Oxford Technology VCTs
Shareholder Briefing — Frequently Asked Questions
28 July / 12 August 2021

OT1 = Oxford Technology VCT Plc
OT2 = Oxford Technology VCT 2 Plc
OT3 = Oxford Technology VCT 3 Plc
OT4 = Oxford Technology VCT 4 Plc

Together the "OTVCTs"

OTM = Oxford Technology Management Ltd

Relevant reading includes the recent announcements by the various OTVCTs, which can be found here: https://www.oxfordtechnologyvct.com/.

General

1. Why does OT2 continue to seek to work with a new manager to raise new investment funds, subject to regulatory and shareholder approval?
    a. The OTVCTs are separate investment companies that share a cost base where it is possible to do so. This has provided economies of scale, allowing them to operate relatively cost-effectively in recent years. However, with no intention of becoming evergreen investment companies and as investments are exited with funds being returned to shareholders, the individual OTVCTs may become sub-scale with a 'rump' of investments. Investors are partially protected from this by a cost cap, borne by OTM, which means — in extremis — that OTM has to cover the OTVCTs' costs. This is not sustainable in the long term, as it would be unreasonable to expect OTM to pay this cost cap indefinitely.

    b. There are several options open to sub-scale VCTs, liquidation being one of them. This, however, has several downsides, not least that hoisting a 'for sale' sign can make it harder to liquidate a rump portfolio at maximum value. Some OT1, OT2 and OT3 shareholders also have deferred capital gains (deferred CGT) on their original investment, and a liquidation of these funds would make this chargeable. The OTVCTs could also merge, saving some of the costs that each separate VCT has to bear, but the up-front cost of this is high as it requires various costs that make a standalone merger payback of the order of 3-4 years. The Directors of the OTVCTs have, over the last years, expended a lot of effort attempting to make such a merger work, as yet to no avail.

    c. An alternative approach, which was successfully executed by Hygea VCT Plc (Hygea) a few years ago, is to appoint a new manager that wishes to start a new VCT. In Hygea's case, this was with new manager Seneca Partners Ltd (Seneca) . Hygea has been renamed the Seneca Growth Capital VCT Plc, and the existing ordinary 'rump' share class sits alongside a new 'B' share. The two share classes share the VCT's running costs, which makes it more cost-effective to continue running the rump of the portfolio so as to maximise shareholder returns without incurring excessive costs. OT2's chairman, Richard Roth, is a director of Hygea and was heavily involved in the successful appointment of Seneca and subsequent B share fundraisings.

d. Of the OTVCTs, OT2 is the smallest, yet still has a fairly distributed portfolio of investments that would be difficult to liquidate at short notice without suffering a hit on valuation. OT2 has, in recent years, offered a tender offer to shareholders which was not fully taken up, indicating that shareholders would like to see the portfolio run to fruition, i.e. those that have wished to exit have had an opportunity to do so. In addition, many shareholders have sheltered capital gains (i.e. they have a CGT liability), and a liquidation at this level could result in some shareholders having to pay out — potentially — as much in CGT than they would realise from the liquidation.

e. Having identified a new manager that is interested in launching a new VCT, OT2 hopes to have the opportunity to execute a similar transaction to that done by Hygea a few years ago. Such a transaction would have numerous advantages for OT2 shareholders, and the Directors of OT2 will recommend supporting this transaction as and when we have managed to finalise acceptable terms, which we hope to then table to shareholders in due course.

Merger Options

2. What about merging some or all of the OTVCTs to reduce costs?
    a. As mentioned above, the Directors of the OTVCTs have found the economics of a standalone merger to be uneconomic. However, in combination with the launch of a new share class in OT2, the incremental costs to merge can be reduced quite considerably. It is therefore possible to undertake a merger of some of the VCTs as part of OT2's appointment of a new manager. This would be done on the basis of **maintaining the different OTVCTs' portfolios as separate share classes within the new entity**, thus ensuring that the individual portfolios are not diluted, while still gaining the economies of scale by being part of a single company.
    b. Additionally, this structure allows each VCT to decide whether it is in its best interests to join the transaction. Each of the OTVCTs has different portfolios, prospects and cost structures, and what is good for the goose is not necessarily good for the gander.
3. Why not get a takeover by a larger VCT?
    a. There is very little in it for a larger VCT to acquire a smaller one. The managers of larger VCTs tend to focus their efforts on raising new subscription monies and deploying this. The costs that would need to be borne by existing shareholders is likely to be greater than under the scenario we hope to propose.
4. Why does a manager want to take over the management of an existing VCT rather than start a new one from scratch, e.g. as done by Blackfinch recently?
    a. Raising funds into a new VCT is seen by some managers as being a difficult 'ask' for managers that have not previously successfully executed an initial public offering (which – in essence – is what the launch of a new VCT is).

