not require growth capital or are at too early a stage of development. There remains significant value in these investments, and as such, there was no benefit to Shareholders from transferring them into the Fund.

## Control of the Fund portfolio

- *What level of control will the VCTs have over their minority interest in the Fund?*

The Manager will be managing the Fund on behalf of the VCTs and the New Investors under its discretionary management agreement.

The partnership agreement gives the VCTs various rights and protections which include changes to the investment objectives, the duration, the fees charged and the rights to distributions.

Any variation of the agreement which affects the VCTs' rights in the Fund requires the consent of the VCTs.

In addition, the VCTs will retain a significant interest in the Portfolio Companies through their holding in the Fund and an advisory board consisting of representatives from the new investors, Core VCT and Core VCT's IV and V, will be constituted to ensure all investors in the Fund including the VCTs have oversight over the Fund.

## Shareholder participation in the transaction

- *Why aren't existing VCT Shareholders being given the opportunity to invest on similar terms as the New Investors?*

This issue was considered extensively and the boards' preference was that shareholders were offered this option. Two main problems however emerge: regulatory and VCT structure.

The regulations for marketing the Fund would preclude marketing it to the entire existing Shareholder base as such LP funds are classified as unregulated collective investment schemes and only pre-classified investors could receive details of them. It would not therefore be possible to raise new capital from our VCT shareholder base for the purpose of investing directly into the Fund.

On the VCT side, raising new money to invest directly into the Fund would not be VCT-qualifying. The structure of the Proposals, however, ensures that the continuing interest in the Fund through the existing VCTs preserves the VCT qualifying status in full.

## Incentive arrangements

- *How and why have the incentive terms changed?*

In respect of the VCTs, there are no changes to the existing management or incentive arrangements.

In respect of the Fund:

1. The Fund will pay the General Partner LP a priority profit share amount of £750,000 per annum, which is 1.6% of the new money raised and less than 1% of the total value of the fund of £76.2m; and
2. The members of the Manager will have a carried interest profit share arrangement with the New Investors which relates only to the New Investors' commitment to the Fund. This does not reduce the VCTs distributions from the Fund.

The rationale for the arrangement includes:

1. The Manager's ability to raise new funds, manage new funds, and make new investments outside the Fund and the VCTs is now restricted; and
2. The larger Fund size will significantly increase the resources required to support the portfolio companies, once further funded, and the Manager's operating costs will increase accordingly.

## **Manager commitment**

- *Why is the Manager and its associates investing £1.5m in the new Fund?*

The New Investors require the Manager and associates to co-invest with them. This requirement is typical of such Funds and ensures an alignment of interest with the investors. As stated in the Circular, the Boards, as advised by Matrix Corporate Capital LLP, consider the terms of this investment to be fair and reasonable.

The Manager and associated parties have already invested £2.6m into the VCTs. Together with their investment in the Fund, these are significant commitments by the Manager and its associates and ensure that the Manager's interests are fully aligned with those of both the New Investors and Shareholders.

## **Conclusion**

The Boards continue to recommend Shareholders to support the Proposals and urge Shareholders to complete their Forms of Proxy as described in the Circular so that they arrive not less than 48 hours before the EGMs on 7 July 2011. If you have any further questions, please contact your Independent Financial Adviser in the first instance, or the Manager for any further clarification of this information, on 020 3179 0925.

Yours faithfully

**Peter Smail**

*Chairman of Core VCT plc*

Yours faithfully

**Ray Maxwell**

*Chairman of Core VCT IV plc*

Yours faithfully

**Greg Aldridge**

*Chairman of Core VCT V plc*

The directors of the VCTs accept responsibility for the information contained in this letter. To the best of the knowledge and belief of the directors (who have taken all reasonable care to ensure that such is the case), the information contained in this letter is in accordance with the facts and does not omit anything likely to affect the import of such information.

This letter is supplemental to the Circular dated 9 June 2011 issued by the VCTs (the "Circular"). Terms used within this letter shall have the same meaning as those defined in the Circular.