PROFIT *hunters*

# ARTEMIS VCT *plc*

Annual Financial Report
for the year ended
30 September 2019

ARTEMIS
The PROFIT Hunter

# Contents

# Financial Highlights

- Net asset value total return of (18.2)% and share price total return of (33.2)%.
- Declared special dividend of 4.00 pence per share and a second interim dividend of 2.00 pence per share.
- Total dividends paid and declared for the year of 12.00 pence per share.

| Total returns (including reinvestments of dividends paid) | Year ended 30 September 2019 | Year ended 30 September 2018 |
|---|---|---|
| Net asset value*† | (18.2)% | 21.1% |
| Share price*† | (33.2)% | 42.7% |
| **Capital** | **As at 30 September 2019** | **As at 30 September 2018** |
| Net assets | £21.8m | £34.2m |
| Net asset value per ordinary share | 41.48p | 64.40p |
| Share price | 37.50p | 71.00p |
| (Discount)/premium to net asset value† | (9.6)% | 10.2% |
| VCT qualifying percentage† | 91.6% | 99.4% |
| **Returns for the year** | **Year ended 30 September 2019** | **Year ended 30 September 2018** |
| Revenue return | (0.18)p | (0.18)p |
| Capital return | (10.83)p | 13.98p |
| Total return | (11.01)p | 13.80p |
| Dividend per ordinary share‡ | 4.00p | 4.00p |
| Special dividend per ordinary share‡ | 8.00p | 17.00p |
| Cumulative dividends per ordinary share since inception‡ | 125.20p | 113.20p |

† Alternative Performance Measure (see Page 56).

* Source: Artemis Fund Managers Limited ('Artemis').

‡ Includes declared special dividend of 4.00 pence per share and a second interim dividend of 2.00 pence per share in respect of the year ended 30 September 2019. These were paid on 29 November 2019.

### Return for the period ended 30 September 2019

| | Opening NAV | Total dividends paid in the period | Closing NAV | Return* |
|---|---|---|---|---|
| 1 year | 64.40p | 12.00p | 41.48p | (17.0)% |
| 3 years | 71.92p | 55.00p | 41.48p | 34.2% |
| 5 years | 72.61p | 84.00p | 41.48p | 72.8% |
| 10 years | 64.09p | 113.00p | 41.48p | 141.0% |

* Source: Artemis Fund Managers Limited ('Artemis').

# Chairman's Statement

### Performance

The year to 30 September 2019 proved challenging. Returns have not been as strong as we might have wished with the Company's net asset value at 30 September 2019 sitting at 41.48 pence. Having started the year at 64.40 pence and with dividends paid in the year amounting to 12.00 pence, a total return of (11.01) pence per share has been borne by shareholders over the year. This is equivalent to (18.2)% of the starting net asset value.

Over the five years to 30 September 2019 total dividends paid to shareholders amount to 84.00 pence per share. Over the life of the Company total dividends paid and declared now stands at 125.20 pence per share.

### Results and dividends

The net asset value total return for the year, assuming dividends re-invested, brought a loss of 18.2% versus the FTSE AIM All Share Index loss of 19.4%. Stock specific factors along with the effect on the market of the continuing political uncertainty have led to a nervous and tentative year. More details are included within your Investment Manager's Review on pages 5 to 7.

The Company has now paid special dividends for a number of years. These dividends have arisen as a result of the Investment Manager's distribution of cash proceeds realised from the portfolio as the investments have appreciated and profits have been taken. VCT regulations mean excess cash needs to be distributed or re-invested within a limited timeframe. As the Investment Manager has considered that there has been a lack of suitable reinvestment opportunities, the Board has, as in previous years, continued to distribute this cash as special dividends to ensure that the Company's VCT tax status is maintained. Changes to the VCT regulations have reduced both the types of companies VCTs can invest in and the ability to invest further in existing holdings.

The Board, throughout the year, has declared dividends in total of 12.00 pence per share for the year ended 30 September 2019 (2018: 21.00 pence per share).

### Deal flow

The Company has made no new qualifying investments during the twelve month period. Whilst there have been new VCT qualifying companies coming to the market, these have been found to be too immature and loss making and, as such, have not met our investment criteria. More detail on the investment activity and the performance of the investment holdings can be found in the Investment Manager's Review on pages 5 to 7.

### Share buybacks

The Company's premium of 10.2% at the start of the year became a discount of 9.6% as at 30 September 2019. Buybacks of the Company's shares have been carried out in line with the Company's buyback policy at a 10% discount to net asset value, as detailed on page 17.

The premium/discount is monitored and all buybacks follow the guidelines set by the Board. Share buybacks remain subject to the Company having the necessary shareholder authorities in place and having sufficient cash available for this purpose, taking into account future cash requirements for investing activities, the payment of dividends and operating expenses.

The Board regularly reviews the buyback policy to ensure any discount of share price to the net asset value is actively managed. As detailed in the Directors' Report, the Investment Management fee of the company is linked to the share price.

Further details regarding this are provided in the Share capital section of the Strategic Report on page 17.

### VCT Status

The Company has complied with all VCT tests throughout the year. The Board continues to closely monitor the VCT status in light of the introduction of a new 80% threshold (up from 70%) of qualifying holdings from 1 October 2019. The qualifying percentage as at 30 September 2019 was 91.6%. The extension in the time period to distribute sales proceeds to twelve months took effect from 6 April 2019 and has given welcome flexibility.

### Annual General Meeting (AGM)

The AGM, which alternates between Edinburgh and London, will be held at 11.00 a.m. on 5 February 2019, at Cassini House, 57-59 St James's Street, London, SW1A 1LD. The Notice of Meeting, containing full details of the business to be conducted at the meeting, is set out on pages 50 to 53.

The fund manager, Andy Gray, will make a short presentation at the meeting and shareholders will then have an opportunity to meet both him and the Directors. The Board would welcome your attendance at the AGM as it provides shareholders with an opportunity to ask questions of the Board and the fund manager. For those shareholders who are unable to attend, I would encourage you to make use of your proxy votes by completing and returning the form of proxy enclosed with this report.

# Strategic Report (continued)

## Chairman's Statement (continued)

### Outlook

As I have highlighted in this and prior Chairman's Statements, the new VCT regulations have resulted in a significant reduction in suitable deal flow for the Company. This situation therefore limits opportunities to continue to develop and refresh the portfolio on an ongoing basis. Our current working assumption is that there are unlikely to be any new investments made by the Company.

In addition, where realisations from the existing portfolio are made in the normal course of business, a significant proportion of these proceeds have been distributed to shareholders rather than re-invested in the portfolio. This has been necessary in order for the Company to continue to comply with the VCT regulations, but it does have the effect of reducing the Company's assets.

Against this background the Board has decided that it should formally explore options for the future of the Company. These are at an early stage and I would expect to provide shareholders with an update on these discussions in due course. In the meantime the Board will continue to ensure that the Company operates in a manner conducive to maximising returns for shareholders.

The Board and the Investment Manager continue to monitor the impact of both Brexit and the general election held on the 12th of this month.

### Contact us

The Board is always keen to hear from shareholders. Should you wish to, you can contact me at vctchairman@artemisfunds.com. You can also find regularly updated information on the Company, including a factsheet and performance data, on the Company's website at artemisfunds.com/vct

**Fiona Wollocombe**
**Chairman**
19 December 2019

# Investment Manager's Review

## Performance

We won't disguise the fact that this has been a disappointing year for performance. The Company's net asset value fell from 64.40 pence per share at the start of the year to 41.48 pence by 30 September. With 12 pence of dividends having been paid, this brings the capital return for the year to (17.0)%. All of the damage was done in the final calendar quarter of 2018; the portfolio delivered a marginally positive return over the remaining nine months.

We have, over the years, repeatedly stressed our preference for a longer-term perspective when assessing performance. And, over the longer term, returns have been much better. Total returns for the last three and five years are 36.9% and 72.8% respectively. Over 10 years, meanwhile, we have achieved a total return of 130.3%.

## Review

### Five largest stock contributors

| Company | % of net assets | Contribution % |
|---|---|---|
| Judges Scientific | 6.4 | 3.3 |
| AB Dynamics | 3.9 | 2.7 |
| Instem | 5.8 | 1.6 |
| Cohort | 4.8 | 1.2 |
| Pelatro* | 0.0 | 0.6 |

* Sold during the year

### Five largest stock detractors

| Company | % of net assets | Contribution % |
|---|---|---|
| ULS Technology | 2.6 | (3.1) |
| Fulcrum Utility Services | 2.8 | (3.1) |
| Cambridge Cognition Holdings | 0.9 | (2.8) |
| Mycelx | 1.5 | (2.3) |
| Dods Group | 4.2 | (2.0) |

The single biggest negative this year was ULS Technology. It continued to languish under the cloud of Brexit as subdued activity in the housing market made for a tough market backdrop. This was compounded by its failure to renew a customer contract in September during a re-tender. While this was disappointing, the company continues to win work elsewhere and its new DigitalMove product is receiving encouraging feedback.

Political uncertainty was also cited as a reason for the poor final quarter of Dods' financial year. In our view, its acquisition of Merit Group in June has diversified the business into a wider range of more rapidly growing markets. It also bolsters recurring revenues that are expected to increase to over half of the group's revenues.

Fulcrum Utility Services has faced difficulties on a number of fronts in the last 12 months. As we discussed in our interim report, its acquisition of Dunamis has been problematic. A change in accounting policy then delayed its full-year results by several months. Although this change did not affect cashflows, it required an unprecedented amount of analysis to restate historic balance sheets. For investors, the delay and associated uncertainty was unsettling and, coupled with a challenging construction market, the shares remained under pressure. Focus can now, once again, turn to exploiting its multi-utility capabilities. That will, however, have to happen under new leadership. The CEO stepped down in early October.

After being one of our largest positive contributors in the first half of the year Mycelx Technologies has suffered a sharp reversal of fortunes. After a strong first quarter of 2019 the business has encountered delays in contract signings. Costs are being cut, allowing it to remain profitable. Had the company not raised funds in February, the financial position could have been even worse.

Cambridge Cognition followed a similar pattern: a fundraising earlier in the year followed by a profit warning only months later. Here too, contract deferrals were to blame.

Judges Scientific was our strongest contributor over the year. Our decision not to sell our holding, which we outlined in our interim report, proved to be a good one: the shares rose by almost 50% in the second half of the year. Interim results in September revealed 27% profit growth on the back of solid growth in sales, high gross margins and tight control of costs.

While Judges Scientific's acquisition activity has been muted in recent times (its purchase of Oxford Cryosystems took place more than two years ago) it remains a central plank of its strategy. We are sure there are more deals to come and we back the management team's patient, disciplined approach.

Acquisitions are also on the agenda for AB Dynamics. Since its IPO, the company has grown organically, with sales of £8.9 million in 2012 rising to £37 million in 2018. New CEO James Routh announced an updated strategy in February with selective acquisitions being one of five key priorities. In May, the company raised £45 million to support this strategy and two acquisitions have been completed since. Both Kangaloosh and Dynamic Research are existing supply partners and, as such, are well known to the company.

We hope AB Dynamic's deals can match the success of Cohort's dealmaking. On 12 December 2018, Cohort announced the acquisition of Chess Technologies ('Chess') adding a fifth standalone business to its portfolio. Founded in 1993, Chess is a world leader in advanced integrated systems and technologies for detecting, tracking and

# Strategic Report (continued)

## Investment Manager's Review (continued)

disrupting a wide range of potential threats from air, land and sea. The announcement gave the example of their "anti-unmanned aerial vehicles defence system" – drone detection to you and me. Just a week later, Gatwick Airport was closed and hundreds of flights were cancelled after a series of drone sightings. Chess had signed a contract and had a drone-detection system operational within days.

Instem also continues to evaluate acquisition opportunities in a fragmented industry. Although no deals have been completed this year, organic growth has remained strong and the shift towards recurring sources of revenue is improving the quality of earnings.

The year also started out well for Pelatro, which integrated its acquisition of Danateq and won a series of contracts. A trading update confirmed that revenues and profits for 2018 were in line with expectations. Its full-year results in March, however, revealed a high level of unbilled revenue. This unnerved us somewhat. At the same time, the strength of its share price had made Pelatro one of the Company's top holdings. So we started to reduce our weighting. As the year progressed, we continued to see contract announcements but they were in aggregate below our own expectations and the level of visibility began to track below the level seen in the previous year. So we became increasingly uncomfortable. As our confidence waned we continued to sell and by the end of August had exited entirely.