Taking on an existing VCT is also potentially more cost-effective than covering the cost of a new VCT launch. Additionally, there are regulatory restrictions on brand new VCTs being able to make dividend payments in the early years. Taking on the running of an existing VCT allows dividends to be paid out earlier, which is an important marketing strategy and maximises the chance of the fundraise succeeding — essential for the shareholders of the old VCT as this is what allows the net assets to grow, and allows costs to be shared.

b. These dividends are not funded by the existing share classes' cash, but are a case of the VCT allowing the use of a portion of its accounting distributable reserves (that cannot be used at the minute to pay a dividend) to be utilised by the new share class in order to pay out a dividend. The value of the existing share class held by the existing shareholders is unaffected, as dividends to existing shareholders can be made – as usual – when portfolio realisations are made. There is no change in value attributable to existing shareholders, and any rump distributions made on winding up of the share class at portfolio end of life result in the same outcome to existing shareholders. There is a small risk that there may need to be a delay in making any final distribution to existing shareholders due to the need to have enough distributable reserves to make this payment, but given the holding costs are expected to be reduced significantly on the existing assets, this should not have an overall impact on shareholders. It is impossible to quantify this at this time and indeed, there may be no such delay at all.

OT3-specific Matters

5. Following the sale of Ixaris (on the assumption that the transaction completes successfully), OT3 will have significant cash to distribute to shareholders. How will this be done?
    a. The intention is to return at least the majority of the proceeds from the Ixaris sale to shareholders as soon as is feasible. The Directors are consulting with shareholders as how best this should be done. Options include a straight dividend, a buyback or a tender offer, whereby shareholders could opt to cash out a greater or lesser proportion of their pro rata proceeds from the return of capital. OT2 successfully carried out a tender offer after the sale of OC Robotics, which was well received by its shareholders.
6. Will Ixaris proceeds be reinvested?
    a. No.
7. Will the Board make a recommendation regarding whether shareholders should participate in a tender/buy back?
    a. No. The Directors have a fiduciary duty to seek to maximise shareholder value, but cannot give shareholders financial advice. A tender would only be offered if Directors believed this to be in some shareholders' best interests — in practice this would mean there was enough differential demand from shareholders wishing to exercise a diversity of outcomes (for example if some shareholders wished a full exit and others wished to retain their holding in toto) so as to justify the modest increase in costs of a tender offer over a dividend distribution. A tender offer is structured to allow shareholders to

make their own individual decisions regarding how much of their holding to seek to liquidate, and shareholders should seek independent financial advice if appropriate.

8. Once Ixaris has been sold, OT3 will be very liquid (other holdings include Scancell and newly listed Arecor). Could the VCT now be wound up and capital returned to shareholders?
    a. The Directors are open to this approach, but it does have some complications, in that OT3's Arecor holding on AIM is subject to a 12 month lockup and then a 12 month orderly market arrangement, in practice limiting the options for exiting this holding. Also, those shareholders that have deferred CGT gains would see a crystallisation of their CGT liabilities. For those that are invested for the long term, gains within the VCT wrapper are free of CGT, thus making the VCT wrapper an efficient vehicle to hold Scancell and Arecor, a problem that would also arise if these holdings were liquidated or were distributed to shareholders in specie.

Resolutions and Shareholder Votes

9. Why do we need to vote on these various resolutions?
    a. As a publicly listed company, each of the OTVCTs is required to table a number of resolutions to shareholders in order for the Directors to be able to execute various actions that may be required to maximise shareholder value. This includes some powers that are unlikely to be used, but may be important to have should an unlikely situation arise. Shareholders will be acutely aware that the last 18 months have not exactly panned out as most were expecting.
    b. We have provided explanatory notes in the accounts, and would encourage all shareholders to vote in favour of all the resolutions. The various resolutions will be voted on by a poll at this year's AGM, so please return your votes by completing the relevant proxy card or, if you hold your shares in dematerialised form, by requesting that the nominee holder votes in favour.
    c. Please get in touch if you have any questions regarding any of the proposed resolutions by emailing vcts@oxfordtechnology.com (please note we cannot give financial advice).

General

10. If you want to keep a viable level of assets, why don't you simply reinvest proceeds rather than raise new money?
    a. One of the challenges for the Directors of the OTVCTs is to find ways of maximising shareholder value while simultaneously keeping all shareholders happy. By definition, every shareholder is different and — while it is not cost-effective or efficient to organise regular 'opinion polls' to ascertain what different shareholders might wish to see in different circumstances — we do seek shareholder input as best we can, and then attempt to structure corporate actions so as to satisfy shareholders' wishes as best we can. This sometimes also means listening to a less vocal majority! As the question points out, one way of maintaining a viable level of assets would be to reinvest proceeds and maintain the OTVCT's net asset value that way.