### Investment activity

We made no new qualifying investments in the last 12 months, a feature that requires, if not an excuse, then an explanation. Although we regularly assess potential investments we have found that the companies are typically too early-stage. By that we mean their revenues (if they exist at all) are modest. As such, these businesses are typically many years from becoming profitable and cash-generative. Given that the tightening of the VCT rules was intended to steer investment in this direction, this is not a surprise. In the odd exception when companies are more mature and meet our quality threshold we have found valuations have been too rich for us. This is a consequence of the volume of VCT fundraising in recent years driving up demand. We have therefore opted to stay on the sidelines. With no obligation to invest we intend to remain selective.

The lack of new investments has meant that transaction activity has focused on which stocks, – if any – we should sell. These sales typically fall into one of the following three categories:

1. Deteriorating fundamentals

2. Profit-taking on valuation grounds

3. Portfolio management

We have had examples of all three over the past year.

We have seen more of the first category – deteriorating fundamentals – than we would have liked. We addressed the events at Yu Group in our interim report six months ago. A review of the accounting policies by the new finance director led to a restatement of results and a radical reassessment of the business. Although we admire the efforts of the remaining management team, the economics of the business are too uncertain for our taste. We took advantage of strength of the share price at the time of the company's final results to exit our remaining holding at a healthy profit. The Company's total realised gain was over £2.6 million.

Velocity Composites has had a chequered history since its IPO. Although the business has developed more slowly than expected it was actually the ongoing dispute between the board of directors and the company's founders that led us to sell our holding. We put a great deal of emphasis on the importance of strong stewardship in our investment approach and the dysfunctional relationship made us deeply uncomfortable. In this case we realised a loss of £373k on our investment.

Pelatro was a relatively new investment for us. We participated in the IPO in December 2017 and again in a fundraising in August 2018. Although we consider ourselves to be long-term, patient investors we took the difficult decision, as outlined earlier, to exit our holding in full realising a gain of £302k on our £1 million investment.

The second category (profit taking) included the partial disposal of holdings in Craneware, AB Dynamics and Abcam. With strong fundamentals and large addressable markets, these companies are well regarded by investors – and by us. We are, though, conscious that their valuations leave little room for error so we have regularly booked profits over the years. A profit warning from Craneware in June served as a reminder that things can and will go wrong for even the strongest companies and that valuations here offer little margin of safety.

Keywords Studios falls somewhere in between. Shareholders with long memories may remember the issues Keywords encountered shortly after its IPO, when customer demand stalled in anticipation of a new cycle in the games console market. That was six years ago and we are nearing that point in the cycle again. To be fair, the company weathered the last bout of volatility well and recovered strongly – but its valuation today is markedly higher. As such, we feel the balance between risk and reward is less attractive this time so we have erred on the side of caution and sold our remaining shares. We would like to take this opportunity to thank CEO Andrew Day and his management team. They have delivered handsomely in that time and we wish them continued success. Our £800k investment six years ago has delivered a gain of over £4.3 million. The disposal of Keywords Studios leaves us with a portfolio comprising 25 companies.

The third category consists of disposals that we deemed necessary for risk-management purposes rather than being any reflection of our confidence in the prospects for the businesses in question. Judges Scientific and Instem both continue to perform well. Recent meetings with the respective management teams have reinforced our confidence that they remain well-placed for continued growth, both organically and via acquisition. The strength in the share prices meant that each accounted for almost 10% of the Company's assets at one point – a level we feel is too high for a balanced portfolio.

### Outlook

It is now well over 12 months since making our last qualifying investment. Looking forward it is becoming increasingly apparent that our investment approach is difficult with the current VCT qualifying rules. So, we are faced with a choice. Should we compromise our investment criteria and "lower the bar"? We believe not. Investing in early stage companies is risky. An investor subscribing to a new VCT fundraising today gets upfront tax relief to compensate them for that risk, and rightly so. Indeed our shareholders bore that same risk when they invested over a decade ago. Today though our portfolio is markedly different. Comprising, in the main, profitable cash generative companies our current portfolio's maturity sits in stark contrast to the speculative nature of the new deal flow we typically see. As a result we think it is right to remain selective and prudent to assume we may not make any new investments going forward. This does though have a couple of implications.

One consequence is increased portfolio concentration. At the start of this financial year the portfolio consisted of twenty nine companies. As at 30 September 2019 this had fallen to twenty five. Two more holdings having been sold since the year end. We are comfortable with this. The portfolio remains well diversified and our portfolio is, by and large, concentrated into those companies where our conviction is highest, as it should be.

Another implication though is a smaller asset base. From 1 October 2019 we are required to have at least 80% of our total investments in qualifying holdings (up from 70%). Without the ability to re-invest proceeds we are limited to shareholder distributions in order to comply. With dividends being tax-free this is, in itself, no bad thing and is a strategy we have adopted frequently in recent years. It does though mean that over time we would expect the net asset value to continue reducing.

We would therefore draw your attention to the Chairman's Statement and the decision to formally explore options for the future of the Company. We will, in the meantime, continue to manage the portfolio in the same conservative way we have to date.

**Andy Gray**
**Fund Manager**
19 December 2019

## Strategic Report (continued)

# 10 Largest Investments as at 30 September 2019

## Judges Scientific (AIM)[1] judges.uk.com

| | Financial Summary Accounts for the year ended 31 December 2018 | £'000 |
|---|---|---|
| Judges Scientific designs and produces scientific instruments. | Profit before tax | 10,190 |
| Market capitalisation: £273.4 million | Retained profit | 13,050 |
| | Net assets | 31,210 |

| Holding | % of class held | % of equity held | Cost £'000 | Valuation £'000 | Basis of valuation | % of net assets |
|---|---|---|---|---|---|---|
| 36,000 | 0.5 | 0.9 | 43 | 1,404 | Bid price | 6.4 |

## Nasstar (AIM) nasstar.com

| | Financial Summary Accounts for the year ended 31 December 2018 | £'000 |
|---|---|---|
| Nasstar is a provider of hosted desktop and IT applications. | Loss before tax | (1,410) |
| Market capitalisation: £64.7 million | Retained loss | (9,390) |
| | Net assets | 24,900 |

| Holding | % of class held | % of equity held | Cost £'000 | Valuation £'000 | Basis of valuation | % of net assets |
|---|---|---|---|---|---|---|
| 11,500,000 | 2.0 | 2.0 | 575 | 1,265 | Bid price | 5.8 |

## Instem (AIM) instem.com

| | Financial Summary Accounts for the year ended 31 December 2018 | £'000 |
|---|---|---|
| Instem provides software and services to the drug development industry. | Profit before tax | 1,680 |
| Market capitalisation: £59.9 million | Retained loss | (630) |
| | Net assets | 30,140 |

| Holding | % of class held | % of equity held | Cost £'000 | Valuation £'000 | Basis of valuation | % of net assets |
|---|---|---|---|---|---|---|
| 350,000 | 2.1 | 2.1 | 612 | 1,253 | Bid price | 5.8 |

## ClearStar (AIM) clearstar.net

| | Financial Summary Accounts for the year ended 31 March 2019 | $'000 |
|---|---|---|
| ClearStar provides technology and services to the background check industry. | Loss before tax | (1,400) |
| Market capitalisation: £22.9 million | Retained loss | (8,800) |
| | Net assets | 7,800 |

| Holding | % of class held | % of equity held | Cost £'000 | Valuation £'000 | Basis of valuation | % of net assets |
|---|---|---|---|---|---|---|
| 1,754,000 | 4.7 | 4.7 | 1,000 | 1,087 | Bid price | 5.0 |

[1] Held by other Artemis managed clients.

## Ideagen (AIM)

ideagen.com

| | Financial Summary<br>Accounts for the year ended<br>30 April 2019 | £'000 |
|---|---|---|
| Ideagen provides software and services enabling companies to manage risk within highly regulated industries such as aviation, banking and finance and life science. | Profit before tax | 1,380 |
| | Retained profit | 13,600 |
| Market capitalisation: £339.8 million | Net assets | 73,680 |

| Holding | % of class held | % of equity held | Cost £'000 | Valuation £'000 | Basis of valuation | % of net assets |
|---|---|---|---|---|---|---|
| 735,294 | 0.3 | 0.3 | 250 | 1,073 | Bid price | 4.9 |

## Cohort (AIM)

cohort.com

| | Financial Summary<br>Accounts for the year ended<br>30 April 2019 | £'000 |
|---|---|---|
| Cohort is an independent technology group working primarily for defence (air, land and sea), wider government and industry clients. | Profit before tax | 5,670 |
| | Retained profit | 70,690 |
| Market capitalisation: £219.1 million | Net assets | 75,640 |

| Holding | % of class held | % of equity held | Cost £'000 | Valuation £'000 | Basis of valuation | % of net assets |
|---|---|---|---|---|---|---|
| 200,000 | 0.5 | 0.5 | 218 | 1,052 | Bid price | 4.8 |

## Anpario (AIM)

anpario.com

| | Financial Summary<br>Accounts for the year ended<br>31 December 2018 | £'000 |
|---|---|---|
| Anpario produces high performance natural feed additives for global agricultural markets. | Loss before tax | 4,550 |
| Market capitalisation: £76.9 million | Retained loss | 24,630 |
| | Net assets | 37,120 |

| Holding | % of class held | % of equity held | Cost £'000 | Valuation £'000 | Basis of valuation | % of net assets |
|---|---|---|---|---|---|---|
| 311,620 | 1.3 | 1.3 | 361 | 997 | Bid price | 4.6 |

## Dods Group (AIM)

dodsgroupplc.com

| | Financial Summary<br>Accounts for the year ended<br>31 March 2019 | £'000 |
|---|---|---|
| Dods Group is a global political information, publishing, training, events and communications business. | Loss before tax | (5,700) |
| | Retained loss | (2,600) |
| Market capitalisation: £35.4 million | Net assets | 35,000 |

| Holding | % of class held | % of equity held | Cost £'000 | Valuation £'000 | Basis of valuation | % of net assets |
|---|---|---|---|---|---|---|
| 14,189,244 | 2.5 | 2.5 | 806 | 922 | Bid price | 4.2 |

# Strategic Report (continued)

## Investments as at 30 September 2019 (continued)

### Vianet (AIM) — vianetplc.com

| | Financial Summary Accounts for the year ended 31 March 2019 | £'000 |
|---|---|---|
| Vianet (previously Brulines) has its roots in beer line monitoring but in recent years has expanded into the remote management of vending machines.<br>Market capitalisation: £38.9 million | Profit before tax | 2,130 |
| | Retained profit | 11,280 |
| | Net assets | 33,790 |

| Holding | % of class held | % of equity held | Cost £'000 | Valuation £'000 | Basis of valuation | % of net assets |
|---|---|---|---|---|---|---|
| 735,000 | 2.6 | 2.6 | 929 | 845 | Bid price | 3.9 |

### AB Dynamics (AIM) — abdynamics.com

| | Financial Summary Accounts for the year ended 31 August 2018 | £'000 |
|---|---|---|
| AB Dynamics designs and manufactures advanced testing systems and products to the global motor industry.<br>Market capitalisation: £501.1 million | Profit before tax | 7,950 |
| | Retained profit | 27,490 |
| | Net assets | 38,050 |

| Holding | % of class held | % of equity held | Cost £'000 | Valuation £'000 | Basis of valuation | % of net assets |
|---|---|---|---|---|---|---|
| 40,000 | 0.2 | 0.2 | 37 | 840 | Bid price | 3.9 |

| | Cost £'000 | Valuation £'000 | Cumulative valuation £'000 | % of net assets |
|---|---|---|---|---|
| **Ten largest investments** | **4,831** | **10,738** | **10,738** | **49.3** |

All holdings are ordinary shares unless otherwise stated.

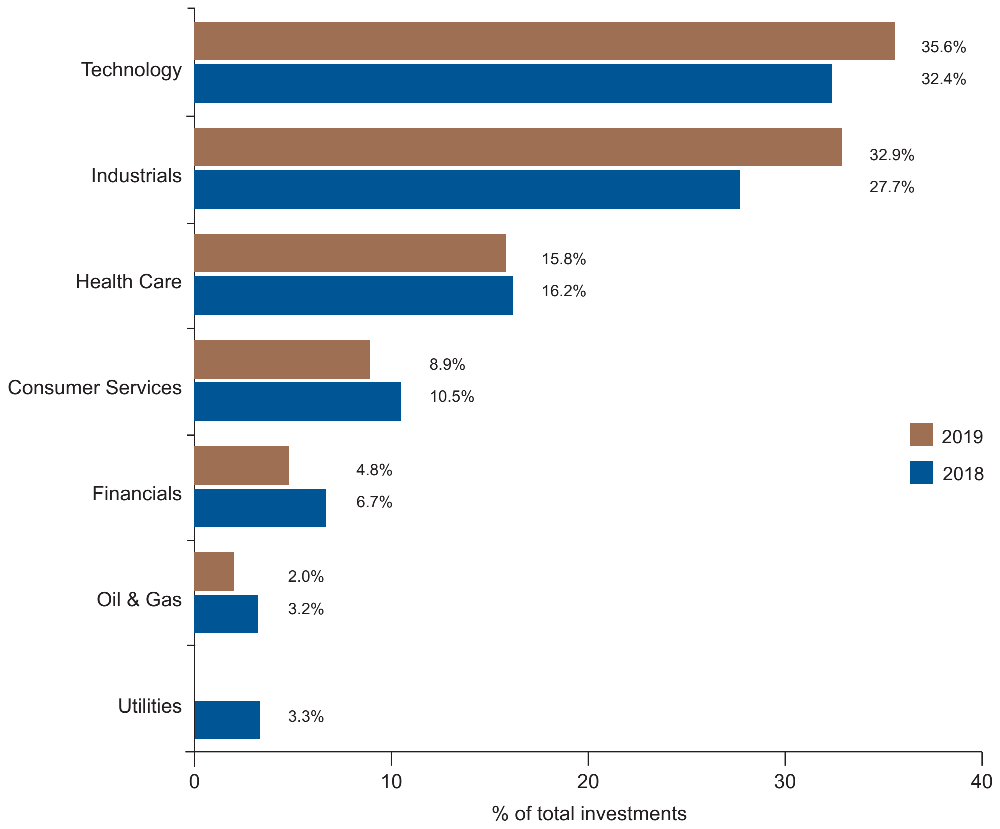
| Company | Description of business | Cost £'000 | Valuation £'000 | Cumulative Valuation £'000 | % of total net assets |
|---|---|---|---|---|---|
| Craneware | Provision of software solutions to US healthcare providers | 56 | 741 | | 3.4 |
| Fulcrum Utility Services | Independent multi-utility infrastructure services provider | 286 | 612 | | 2.8 |
| Abcam | Producer and on-line distributor of research grade antibodies | 18 | 607 | | 2.8 |
| ULS Technology | Provider of online platforms for the UK conveyancing and financial intermediary markets | 488 | 568 | | 2.6 |
| Advanced Medical Solutions Group[1] | Advanced wound care solutions | 65 | 493 | | 2.3 |
| Croma Security Solutions Group | Manned guarding and security services | 375 | 440 | | 2.0 |
| Proactis Holdings[1] | Specialist spend control software provider | 279 | 357 | | 1.6 |
| Omega Diagnostics Group | Development and manufacture of in vitro diagnostic tests | 530 | 352 | | 1.6 |
| Pressure Technologies[1,2] | Designer and manufacturer of high pressure cylinders | 557 | 332 | | 1.5 |
| Mycelx Technologies[1] | Clean water technology company | 919 | 329 | | 1.5 |
| **11th to 20th largest investments** | | **3,573** | **4,831** | **15,569** | **22.1** |
| Gama Aviation[2] | Manager and operator of privately owned passenger jet aircraft | 788 | 304 | | 1.4 |
| Synectics | Surveillance and security systems | 192 | 300 | | 1.4 |
| KRM22 | Technology and software investment company | 387 | 194 | | 0.9 |
| Cambridge Cognition Holdings | Develops and commercialises computerised neuropsychological tests | 500 | 193 | | 0.9 |
| ECSC Group | Cyber security consulting and managed security services | 492 | 192 | | 0.9 |
| TMO Renewables[2,3,4] | Producer of ethanol from biomass and biowaste | 615 | – | | – |
| Uvenco UK[3,4] | Snack vending machine operator | 380 | – | | – |
| **21st to 27th largest investments** | | **3,354** | **1,183** | **16,752** | **5.5** |
| **Total (27 investments)** | | **11,758** | **16,752** | **16,752** | **76.9** |
| Net current assets | | 5,021 | 5,021 | | 23.1 |
| **Net assets** | | **16,779** | **21,773** | | **100.0** |

1 Held by other Artemis managed clients.
2 Investment comprises both a qualifying and non-qualifying element for VCT purposes.
3 Unquoted investment.
4 In liquidation or administration.
All holdings are ordinary shares which are traded on AIM unless otherwise stated.

# Strategic Report (continued)

## Investments as at 30 September 2019 (continued)

## Industry Analysis as at 30 September 2019



# Strategy and Business Review

This Strategic Report has been prepared in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

### Corporate strategy and operating environment

The Company is incorporated in Scotland and its business as a venture capital trust ('VCT') is to buy and sell investments with the aim of achieving the corporate policy outlined below.

### Objective and investment policy

The objective of the Company is to achieve long-term capital and income growth and to generate tax free capital and income distributions. The Company's investment policy is to invest in a diversified portfolio of growth orientated companies across a broad range of industries, with a particular emphasis on companies whose shares will be traded on AIM. Investments will also be in companies whose shares are traded on ISDX and unquoted companies. The Company's portfolio is managed in order to meet the investment requirements of Section 274 of the Income Tax Act 2007 ('s274') (as amended) that, inter alia, requires at least 80% (increased from 70% with effect from 6 April 2019) of the investments to be qualifying holdings. Subject to maintaining a prudent margin of safety over the 80% level, the Company's remaining assets may be invested in cash or money market deposits, fixed interest securities, unit trusts or UK listed securities without regard to the market capitalisation of such companies.

### Operating environment

The Company operates as a VCT and has to satisfy the requirements of s274 (as outlined in the objective and investment policy) on an ongoing basis. The Directors have managed, and continue to manage, the business in order to comply with the legislation applicable to VCTs so as to continue to meet these conditions. As at 30 September 2019 the Company had 91.58% of its assets in VCT qualifying holdings. Compliance is monitored through regular reports from the Investment Manager and Administrator. In addition, the Board has appointed a tax advisor to provide further independent assurance of compliance with venture capital tax legislation and to provide guidance on changes in tax legislation affecting the Company.

The Company has no employees and delegates most of its operational functions to a number of service providers, details of which are set out later in the report.

### Current and future developments

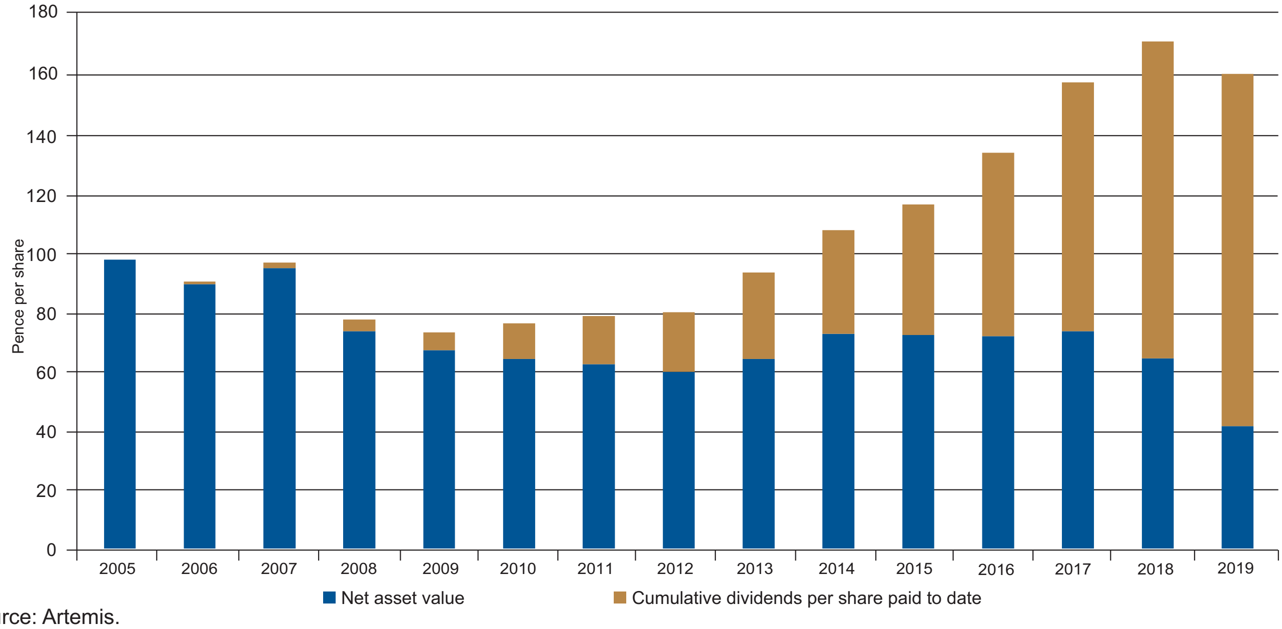
A summary of the Company's developments during the year ended 30 September 2019, together with its prospects for the future and the Board's decision to formally explore the options available, are set out in the Chairman's Statement on pages 3 and 4 and the Investment Manager's Review on pages 5 to 7. The Board's principal focus remains the delivery of positive returns for shareholders. This will be dependent on the success of the investment strategy, in the context of both economic and stock market conditions. The investment strategy, and factors that may have an influence on it, are discussed regularly by the Board and the Investment Manager. The Board regularly considers the ongoing development and strategic direction of the Company, including the effectiveness of communication with shareholders.

# Strategic Report (continued)

## Key Performance Indicators ('KPIs')

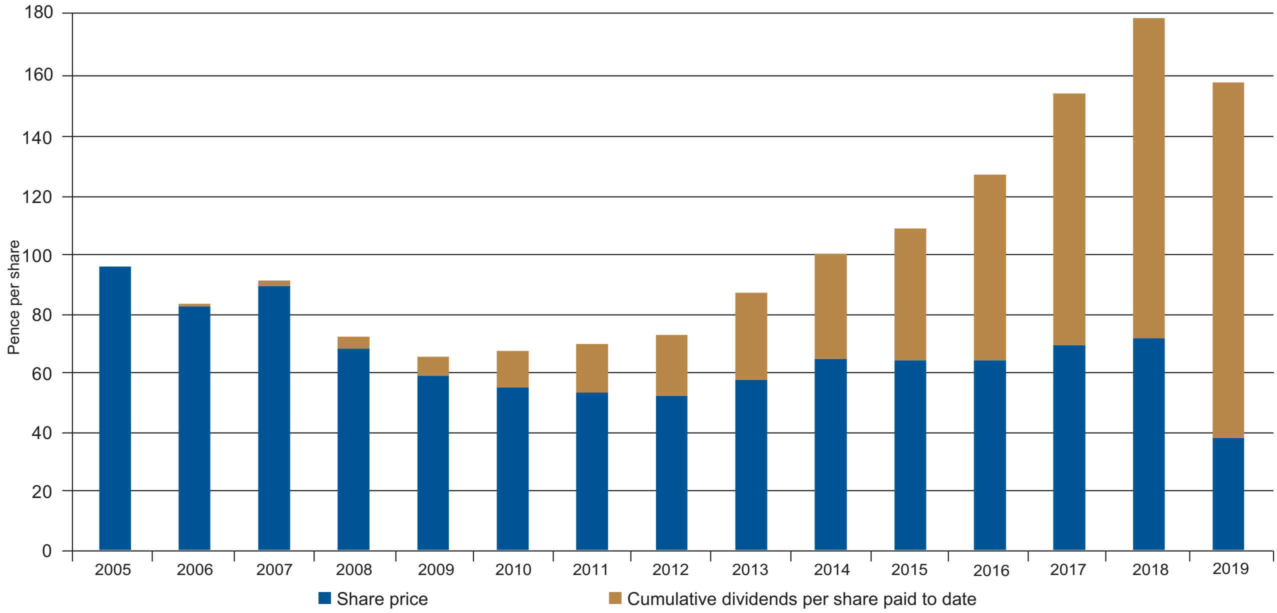
The performance of the Company is reviewed regularly by the Board and it uses a number of KPIs to assess the Company's success in meeting its objective. The KPIs which have been established for this purpose are set out below.

- **Net asset value performance†.** The Board monitors the performance of the net asset value of the Company through regular updates from the Investment Manager on the performance of the companies in the portfolio. The chart below sets out the Company's net asset value total return (based on the net asset value per share at 30 September each year plus cumulative dividends per share paid to each date).




Source: Artemis.