However, this goes against the intention of the OTVCTs' investment policy, set out in the original prospectuses, to return the proceeds of the portfolio in cash and to maximise shareholder value over a finite period of time. Shareholders that wish to reinvest these proceeds can then choose where they might wish to invest.

11. What is a tender offer?
    a. A useful structure for allowing a 'mix and match' approach, allowing shareholders to choose whether to stay invested or cash out of a VCT, is a tender offer. In situations where there is a material amount of cash to distribute to shareholders, the VCT invites shareholders to tender shares for a buyback. This has greater cost than a straight dividend, but it allows those shareholders that wish to remain invested to do so and they would hold a greater proportion of the company's share capital going forward.

Questions asked at the online 12 August shareholder meeting:

12. David Livesley and Alex Starling only hold shares in the VCTs that they chair. Why have they not invested in the other OTVCTs?
    a. There are different schools of thought on directors investing in the VCTs where they sit on the Board. Some would like to see directors acting totally independently, with no equity involvement. Others prefer to see directors subscribing in new offers and/or buying shares in the market.
    b. The four Directors of the OTVCTs have diverse backgrounds and came to be involved with the OTVCTs via different routes: David Livesley was a founding Director of OT4; Richard Roth and Robin Goodfellow have been active VCT shareholders since their inception; Alex Starling provided corporate finance advice to an OTVCT portfolio company. The shareholdings of each of these Directors (outlined in the Directors' Report section of the Annual Financial Statements) reflect these different histories.
    c. In January 2021, Alex Starling acquired 5,500 shares in OT1 in the open market, as reported to the market by RNS.
    d. An additional point to note is that of closed periods, i.e. periods where Directors are deemed to have inside information and are therefore not allowed to trade shares of companies where they sit on the Board. These closed periods can be regular, such as while Annual Financial Statements are in preparation, or one-off, such as while strategic conversations — as yet not announced to the market — are underway. The amount of time in the calendar year available for market purchases of shares in the OTVCTs can, therefore, be quite limited. In addition, there are often very few shares in the secondary market available for purchase and — apart from at the launch of OT4 when David Livesley was a Director — none of the OTVCTs have made any offers for new shares whilst the existing Directors have been in office.
    e. Shareholders should also note that several of the Directors are also longer-term holders of the OTVCTs' portfolio companies such as Scancell and Arecor.
13. What sort of discount might any OT3 tender offer be carried out at?
    a. The tender offer carried out by OT2 in 2017 was carried out at a 15% discount to net asset value. Given the make-up and maturity of the OT2 portfolio at

that time, the Directors viewed this discount as being an appropriate level to ensure that those shareholders who did not (or could not) participate in the tender offer were not materially disadvantaged over those that did.
   b. If any tender offer is considered, the Directors will again deliberate over these parameters (and indeed any other variables that should be taken into account, such as the liquidity of the OT3 portfolio) in determining what they believe to be a fair discount.
14. While a factually true statement, what does the OT3 presentation bullet point statement "*Arithmetically, a tripling in Scancell and Arecor share prices would double OT3 NAV, no forecast implied*" actually mean? How do the Directors arrive at these underlying valuations, and how can shareholders assess future growth prospects?
    a. As stated, the comment implies no forecast, but was meant to indicate the relative impact of the Scancell and Arecor holdings on the overall value of the portfolio. As outlined above, the Directors believe that the VCT wrapper is an appropriate vehicle within which to hold this portfolio — one of the reasons is that potential future gains can be distributed in a tax-efficient manner.
    b. Much of the detailed work that goes into the preparation of the Annual Financial Statements is the valuation of the portfolio. Quoted and unquoted investments are valued in accordance with current industry guidelines that are compliant with International Private Equity and Venture Capital (IPEVC) Valuation Guidelines and current financial reporting standards, and then audited by UHY Hacker Young LLP, our independent auditors, who rigorously challenge the underlying assumptions. This year, it is worth drawing shareholders' attention to Note 7 of the Annual Financial Statements which includes a more detailed sensitivity analysis in line with FRS 102, requiring directors to consider the impact of changing one or more of the assumptions used as part of the valuation process. We hope that shareholders find this analysis — and its associated narrative — helpful.
15. Have the OTVCTs "bought the dips" given the fluctuations in the share price of Scancell?
    a. The OTVCTs are strictly limited by the VCT rules in what investments they can make. This is outlined in more detail in the Annual Financial Statements and more information can be found on the gov.uk website. For various reasons, the OTVCTs are not permitted to buy Scancell shares in the open market. This is one reason why VCTs are suited to 'buy and hold' investment strategies.