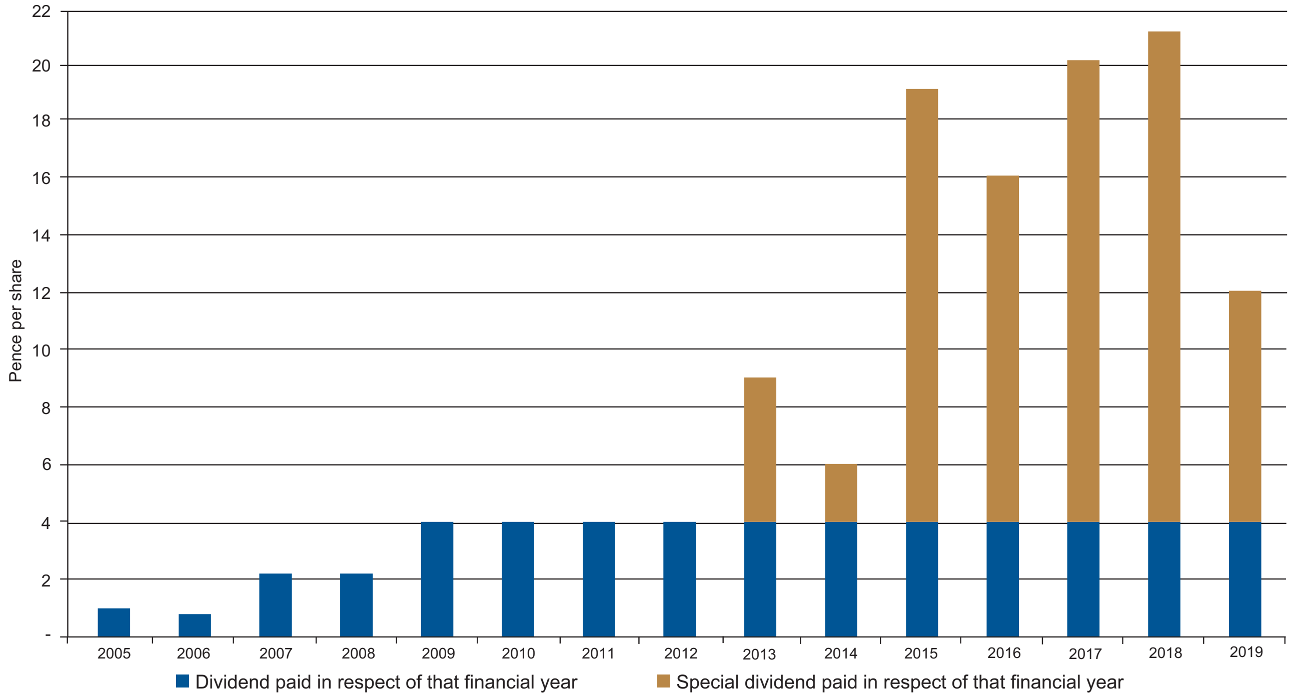
- **Share price performance†.** The Board monitors the performance of the share price of the Company to ensure that it reflects the performance of the net asset value. The Board believes this can best be achieved by establishing a discount policy at which the Company will buyback shares (see Share capital on page 17). The chart below sets out the Company's share price at 30 September each year plus cumulative dividends per share paid to each date.




Source: Artemis.

† Alternative Performance Measure

- **Dividends.** The Board is aware of the attractiveness of tax-free dividends for shareholders. The Board monitors the gains realised by the Company and against this determines the dividends to be paid by the Company to shareholders, while also being mindful of retaining cash within the Company for potential future investment opportunities. The chart below sets out the total dividends paid/declared in respect of each financial year, to 30 September, by the Company since launch.




* Includes declared second interim dividend of 2.00 pence per share and a special dividend of 4.00 pence per share paid on 29 November 2019.

Source: Artemis.

- **Performance against the peer group.** The Board monitors the performance of the Company against the net asset value and share price total returns from the Association of Investment Companies ('AIC') VCT AIM Quoted sector. These returns are provided below for the period ended 30 September 2019.

**Net asset value total return†**

| | 1 year | Sector ranking | 3 years | Sector ranking | 5 years | Sector ranking |
|---|---|---|---|---|---|---|
| Artemis VCT plc | (18.5)% | 7/8 | 35.4% | 2/8 | 95.2% | 1/8 |
| Peer group | | | | | | |
| – Size weighted average | (14.8)% | | 11.4% | | 35.7% | |
| – Highest return | (7.4)% | | 41.3% | | 95.2% | |
| – Lowest return | (18.7)% | | (5.2)% | | (1.6)% | |

**Share price total return†**

| | 1 year | Sector ranking | 3 years | Sector ranking | 5 years | Sector ranking |
|---|---|---|---|---|---|---|
| Artemis VCT plc | (33.2)% | 8/8 | 39.6% | 1/8 | 108.8% | 1/8 |
| Peer group | | | | | | |
| – Size weighted average | (13.1)% | | 15.1% | | 39.7% | |
| – Highest return | 2.1% | | 39.6% | | 108.8% | |
| – Lowest return | (33.2)% | | 3.0% | | 17.0% | |

Total return is capital appreciation (or depreciation) and any dividends paid by the Company which are deemed to be reinvested.
Source: Artemis/AIC.

- **Ongoing charges†.** The Board is mindful of the ongoing costs to shareholders of running the Company and monitors operating expenses on a regular basis. The Company's current ongoing charges figure is 2.7% (2018: 2.4%).

† Alternative Performance Measure

# Strategic Report (continued)

### Principal risks and risk management

The Board, in conjunction with the Investment Manager, has developed a risk map which sets out the principal risks faced by the Company. It is used to monitor these risks and to review the effectiveness of the controls established to mitigate them. As a VCT, the principal risks faced by the Company relate to the nature of the individual investments and the investment activities generally.

A summary of the other key areas of risk and uncertainties are set out below, along with the controls in place to manage these which are highlighted for each risk.

- **Strategic:** investment objective and policy not appropriate in the current market and not favoured by investors.

  *The investment objective and policy of the Company is set by the Board and is subject to ongoing review and monitoring in conjunction with the Investment Manager.*

- **Investment:** as the Company has a focus on AIM traded companies, as well as general market price risk, market liquidity in such companies can be limited and it may not always be possible to realise investment positions in their entirety at prices which the Investment Manager considers to be representative of their fair value.

  The nature of the investment universe of companies can carry a higher degree of risk than investment in companies that are larger and have more established businesses. Changes in economic conditions and changes in interest rates can impact these businesses and their valuation.

  *Investment risk is addressed through having a diversified portfolio across a number of industrial sectors. New investments are discussed with the Board. Investment decisions include a focus on long term market liquidity. The Board has concluded the portfolio, barring the three level 2 stocks, can be considered liquid, The Board discusses the investment portfolio and performance with the Investment Manager at each Board meeting.*

- **Regulatory:** failure to comply with the requirements of a framework of regulation and legislation, within which the Company operates.

  *The Board receives regular regulatory updates from the Company Secretary, Investment Manager and its VCT tax adviser, to ensure ongoing compliance with relevant regulations and legislation.*

  The Company, and consequently its shareholders, can benefit from certain tax reliefs extended to VCTs. The tax regulatory environment is complex and, as noted earlier, the requirements that need to be met to ensure compliance have become more restrictive. Any breaches of these regulations could result in a loss of tax benefits. Failure by the Company to meet the requirements of s274 could result in the Company becoming liable for tax on the net capital gains it generates from the sale of investments and shareholders would not be able to receive tax-free dividends.

  *The Board receives regular updates from the Company Secretary, Investment Manager and its VCT tax adviser in order to monitor compliance with applicable tax regulations.*

  Failure to comply with appropriate accounting standards could result in a reporting error or breach of regulations or legislation.

  *The Board receives regulatory updates from the Company Secretary and Investment Manager to raise awareness of any changes in corporate governance and accounting standards. Any changes in accounting treatment are discussed and agreed by the Board. The Company's Independent Auditor also provides an annual update on any accounting changes that affect the Company.*

- **Operational:** disruption to, or failure of, the Investment Manager's and/or any third party service providers' systems which could result in an inability to accurately report and monitor the Company's financial position.

  *The Investment Manager has established a business continuity plan to facilitate continued operation in the event of a major service disruption or disaster and carries out oversight and monitoring of third party service providers.*

- **Economic risk:** In addition to the above risks, at the date of this report the outcome of the UK Government's Brexit negotiations with the European Union remain unclear. The risk for the Company is principally in relation to the potential impact of Brexit on the UK companies within the investment portfolio. The Investment Manager continues to monitor the situation and will respond to any economic fluctuations as required.

Further information on risks and uncertainties and the management of them are set out in the Directors' Report on pages 23 and 24 and in note 16 of the notes to the financial statements.

## Other matters

### Viability statement

In accordance with the AIC's Code of Corporate Governance (the 'AIC Code'), the Board has considered the longer term prospects for the Company.

The Directors are not expecting there to be any significant changes in the current principal risks or the adequacy of mitigating controls in place. However, the Directors have highlighted the effect the new VCT regulations have had on deal flow and the Company's ability to re-invest realised gains; changing the strategy of the Company and its long term viability. Accordingly, the period assessed is to the next continuation vote scheduled for 2022.

As part of its assessment of the viability of the Company, the Board has considered each of the principal risks above and the impact of a ten per cent fall in UK markets along with the restricted investment opportunities as mentioned above. The Board has also considered the liquidity of the Company's portfolio to ensure that it will be able to meet its liabilities as they fall due.

The conclusion of this review is that the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to the Annual General Meeting in February 2022.

## Life of the Company

In accordance with the Company's Articles, the Directors are required to put forward an ordinary resolution for the continuation of the Company as a VCT every five years. The next continuation vote is due to be held in 2022.

## Share capital

The Board monitors the activity in the Company's shares and the discount to net asset value at which they may trade. The secondary market for VCT shares remains limited and any significant sales may have an adverse effect on the Company's share price and therefore the discount. In order to address and mitigate this, the Company may make periodic purchases of its own shares within guidelines established by the Board from time to time for this purpose. The current policy is to buy back shares at approximately a 10% discount to the last published net asset value.

During the financial year ended 30 September 2019, the Company bought back 657,000 ordinary shares (2018: Nil), representing 1.2% of share capital as at 30 September 2018.

A resolution for the Company to continue to be authorised to buy back shares will be put to shareholders at the AGM on Wednesday, 5 February 2020. Approval of this resolution by shareholders will allow the Directors to continue to manage the liquidity of the Company's shares by buying back shares. Share buybacks will remain subject to the Company having the necessary shareholder authorities in place and having sufficient funds available for this purpose, taking into account the ongoing cash requirements for investment activities, the payment of dividends and operating expenses.

## Directors

The Directors of the Company and their biographical details are set out on page 18. Each of the Directors held office throughout the year under review.

No Director has a contract of service with the Company.

Appointments to the Board will be made on merit with due regard to the benefits of diversity, including gender, skills and experience. The priority in appointing a new director is to identify the candidate with the best range of skills and experience to complement existing directors.

The Board is currently comprised of one female and two male Directors.

## Modern Slavery Act 2015

The Company does not fall within the scope of the Modern Slavery Act 2015 as its turnover is less than £36 million. Therefore no slavery and human trafficking statement is included in the Annual Financial Report.

## Social and environmental matters

The Company has delegated the management of the Company's investments to Artemis Fund Managers Limited ('Artemis') which, in its capacity as Investment Manager, has a Corporate Governance and Shareholder Engagement policy which sets out a number of principles that are intended to be considered in the context of its responsibility to manage investments in the financial interests of shareholders. Artemis undertakes extensive evaluation and engagement with company management on a variety of matters such as strategy, performance, risk, dividend policy, governance and remuneration. All risks and opportunities are considered as part of the investment process in the context of enhancing the long-term value of shareholders' investments. This will include matters relating to material environmental, human rights and social considerations that may, ultimately, impact the profitability of a company or its stock market rating and hence these matters are an integral part of Artemis' thinking as institutional investors.

As the Company has delegated the investment management and administration of the Company to third party service providers, and has no fixed premises, there are no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, including those within the underlying investment portfolio.

## Leverage

Leverage is defined in the Alternative Investment Fund Managers Directive ('AIFMD') as any method by which the Company can increase its exposure by borrowing cash or securities, or from leverage that is embedded in derivative positions, neither of which the Company currently uses. The Company is permitted by its Articles to borrow up to 15% of its net assets (115% under the Commitment and Gross ratios used in the AIFMD). The Company is permitted to have additional leverage of up to 100% of its net assets, which results in permitted total leverage of 215% under both ratios. The Alternative Investment Fund Manager (the 'AIFM'), Artemis, monitors leverage values on a daily basis and reviews the limits annually. No changes were made to these limits during the year ended 30 September 2019. At 30 September 2019, the Commitment ratio was 76.39% and the Gross ratio was 100.01%.

## Financial statements

The financial statements of the Company are included on pages 36 to 49 of this report.

For and on behalf of the Board

**Fiona Wollocombe**
**Chairman**
19 December 2019

# Directors and Corporate Governance

## Directors

### Fiona Wollocombe (Chairman)

Fiona Wollocombe spent eighteen years in the City providing market related advice on corporate finance specifically for UK small cap companies. From 1997 until 2003, she was managing director, responsible for the European mid and small cap equity teams, at Deutsche Bank (formerly NatWest Markets) which involved overseeing the marketing of smaller companies, including unquoted investments. She was also an active member of the corporate finance team. Fiona stepped down as a director of Maven Income and Growth VCT plc during the year and became a director of Kings Arms Yard VCT plc.

Appointed as a Director on 30 September 2004, as Chairman of the Board on 31 March 2009 and is Chairman of the Nomination Committee and the Management Engagement Committee.

### Edward Murray

Edward Murray is a chartered accountant and has over twenty years' experience as a corporate finance practitioner, principally with British Linen Bank. He is a non-executive director of W A Baxter & Sons (Holdings) Limited and Genius Foods Limited, Over the last fifteen years, he has held a number of non-executive appointments with plcs, family companies and private equity backed businesses.

Appointed as a Director on 30 September 2004 and is Chairman of the Audit Committee.

### Calum Paterson

Calum Paterson is Managing Partner of Scottish Equity Partners (SEP), a leading UK venture capital firm.

He is also current Chair of the British Private Equity and Venture Capital Association (BVCA), which represents the interests of over 700 members across the UK, including over 300 fund managers and 120 institutional investors.

He is a graduate of the University of Strathclyde and a Fellow of the Royal Society of Edinburgh. He trained as a chartered accountant with Ernst & Young.

Appointed as a Director on 31 March 2009 and is Chairman of the Remuneration Committee.

All Directors are independent of the Investment Manager and are members of the Audit, Nomination, Remuneration and Management Engagement Committees.

# Directors' Report

The Directors have pleasure in presenting their report, together with the audited financial statements of the Company for the year ended 30 September 2019.

### Results and dividends

The net negative return on ordinary activities after tax for the year ended 30 September 2019 was £(5,829,000) (2018: £7,338,000). Further details can be found in the Statement of Comprehensive Income on page 36.

The Directors have declared total dividends for the year of 12.00 pence (2018: 21.00 pence). Details of dividends declared during the financial year are set out below:

| Dividends declared for the period under review | Rate per share | Announcement Date | Payment Date |
|---|---|---|---|
| First Interim Dividend | 2.00p | 22 May 2019 | 28 June 2019 |
| Special Dividend | 1.00p | 22 May 2019 | 28 June 2019 |
| Special Dividend | 3.00p | 31 July 2019 | 6 September 2019 |
| Second Interim Dividend | 2.00p | 10 October 2019 | 29 November 2019 |
| Special Dividend | 4.00p | 10 October 2019 | 29 November 2019 |

### Management and management fees

The Company's investments are managed by Artemis Fund Managers Limited ('Artemis'), subject to an Investment Management Agreement dated 20 June 2014 (the 'Agreement'). Pursuant to the Agreement, Artemis is entitled to an investment management fee of 1.75% per annum charged on the monthly market capitalisation of the Company, payable quarterly in arrears.

The Investment Manager is entitled to receive a performance fee from the Company equal to 20% of any distributions of revenue or capital profits (other than certain distributions by way of the purchase of the Company's own shares) made by the Company in any accounting period, provided that at the end of the relevant accounting period the increase in the Company's net asset value, after adding back any earlier distributions made by the Company and the amount of any performance fees paid in respect of prior periods, exceeds a hurdle amount equal to simple interest at a rate of 8% per annum on the amount paid up on each share in issue at the end of the relevant accounting period, as calculated from the date of admission of that share to trading.

The Agreement may be terminated by either party on 12 months' notice. If less than 12 months' notice is given to terminate, then a termination fee is payable to the Investment Manager. This is calculated at 1.75% of the market capitalisation of the Company and adjusted pro rata for any notice period given. The agreement may be terminated in circumstances of material breach by either party.

Andy Gray is the fund manager.

Artemis is also the AIFM to the Company. The Agreement sets out Artemis' duties to the Company in respect of the AIFMD. No fees are paid to Artemis in respect of its role as the AIFM to the Company. Artemis has delegated responsibility for the day-to-day management of the Company's portfolio to Artemis Investment Management LLP.

Both Artemis entities are authorised and regulated by the Financial Conduct Authority and at 30 November 2019 they had £27.5 billion, in aggregate, of assets under management.

Artemis Fund Managers Limited is the Company Secretary and J.P. Morgan Europe Limited provides administrative support as part of its role as Administrator for the Company.

### Continued appointment of the Investment Manager

The Board has reviewed the Investment Manager's engagement, including its management processes, risk controls and the quality of support provided to the Company and believes that its continuing appointment, on its current terms, remains in the interests of shareholders at this time. Such a review is carried out on an annual basis. The last review was undertaken at a meeting of the Management Engagement Committee held on 27 November 2019.

### Re-election of Directors

The Board has adopted a policy that all Directors should stand for re-election on an annual basis at each AGM. The Board recommends the re-election of all Directors on the basis of their industry knowledge, experience and their contribution to the operation of the Company.

### Directors' insurance

Directors' and Officers' liability insurance cover is held by the Company to cover Directors against certain liabilities that may arise in conducting their duties.

### Share capital

As at 30 September 2019, the capital structure of the Company was 52,493,516 (2018: 53,150,516) ordinary shares of 10 pence each. During the year, the Company purchased and cancelled 657,000 ordinary shares of 10 pence each. Further information on the share capital of the Company is detailed in note 12 of the notes to the financial statements.

Since the year end, no shares have been purchased or issued. As at 19 December 2019 the Company had 52,493,516 shares in issue. Therefore, the Company's total voting rights are 52,493,516.

# Directors and Corporate Governance (continued)

## Directors' Report (continued)

The Company has only one class of share and each share confers the right to one vote to every member present in person or by proxy at any general meeting of the Company where voting on the business of the Company is carried out by way of a show of hands or by way of a poll. There are no restrictions relating to the holding or transfer of the Company's shares and there are no special rights attached to any of the shares. Holders of the Company's shares may, by ordinary resolution, declare dividends, provided such dividends are not in excess of any dividends recommended by the Directors. Dividends can only be paid out of the Company's profits available for distribution.

The Company is not aware of any agreements between shareholders which may result in the restriction on the transfer of shares or of the voting rights.

As at the date of this Report, the Directors were not aware of any person who is interested in 3% or more of the Company's voting rights attributed to its ordinary share capital.

Further information on the share capital of the Company is detailed in note 12 of the notes to the financial statements.

### Additional shareholder information

The requirements relating to the appointment and replacement of Directors are contained in the Articles of the Company, a copy of which can be found on the Company's website at artemisfunds.com/vct. Amendments to the Articles and the giving of powers to change the number of the Company's ordinary shares in issue require appropriate resolutions to be passed by shareholders.

There are no agreements which the Company is party to that might affect its control following a takeover bid; and there are no agreements between the Company and its Directors concerning compensation for loss of office.

As stated in the Strategic Report on page 17, the Company does not have any greenhouse gas emissions and does not use any gearing.

### Going concern

The Directors, having considered the likely operational costs and liabilities of the Company for the 18 months from the year end and taking into account the decision taken by the Board to formally explore options for the future of the Company as disclosed in the Chairman's Statement, are of the opinion that the Company has adequate financial resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in the preparation of the financial statements.

### AGM

Details of the 2020 AGM are set out in the Notice of Meeting on pages 50 to 53. The following matters will be proposed as special resolutions at this year's AGM:

### Authority to buyback shares

The Company's existing authority to make market purchases of up to 14.99% of the issued ordinary share capital will expire at the forthcoming AGM. The Directors consider that the Company should continue to have authority to make market purchases of its own shares and accordingly Resolution 8 will be proposed as a special resolution at the forthcoming AGM to renew that authority.

The maximum price which may be paid for purchases of ordinary shares through the market will not exceed the higher of: (i) 5% above the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the relevant shares for the five consecutive dealing days ending on the dealing day immediately preceding the date on which the purchase is made; and (ii) the higher of the price quoted for (a) the last independent trade of, or (b) the highest current independent bid for any number of ordinary shares, as applicable, on the trading venue where the purchase is carried out.

The authority to make market purchases, if conferred, will only be exercised if the Directors are of the opinion that the net asset value per ordinary share will be enhanced for the continuing shareholders and it is considered to be in the best interests of shareholders generally. If the Company purchases any shares under this authority, it may cancel such shares or hold them in treasury. The Directors believe it is advantageous for the Company to have this choice. No dividends would be paid on treasury shares and the Company cannot exercise any rights (including any right to attend or vote at meetings) in respect of those shares.

### Notice period for general meetings

The Company's Articles of Association enable the Company to call general meetings (other than an annual general meeting) on 14 clear days' notice. In order for this to be effective, the shareholders must also approve annually the calling of meetings other than annual general meetings on 14 clear days' notice. Resolution 9, which is a special resolution, seeks this approval from shareholders. If approved, it will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Companies Act 2006 (as amended by the Shareholders' Rights Regulations), offering facilities for all shareholders to vote by electronic means before it can call a general meeting on 14 days' notice. The Directors believe it is in the best interests of the shareholders of the Company to preserve the shorter notice period, although it is intended that this flexibility will be used for non-routine business only and where merited in the interests of shareholders as a whole.

### Recommendation

The Directors consider that passing the resolutions to be proposed at the AGM will be in the best interests of the Company and shareholders as a whole and unanimously recommend that shareholders vote in favour of each of these resolutions as they intend to do in respect of their own holdings.

### Independent auditor

Ernst & Young LLP ('EY') has expressed its willingness to continue in office as independent auditor. The Audit Committee has responsibility for making a recommendation to the Board on the re-appointment of the external auditor.

After careful consideration of the services provided during the year and a review of their effectiveness, the Audit Committee recommended to the Board that EY be re-appointed as auditors. Accordingly, a resolution will be proposed at the forthcoming AGM for the auditors' ongoing appointment and to authorise the Directors to agree the auditors' remuneration.

Further details of the review undertaken of the auditor are set out in the Report of the Audit Committee on pages 28 and 29.

### Audited information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## Corporate Governance

### Compliance

The Board is committed to high standards of corporate governance and has established procedures to monitor its continuing compliance with the AIC Code. This statement outlines how the principles of the AIC Code, issued in July 2016 (the '2016 AIC Code'), were applied throughout the financial year. The AIC issued a new code in February 2019 (the '2019 AIC Code') to align, where applicable, with the Financial Reporting Council ('FRC') UK Code of Corporate Governance issued in July 2018. The 2019 AIC Code and UK Code of Corporate Governance (July 2018) are applicable to financial reporting years commencing 1 January 2019. The 2016 and 2019 AIC Codes are endorsed by the FRC. By reporting against the AIC Code the Company meets its obligations under the FRC UK Code of Corporate Governance insofar as they relate to the Company's business.

The Board considers that in the course of the year, and up to the date of this report, the Company has complied with the 2016 AIC Code. The Board notes the recommendations of the 2019 AIC Code and, where possible, has sought to include further detail in the statement below to outline how the principles of the 2019 AIC Code are being applied.

### Board responsibilities

The Board is responsible for promoting the long-term sustainable success and strategic direction of the Company. It meets at least four times a year to review the performance of the Company's investments, the financial position of the Company, its performance in relation to the investment objective and all other important issues to ensure that the Company's affairs are managed within a framework of prudent and effective controls. Whilst certain responsibilities are delegated, a schedule of matters specifically reserved for its decision has been adopted by the Board.

Responsibilities are clearly defined and allocated between the Chairman, the Board, the Investment Manager and a number of third party service providers. The performance of the Investment Manager and third party service providers are reviewed by the Board on a regular basis, supported by the Management Engagement Committee.

No one individual has unfettered powers of decision.

The Chairman, Fiona Wollocombe, is independent of the Investment Manager. The Chairman leads the Board and ensures its effectiveness on all aspects of its operation, ensuring that each Director receives accurate, timely and clear information enabling them to perform effectively as a Board. The Company Secretary liaises with the Chairman prior to each meeting to agree agenda content and papers to be submitted to Board and Committee meetings. In addition, the Chairman is responsible for ensuring there is effective communication with shareholders.

The Board has set the parameters within which the Investment Manager operates and these are set out in the Investment Management Agreement and in Board minutes. Representatives of the Investment Manager attend each Board meeting enabling the Directors to discuss its activities in managing the Company.

The Board has formalised arrangements under which Directors, in furtherance of their duties, may take independent professional advice at the Company's expense. The Directors have access to the advice and services of the Company Secretary, through its appointed representatives, who are responsible to the Board for ensuring that proper procedures are followed and that applicable rules and regulations are complied with.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

### Board composition and independence

The Board comprises three Directors, all of whom are non-executive. The names of the Directors, together with their biographical details, are set out on page 18 of this report.

# Directors and Corporate Governance (continued)

## Directors' Report (continued)

The Board considers that all the Directors are independent of the Investment Manager and comply with the criteria for independence as set out in the AIC Code. Each Director is deemed to be independent in character and judgement.

The Board does not consider that the length of time served by a Director is as important as their contribution to the running of the Company, or that it necessarily impairs their independence. Each situation will be rigorously reviewed on a case-by-case basis to ensure that a Director's independence is maintained and that their continuing appointment is in the best interests of the Company.

The Nomination Committee meets annually to consider matters of independence.

No Senior Independent Director has been appointed as the Board considers that each of the Directors has individual areas of expertise which would enable any of them to lead on any matters that arise. This position is reviewed annually.

### Appointment of Directors and performance evaluation

Directors are appointed subject to the provisions of the Companies Act 2006 (the 'Act') and the Company's Articles. The Directors of the Company have not been appointed subject to a service contract and are subject to election by shareholders at the first AGM following their appointment and annual re-election thereafter.

The terms and conditions of Directors' appointment are set out in formal letters of appointment which are available for inspection on request at the registered office of the Company.

Following a formal performance evaluation, and, notwithstanding their length of service, the Board has concluded that all Directors continue to demonstrate independence of character and judgement and their skills and experience enhance the collective strength of the Board. The Board believes that none of the other commitments of the Directors, as set out on page 18 of this report, interfere with the discharge of their duties to the Company and the Board is satisfied that they are capable of devoting sufficient time to the Company.

The Board, led by the Nomination Committee, conducts an annual review of its performance and that of its Committees, the Chairman and individual Directors. This review is based on a process of appraisal by questionnaire and interview, with the evaluation of the performance of the Chairman being undertaken by the other Directors, led by Calum Paterson. The Board is satisfied that it continues to have an appropriate balance of skills and experience and therefore supports the resolutions to re-elect all Directors at the forthcoming AGM.

### Board committees

Four Board Committees (Audit, Management Engagement, Nomination and Remuneration), each with written terms of reference, have been established. As the Board is comprised of three independent non-executive Directors, all Directors are members of each Committee. Attendance at meetings of the Committees is restricted to members and persons expressly invited to attend. Copies of the terms of reference for the Board Committees are available from the Company Secretary or on the Company's website at artemisfunds.com/vct. The Chairman of the Board acts as Chairman for the Nomination Committee and the Management Engagement Committee. The Audit Committee is chaired by Edward Murray and Calum Paterson is Chairman of the Remuneration Committee.

The Company Secretary acts as the Secretary to each Committee.

### Audit Committee

The responsibilities of the Audit Committee are disclosed in the Report of the Audit Committee on page 28 of this report.

### Management Engagement Committee

The Management Engagement Committee, which meets at least annually, reviews the performance and terms of appointment of the Company's third party service providers, including the Investment Manager but excluding the Auditor, who is reviewed by the Audit Committee. The Committee makes recommendations to the Board for improvement or change as appropriate.

### Nomination Committee

The Nomination Committee meets at least annually. It is responsible for ensuring that the Board has an appropriate balance of skills and experience to carry out its duties, for identifying and nominating to the Board new Directors and for proposing that existing Directors be re-elected. The Committee undertakes an annual performance evaluation of the Board, led by the Chairman. On those occasions when the Committee is reviewing the Chairman, or considering a successor, the Nomination Committee is chaired by another Committee member.

The Committee considers the appointment of an external evaluator on a regular basis. An external evaluator was not engaged during the financial year.

As detailed in the Strategic Report on page 17, the Board supports the principles of diversity in the boardroom, and considers this in seeking to ensure that the overall balance of skills and knowledge that the Board has remains appropriate so that it can continue to operate effectively.

### Remuneration Committee

The Remuneration Committee meets annually. It is responsible for reviewing the remuneration of the Directors and for making recommendations to the Board as appropriate, taking into account relevant factors such as industry research, peer group comparisons, Directors' time commitments and the need to recruit and retain individuals of sufficient calibre to optimise the Board's effectiveness. Further information on Directors' fees can be found in the Directors' Remuneration Policy and Report on pages 25 and 26.

### Board and Committee Meetings

The following table sets out the Directors' attendance at the Board and Committee meetings held during the year.

| | Audit Committee | Board |
|---|---|---|
| Number of meetings | 2 | 5 |
| Fiona Wollocombe | 2 | 5 |
| Edward Murray | 2 | 5 |
| Calum Paterson | 2 | 5 |

| | Management Engagement Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|
| Number of meetings | 1 | 1 | 1 |
| Fiona Wollocombe | 1 | 1 | 1 |
| Edward Murray | 1 | 1 | 1 |
| Calum Paterson | 1 | 1 | 1 |

### Directors' tenure

Any Directors appointed by the Board will be subject to election by shareholders at the first AGM following their appointment and annual re-appointment thereafter in accordance with the requirements of the 2019 AIC Code.

The Board does not consider that the length of time served by a Director is as important as their contribution to the running of the Company, or that it necessarily impairs their independence. Each situation will be rigorously reviewed on a case-by-case basis to ensure that a Director's independence is maintained and that their continuing appointment is in the best interests of the Company.

### Induction and training

On appointment, Directors are provided with an induction which is tailored to the particular circumstances of the appointee. Regular updates are provided on changes in regulatory requirements that could affect the Company. The Directors are encouraged to attend industry and other seminars covering issues and developments relevant to VCTs and receive other training as necessary.

### Relations with shareholders

The Board considers communication with shareholders an important function and Directors are always available to respond to shareholder queries. The Board aims to ensure that shareholders are kept fully informed of developments in the Company's business through the Annual and Half-Yearly Financial Reports, as well as the daily announcement of the net asset value of the Company's ordinary shares to the London Stock Exchange. The Investment Manager produces a monthly factsheet which can be found on the Company's website at artemisfunds.com/vct, along with other information on the Company.

All shareholders are encouraged to attend and vote at the AGM, during which the Board and Investment Manager will be available to discuss issues affecting the Company. Details of shareholder voting are declared at every AGM and are available on the Company's website as soon as practicable following the close of the meeting. Should 20 per cent or more of votes be cast against a board recommendation for a resolution, an explanation of what actions the company intends to take in order to consult shareholders will be provided when announcing voting results. An update on views received from shareholders and actions taken will also be published no later than six months after the AGM together with a final summary in the next Annual Financial Report. All Directors intend to attend this year's AGM, details of which are set out in the Notice of Meeting on pages 50 to 53 of this report.

### UK Stewardship Code

Artemis has endorsed the UK Stewardship Code. This sets out the responsibilities of institutional investors in relation to the companies in which it invests and a copy of this can be found on the Investment Manager's website at artemisfunds.com.

### Voting policy

The Board has given the Investment Manager discretion to exercise the Company's voting rights and the Investment Manager, so far as is practicable, will exercise them in respect of resolutions proposed by investee companies. The Investment Manager's voting for its clients is summarised on its website at artemisfunds.com.

### Bribery Act 2010

The Company is committed to carrying out business fairly, honestly and openly. The Investment Manager has established policies and procedures to prevent bribery.

### Criminal Finances Act 2017

The Company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

### Conflicts of interest

The Board has put in place procedures to deal with conflicts and potential conflicts of interest and considers that these have operated effectively throughout the year. The Board also confirms that its procedures for the approval of conflicts and potential conflicts of interest have been followed by the Directors during the year under review.

### Internal controls and management of risk

The Board recognises its responsibility for the implementation, review and maintenance of effective systems of internal control to manage the risks to which the Company is exposed as well as ensuring that a sound

# Directors and Corporate Governance (continued)

## Directors' Report (continued)

system of internal control is maintained to safeguard shareholders' interests and the Company's assets. As the majority of the Company's systems are maintained on behalf of the Company by third party service providers under contract, the Board fulfils its obligations by requiring these service providers to report and provide assurances on their systems of internal control, which are designed to manage, rather than eliminate, risks. In light of the Board's reliance on these systems and the reports thereon, the Board can only provide reasonable and not absolute assurance against material misstatement or loss. The Board does, however, ensure that these service providers are employed subject to clearly defined contracts. Any breaches of these, or of any law or regulation the Company is required to comply with are reported to the Board.

Both the Investment Manager and the Administrator have established internal control frameworks to provide reasonable assurances as to the effectiveness of the internal control systems operated on behalf of their clients. The Investment Manager reports to the Board on a regular basis with regard to the operation of its internal controls and risk management within its operations in so far as it impacts the Company. In addition, the Investment Manager reports to the Board on compliance with the terms of its delegated authorities under the Investment Management Agreement and other restrictions determined by the Board.

The Administrator and Depositary also report any breaches of law and regulation and any operational errors. This enables the Board to address any issues with regard to the management of the Company as and when they arise and to identify any known internal control failures.

The key procedures which have been established to provide effective internal controls are as follows:

- The Board, through the Audit Committee, has carried out and documented a risk and control assessment, which will be kept under ongoing, and at least a six monthly, review.
- Investment management, accounting and custody of assets are segregated. The procedures of the individual parties carrying out these functions are designed to complement each other.
- Investment management and company secretarial services are provided by Artemis. The Board is responsible for setting the overall investment policy and monitoring the actions of the Investment Manager. The Board reviews information produced by the Investment Manager in detail on a regular basis.
- Administration services are provided by J.P. Morgan Europe Limited. The Administrator reports to the Board on a quarterly basis and ad hoc as appropriate. In addition, the Board receives the Administrator's semi-annual report on its internal controls.
- The Board is aware of the whistleblowing procedures of Artemis and the Administrator, which are considered satisfactory.
- Safekeeping of the Company's assets is undertaken by J.P. Morgan Chase Bank N.A.
- Oversight of certain administrative and custodial procedures is undertaken by the Company's Depositary, J.P. Morgan Europe Limited. The Board reviews any exceptional items raised by the Depositary on a quarterly basis.
- The Board defines the duties and responsibilities of the Company's agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of parties involved; their ongoing performance and contractual arrangements are monitored to ensure that they remain effective.
- Mandates for authorisation of investment transactions and expense payments are approved by the Board.

By the procedures set out above, the Directors have reviewed the effectiveness of the Company's internal controls throughout the year under review and up to the date of this report.

Further information on the risks and the management of them is set out in the Strategic Report on page 16 and note 16 of the notes to the Financial Statements. The glossary on page 56 contains information which should be read in conjunction with this section.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and the information provided to shareholders is sufficient to allow them to assess the Company's performance, business model and strategy.

By order of the Board

**Artemis Fund Managers Limited**
**Company Secretary**
19 December 2019

# Directors' Remuneration Policy

In accordance with Schedule 8 of The Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations') the Directors are required to propose a remuneration policy to shareholders that will remain in place for a maximum of three years.

The Company's current remuneration policy was approved by shareholders at the Annual General Meeting held on 1 February 2017 and requires to be approved by shareholders at the Annual General Meeting due to be held on 12 February 2020.

To date no comments have been received from shareholders in respect of the remuneration policy.

Resolution 2, which is seeking shareholder approval for the policy as set out below will, if approved, apply for a further three years unless renewed, varied or revoked by shareholders at a general meeting.

The Company's proposed remuneration policy, which is unchanged from the Company's existing policy, is that fees payable to Directors are commensurate with the amount of time Directors are expected to spend on the Company's affairs, whilst seeking to ensure that fees are set at an appropriate level so as to enable candidates of a sufficient calibre to be recruited. The Company's Articles state the maximum aggregate amount of fees that can be paid to Directors in any year. This is currently set at £100,000 per annum and shareholder approval is required for any changes to this. The Remuneration Committee reviews and sets the level of Directors' fees annually, or at the time of the appointment of a new director, taking into account a range of external information, including peer group comparisons, relevant independent research and any comments received from shareholders.

Each Director is entitled to a base fee. The Chairman is paid a higher fee than the other Directors, to reflect the additional work required to be carried out in this role. The Chairman of the Audit Committee also receives an additional fee to reflect the additional responsibilities and work associated with the role.

No Director is entitled to any benefits in kind, share options, annual bonuses, long-term incentives, pensions or other retirement benefits or compensation for loss of office.

Directors are appointed with no fixed notice periods and are not entitled to any extra payments on resignation. It is also considered appropriate that no aspect of Directors' remuneration is performance-related in light of the Directors' non-executive status.

Directors are able to claim expenses that are incurred in respect of duties undertaken in connection with the management of the Company.

New Directors will be remunerated in accordance with this policy and will not be entitled to any payments from the Company in respect of remuneration arrangements in place with any other employers which are terminated upon appointment as a Director of the Company.

### Statement of voting at the Annual General Meeting

The following table sets out the votes received at the Annual General Meeting of shareholders, held on 1 February 2017, in respect of the approval of the Directors' Remuneration Policy.

| Votes cast | | | | | Number of votes withheld |
|---|---|---|---|---|---|
| For | | Against | | | |
| Number | % | Number | % | Total | |
| 7,765,084 | 96.68 | 266,937 | 3.32 | 8,032,021 | 123,195 |

# Directors' Remuneration Report

The Directors are pleased to present the Company's remuneration report for the year ended 30 September 2019, produced in accordance with the Regulations.

The Company's Auditor is required to audit certain information contained within this report and, where information set out below has been audited, it is clearly indicated. The Auditor's opinion is included in the Independent Auditor's report which can be found on pages 30 to 35.

In accordance with the Regulations, an ordinary resolution to approve this report will be put to shareholders at the AGM, as proposed by Resolution 3.

### The Board

During the year ended 30 September 2019 the Board was comprised entirely of independent non-executive Directors, who all sit on the Remuneration Committee of the Board.

Following a detailed review of Directors' fees by the Remuneration Committee on 27 November 2019 it was recommended, and approved by the Board, that the fees remain unchanged. Directors' fees were last changed on 1 October 2017.

The Remuneration Committee has not relied upon the advice or services of any person to assist in making its remuneration decisions. The Remuneration Committee carries out a review of the fees paid to directors of other similar VCTs on an annual basis.

The Directors do not have a contract of service with the Company but are instead appointed by letters of appointment. The letters are available for inspection at the registered office of the Company.

# Directors and Corporate Governance (continued)

## Directors' Remuneration Report (continued)

### Directors' fees (audited)

The Directors who served during the year to 30 September 2019 and 30 September 2018 received the following fees:

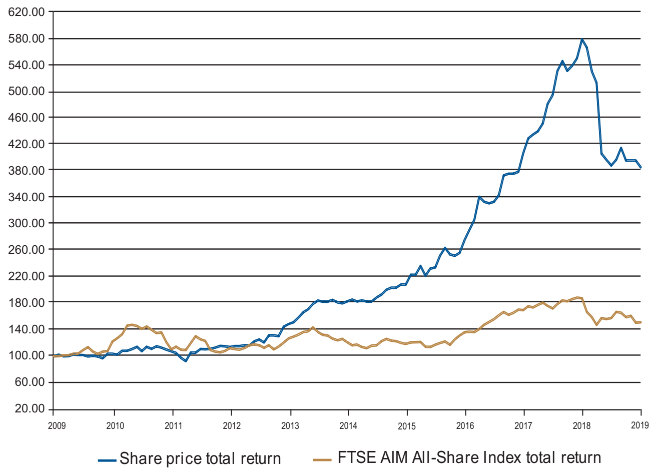
| Director | Year ended 30 September 2019 | Year ended 30 September 2018 |
|---|---|---|
| Fiona Wollocombe | £25,000 | £25,000 |
| Edward Murray | £20,000 | £20,000 |
| Calum Paterson | £18,000 | £18,000 |
| | £63,000 | £63,000 |

### Statement of voting at the last annual general meeting

The following table sets out the votes received at the last annual general meeting of shareholders, held on 13 February 2019, in respect of the approval of the Directors' Remuneration Report:

| Votes cast | | | | | Number of votes withheld |
|---|---|---|---|---|---|
| For | | Against | | | |
| Number | % | Number | % | Total | |
| 4,624,882 | 97.15 | 135,738 | 2.85 | 4,760,620 | 92,432 |

### Performance graph




Source: Artemis.

The performance chart above sets out the Company's share price total return for the ten years to 30 September 2019, compared to the total return of a notional investment in the FTSE AIM All-Share Index. This index was chosen for comparison purposes as it represents the closest comparable equity market index. However, as not all the constituents of this index are suitable investments for the Company, due to the investment parameters the Company has to adhere to, as set out in the VCT regulations, there is likely to be a divergence between the performance of each.

### Directors' interests

The interests of the Directors and their connected persons in the ordinary shares of the Company at the beginning and end of the financial year were as follows:

| Director | Holding as at 30 September 2019 | Holding as at 30 September 2018 |
|---|---|---|
| Fiona Wollocombe | 100,000 | 100,000 |
| Edward Murray | 75,447 | 75,447 |
| Calum Paterson | 100,000 | 100,000 |

There have been no changes to the above holdings up to the date of this report. None of the Directors, nor any persons connected with them, had a material interest in any of the Company's transactions, arrangements or agreements during the year under review. There is no requirement for a Director to hold shares in the Company.

On behalf of the Board and in accordance with the Regulations, I confirm that the Directors' Remuneration Report for the year ended 30 September 2019 summarises the review undertaken and the decisions made regarding the fees paid to the Board.

**Calum Paterson**
**Chairman of the Remuneration Committee**
19 December 2019

# Statement of Directors' Responsibilities in respect of the Annual Financial Report

### Management Report

Listed companies are required by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (the 'Rules') to include a management report in their annual financial statements. The information required to be in the management report for the purpose of the Rules is included in the Strategic Report (pages 3 to 17). Therefore no separate management report has been included.

### Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Financial Report and the Company's Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK Accounting Standards, including Financial Reporting Standard ('FRS') 102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures being disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Financial Statements are published on a website, artemisfunds.com/vct, maintained by the Company's Investment Manager, Artemis. The maintenance and integrity of the corporate and financial information relating to the Company is the responsibility of the Investment Manager. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

### Responsibility Statement of the Directors in respect of the Annual Financial Report

We confirm that, to the best of our knowledge:

(a) the Financial Statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities and financial position of the Company as at 30 September 2019 and of the profit for the year then ended; and

(b) the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

We consider the Annual Financial Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

For and on behalf of the Board

**Fiona Wollocombe**
**Chairman**
19 December 2019

# Audit Information

## Report of the Audit Committee

### Roles and responsibilities

The main responsibilities of the Audit Committee include:

- reviewing the Company's annual and interim financial statements, and confirming to the Board that they are fair, balanced and understandable,
- reviewing the appropriateness and consistency of its accounting policies,
- reviewing the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risks,
- reviewing the need for an internal audit function,
- considering and making recommendations to the Board as regards the appointment and re-appointment of the Company's external auditors,
- reviewing the relationship with the external auditor including:

    the independence and objectivity of the auditor,

    the effectiveness of the annual external audit process,

    considering the audit fees payable to the external auditor, and

    monitoring the non-audit services provided to the Company by its auditor.

The Audit Committee also provides a forum through which the Company's Auditor reports to the Board.

During the year the Committee met on two occasions, and representatives of the Company's Auditors attended one of these meetings. It also met with senior representatives of the Investment Manager's Risk and Compliance departments during the year.

### Composition and meetings

All Directors are members of the Audit Committee and are considered to have relevant and recent financial and investment experience as a result of their employment in financial services and other industries. Edward Murray, the Chairman of the Audit Committee, is a chartered accountant. The Committee meets at least twice per year and representatives from the Investment Manager and the Administrator may be invited to attend the meetings of the Audit Committee to report on issues as required.

The Audit Committee meets with the Audit Partner responsible for the Company's audit at least once each year to discuss any matters arising from the audit.

### Internal audit and controls

The Company does not have an internal audit function as most of its day-to-day operations are delegated to third parties. Both the Investment Manager and Administrator have established internal control frameworks to provide reasonable assurance as to the effectiveness of the internal controls operated on behalf of their clients. Both of these parties report to the Board, any breaches of law or regulation.

The Audit Committee considers annually whether there is a need for an internal audit function, and has agreed that it remains appropriate for the Company to rely on the internal controls that exist within its third party service providers.

As part of the Board's review of internal controls, the Audit Committee carries out and documents a risk and control assessment, which is kept under ongoing, and at least a six monthly, review. The Audit Committee reports its findings and recommendations to the Board.

### Appointment and remuneration of Auditors

Ernst & Young LLP ('EY') were appointed as auditor of the Company on 12 September 2018. No tender for the audit of the Company has been undertaken since this date. In accordance with audit regulations, the lead audit partner must be rotated ahead of the year ended 30 September 2023 and a tender for audit will be undertaken ahead of the year ended 30 September 2028, which EY may be invited to participate in.

The fees paid to EY in respect of audit services are disclosed in note 4 of the notes to the financial statements. As part of its review of the continuing appointment of the Auditor, ahead of making a recommendation to the Board, the Audit Committee considered the quality of service provided by, and the effectiveness of, the auditor, the length of tenure of the audit firm, its fees and independence from the Investment Manager, along with any matters raised during the audit.

As noted in the Directors' Report on page 21, EY has expressed its willingness to continue in office as Independent Auditor. After careful consideration of the services provided during the year and a review of its effectiveness, the Audit Committee recommended to the Board that EY should be re-appointed as auditor. Accordingly, a resolution will be proposed at the forthcoming AGM for its re-appointment and to authorise the Directors to agree its remuneration.

### Audit for the year ended 30 September 2019

As part of the planning for the annual audit, the Audit Committee reviewed the audit plan produced by the auditor, which highlighted the level of materiality applied by the auditor, its key perceived audit risks and the scope of the audit.

Following this review, which included a discussion with the auditor and the Investment Manager, the Audit Committee considered the following significant financial reporting issues in relation to the Company's financial statements:

- The valuation and ownership of investments: The valuation of investments is undertaken in accordance with the accounting policies. The majority of investments, quoted in active markets, are considered to be liquid and have been categorised as Level 1 within FRS 102 fair value hierarchy. The portfolio holdings and their pricing is reviewed and verified by the Investment Manager on a regular basis and management accounts, including a full portfolio listing, are prepared for each Board meeting. The Company used the services of an independent Depositary during the year under review to hold the assets of the Company. The investment portfolio is reconciled regularly by the Investment Manager. The Committee reviews internal control reports from the Investment Manager which provides details of the controls in place regarding the recording and pricing of investments.
- Venture capital trust status: the Investment Manager confirmed to the Audit Committee that the conditions for maintaining the Company's status as an approved venture capital trust had been complied with throughout the year. The position was also reviewed by Philip Hare & Associates LLP in its capacity as adviser to the Company on taxation matters.

The Audit Committee met with the Audit Partner responsible for the Company's audit at the Audit Committee meeting held on 27 November 2019 to discuss any matters arising from the annual audit.

The auditor stated that there were no significant matters to be reported and an unqualified audit opinion on the financial statements has been provided on pages 30 to 35.

### Non-audit services

The Audit Committee has agreed a policy for the provision of non-audit services to the Company which prohibits the provision of certain services by the Auditor which the Audit Committee believes would compromise auditor independence. All other non-audit services are permitted subject to the Audit Committee being satisfied that the engagement would not compromise auditor independence, where the total fees for non-audit services is less than 70 per cent of the average audit fees for the last three years and where auditor knowledge would be advantageous in carrying out the service.

No fees were payable to the auditor for non-audit services during the year under review.

By order of the Board

**Edward Murray**
**Chairman of the Audit Committee**
19 December 2019

# Audit Information (continued)

## Independent Auditor's Report to the members of Artemis VCT plc

### Opinion

We have audited the financial statements of Artemis VCT plc (the 'Company') for the year ended 30 September 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 September 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 16 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 27 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 27 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 16 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Overview of our audit approach

| | |
|---|---|
| Key audit matters | ■ Risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income<br>■ Risk of incorrect valuation and/or defective title of the investment portfolio |
| Materiality | ■ Overall materiality of £0.22m which represents 1% of equity shareholders' funds |

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the income statement** (as described on page 28 in the Report of the Audit Committee and as per the accounting policy set out on page 40).<br><br>The investment income recognised for the year to 30 September 2019 was £0.26m (2018: £0.32m), being dividend receipts from AIM quoted investments.<br><br>There is a risk of incomplete or inaccurate recognition of income through the failure to recognise proper income entitlements or applying appropriate accounting treatment.<br><br>In addition to the above, the Directors are required to exercise judgment in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'. | **We have performed the following procedures:**<br><br>We obtained an understanding of the Manager and Administrator's processes and controls surrounding revenue recognition and classification of special dividends by reviewing their internal controls report and performing our walkthrough procedures to evaluate the design and implementation of controls<br><br>We agreed 100% of dividend receipts to the corresponding announcement made by the investee company, recalculated the dividend amount receivable using exchange rates obtained from independent data vendor and confirmed that the cash received as shown on bank statements was consistent with the recalculated amount.<br><br>We agreed 100% of investee company dividend announcements from an independent data vendor to the income recorded by the Company to test completeness of the income recorded.<br><br>For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the dividend obligation arose prior to 30 September 2019. We agreed the dividend rate to corresponding announcements made by the investee company, recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post year end bank statements, where paid.<br><br>We reviewed the income report and the acquisition and disposal report produced by the Administrator and referred to independent data sources to identify special dividends received or accrued in excess of our testing threshold. The Company received no special dividends above our testing threshold. | **The results of our procedures are:**<br><br>We have no issues to communicate with respect to our procedures performed over the risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income. |

# Audit Information (continued)

## Independent Auditor's Report (continued)

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Incorrect valuation and/or defective title of the investment portfolio** (as described on page 28 in the Report of the Audit Committee and as per the accounting policy set out on page 40).<br><br>The valuation of the portfolio at 30 September 2019 was £16.75m (2018: £28.23m) consisting mainly of AIM quoted equities.<br><br>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing, or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders.<br><br>AIM traded investments are measured at their quoted or last traded (where the investment is traded on the London Stock Exchange's electronic order book, SETS) prices without deduction for the estimated future selling cost. Unquoted investments are valued at fair value which is determined by the Directors, through discussion with the Investment Manager and with reference to the valuation guidelines issued by the International Private Equity and Venture Capital (IPEV) Board. | **We performed the following procedures:**<br><br>We obtained an understanding of the Administrator's process surrounding investment pricing by reviewing their internal control reports and by performing walkthrough procedures.<br><br>We agreed 100% of the quoted investment valuations and exchange rates to an independent pricing vendor rates applied to an independent pricing vendor<br><br>We tested whether the quoted price is a valid fair price and assessed the liquidity of the investment portfolio at the year-end.<br><br>We reviewed the unquoted investments in the portfolio to review and challenge the valuations. We assessed the appropriateness of the data inputs and assumptions used for consistency with the IPEV guidelines.<br><br>We agreed the Company's investments to the independent confirmation received from the Company's Custodian and Depositary to confirm existence and legal title as at 30 September 2019 | **The results of our procedures are:**<br><br>We have no issues to communicate with respect to our procedures performed over the risk of incorrect valuation and/or defective title to the investment portfolio. |

### An overview of the scope of our audit

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

#### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

#### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Company to be £0.22m (2018: £0.34m) which is 1% of equity shareholders' funds. We believe that equity shareholders' funds provides us with materiality aligned to the key measurement of the Company's performance.

## Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2018: 50%) of our planning materiality, namely £0.16m (2018: £0.17m). The movement from 50% to 75% is due to the 2019 audit being our second audit of the Company.

We have reassessed the purpose of a separate testing threshold for the revenue column specifically for the Company and have removed its use for the year ending 30 September 2019. This is due to the Company making revenue losses for three consecutive years.

## Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.01m (2018: £0.02m) which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 27** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 28 to 29** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 21** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

# Audit Information (continued)

## Independent Auditor's Report (continued)

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are UK GAAP, the Companies Act 2006, AIC SORP, the Listing Rules, the UK Corporate Governance Code and Section 274 of the Income Tax Act 2007.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to the incomplete or inaccurate income recognition through incorrect classification of special dividends. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed by the Company on 12 September 2018 to audit the financial statements of the Company for the period ending 30 September 2018 and subsequent financial periods.

  The period of total uninterrupted engagements including previous renewals and reappointments is two years, covering the years ending 30 September 2018 to 30 September 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Susan J Dawe (Senior statutory auditor)**
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
19 December 2019

Notes:

1. The maintenance and integrity of the Artemis VCT plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Financial Statements

## Statement of Comprehensive Income

Year ended 30 September

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| (Losses)/gains on investments | 8 | – | (5,403) | (5,403) | – | 7,924 | 7,924 |
| Income | 2 | 264 | – | 264 | 323 | – | 323 |
| Investment management fee | 3 | (109) | (327) | (436) | (164) | (491) | (655) |
| Other expenses | 4 | (253) | (1) | (254) | (252) | (2) | (254) |
| **(Loss)/return on ordinary activities before taxation** | | **(98)** | **(5,731)** | **(5,829)** | **(93)** | **7,431** | **7,338** |
| Taxation on ordinary activities | 5 | – | – | – | – | – | – |
| **(Loss)/return on ordinary activities after taxation** | | **(98)** | **(5,731)** | **(5,829)** | **(93)** | **7,431** | **7,338** |
| **(Loss)/return per share (pence)** | 7 | **(0.18)** | **(10.83)** | **(11.01)** | **(0.18)** | **13.98** | **13.80** |

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in this statement derive from continuing operations. No operations were acquired or discontinued during the year.

The net (loss)/return for the year disclosed above represents the Company's total comprehensive income.

**The notes on pages 40 to 49 are an integral part of the financial statements.**

## Statement of Financial Position

As at 30 September

| | Notes | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 8 | 16,752 | 28,226 |
| **Current assets** | | | |
| Debtors | 10 | 9 | 44 |
| Cash and cash equivalents | | 5,179 | 6,202 |
| | | 5,188 | 6,246 |
| **Total assets** | | **21,940** | **34,472** |
| Creditors – amounts falling due within one year | 11 | (167) | (241) |
| **Net assets** | | **21,773** | **34,231** |
| **Capital and reserves** | | | |
| Share capital | 12 | 5,249 | 5,315 |
| Share premium | | 2,828 | 2,828 |
| Capital reserve – realised | | 6,298 | 9,411 |
| Capital reserve – unrealised | | 4,994 | 14,241 |
| Capital redemption reserve | | 2,635 | 2,569 |
| Revenue reserve | | (231) | (133) |
| **Equity shareholders' funds** | | **21,773** | **34,231** |
| **Net asset value per share (pence)** | **13** | **41.48** | **64.40** |

These financial statements were approved by the Board of Directors and signed on its behalf on 19 December 2019.

**Fiona Wollocombe**
**Chairman**
**The notes on pages 40 to 49 are an integral part of the financial statements.**

Registered in Scotland Number: SC270952

# Financial Statements (continued)

## Statement of Changes in Equity

### Year ended 30 September 2019

| | Share capital £'000 | Share premium £'000 | Capital reserve – realised* £'000 | Capital reserve – unrealised £'000 | Capital redemption reserve £'000 | Revenue reserve* £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 30 September 2018 | 5,315 | 2,828 | 9,411 | 14,241 | 2,569 | (133) | 34,231 |
| Repurchase of shares for cancellation | (66) | – | (281) | – | 66 | – | (281) |
| Loss on ordinary activities after taxation | – | – | (198) | (5,533) | – | (98) | (5,829) |
| Transfer on disposal of investments | – | – | 3,714 | (3,714) | – | – | – |
| Dividends paid | – | – | (6,348) | – | – | – | (6,348) |
| **At 30 September 2019** | **5,249** | **2,828** | **6,298** | **4,994** | **2,635** | **(231)** | **21,773** |

### Year ended 30 September 2018

| | Share capital £'000 | Share premium £'000 | Capital reserve – realised* £'000 | Capital reserve – unrealised £'000 | Capital redemption reserve £'000 | Revenue reserve* £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 30 September 2017 | 5,315 | 2,828 | 11,015 | 17,431 | 2,569 | (40) | 39,118 |
| Return/(loss) on ordinary activities after taxation | – | – | 3,116 | 4,315 | – | (93) | 7,338 |
| Transfer on disposal of investments | – | – | 7,505 | (7,505) | – | – | – |
| Dividends paid | – | – | (12,225) | – | – | – | (12,225) |
| **At 30 September 2018** | **5,315** | **2,828** | **9,411** | **14,241** | **2,569** | **(133)** | **34,231** |

* The aggregate of these reserves, being £6,067,000, represents the distributable reserves of the Company at 30 September 2019 (30 September 2018: £9,278,000).

**The notes on pages 40 to 49 are an integral part of the financial statements.**

## Statement of Cash Flows

Year ended 30 September

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | Notes | £'000 | £'000 | £'000 | £'000 |
| **Cash used in operations** | **14** | | **(494)** | | **(576)** |
| Interest received | | 29 | | 20 | |
| **Net cash generated from operating activities** | | | **(465)** | | **(556)** |
| **Cash flow from investing activities** | | | | | |
| Purchase of investments | | – | | (1,387) | |
| Sale of investments | | 6,071 | | 13,329 | |
| **Net cash from investing activities** | | | **6,071** | | **11,942** |
| **Cash flow from financing activities** | | | | | |
| Repurchase of shares for cancellation | | (281) | | – | |
| Dividends paid | | (6,348) | | (12,225) | |
| **Net cash used in financing activities** | | | **(6,629)** | | **(12,225)** |
| **Net decrease in cash and cash equivalents** | | | **(1,023)** | | **(839)** |
| **Cash and cash equivalents at start of the year** | | | **6,202** | | **7,041** |
| Decrease in cash in the year | | | (1,023) | | (839) |
| **Cash and cash equivalents at end of the year** | | | **5,179** | | **6,202** |

**The notes on pages 40 to 49 are an integral part of the financial statements.**

Financial Statements (continued)

# Notes to the Financial Statements

## 1. Accounting policies

**(a) Basis of preparation.** The financial statements have been prepared on a going concern basis and in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'), including Financial Reporting Standard ('FRS') 102, and the Statement of Recommended Practice: Financial Statements for Investment Trust Companies and Venture Capital Trusts (the 'SORP') issued in November 2014 and updated in February 2018 by the Association of Investment Companies (the 'AIC').

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 30 September 2019.

The Company is not an investment company within the meaning of Section 833 of the Companies Act 2006 (the 'Act'), having revoked investment company status on 5 March 2008 in order to permit the distribution of realised capital gains. The financial statements are presented in accordance with Part 15 of the Act, and the requirements of the SORP, where the requirements of the SORP are consistent with the Act.

No significant estimates or judgements have been made in the preparation of the financial statements.

**(b) Investments.** Investments are designated as fair value through profit or loss upon initial recognition. Investments are measured initially at cost and are recognised at trade date.

For financial assets acquired, the cost is the initial fair value of the consideration. Subsequent to initial recognition, all listed and AIM traded investments are measured at their quoted bid or last traded (where the investment is traded on the London Stock Exchange's electronic order book, SETS) prices without deduction for the estimated future selling cost. Unquoted investments are valued at fair value which is determined by the Directors, through discussion with the Investment Manager and with reference to the valuation guidelines issued by the International Private Equity and Venture Capital Valuation Board. Valuation techniques employed could include: price of recent investment; earnings multiples; net assets; discounted cash flow techniques; industry valuation benchmarks; and available market prices.

Assets are derecognised at the trade date of the disposal. Proceeds are measured at fair value which are regarded as the proceeds of sale less any transaction costs.

Changes in the value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as gains/(losses) on investments.

**(c) Cash and cash equivalents.** Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

**(d) Income.** Dividends receivable on listed and AIM traded equity shares are brought into account on the exdividend date. Dividends receivable on unquoted equity shares are brought into account when the Company's right to receive payment is established. Special dividends are treated as a repayment of capital or revenue depending on the facts of each particular case. Bank and deposit interest is recognised on an accruals basis.

**(e) Expenses.** All expenses (inclusive of VAT) are accounted for on an accruals basis through the Statement of Comprehensive Income.

Expenses are charged wholly to revenue, with the exception of:

- Expenses arising from the issue and purchase of shares which are charged to capital;
- Expenses which are incidental to the acquisition or disposal of an investment which are charged to capital; and
- Investment management fees payable to Artemis which are charged 75% to capital reserve – realised and 25% to revenue based on Directors' estimated long-term split of revenue and capital returns.

**(f) Deferred taxation.** Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised.

Due to the Company's status as a VCT, and the intention to meet the conditions required to obtain approval under Section 274 of the Income Tax Act 2007 in the foreseeable future, the Company has not provided for current or deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

**(g) Exchange rates.** Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange at the balance sheet date. Differences arising from translation are treated as capital or revenue depending on the nature of the gain or loss.

**(h) Reserves.**

*Capital reserve – realised*

The following are accounted for in this reserve:

- gains and losses on the realisation of investments and changes in the fair value of investments which are readily convertible to cash;

- expenses, together with any related taxation effect, in accordance with the above policies; and
- the payment of dividends and the cost of share buy backs.

*Capital reserve – unrealised*

The following is accounted for in this reserve:

- changes in the fair value of investments that are not readily convertible to cash.

*Capital redemption reserve*

This reserve includes the nominal value of all shares bought back and cancelled by the Company.

*Revenue reserve*

The revenue profit or loss for the year is taken to or from this reserve. Dividends may be paid from this reserve.

**(i) Segmental reporting.** The Company has only one material segment of business being that of a VCT, investing in shares and securities issued by companies operating mainly in the UK.

**(j) Functional currency.** The Company's functional and presentational currency is Sterling, which is the currency of the primary environment in which the Company operates.

## 2. Income

| | Year ended 30 September 2019 £'000 | Year ended 30 September 2018 £'000 |
|---|---|---|
| **Investment income*** | | |
| – UK dividend income | 235 | 303 |
| **Total investment income** | **235** | **303** |
| **Other income**** | | |
| – Bank interest | 29 | 20 |
| **Total other income** | **29** | **20** |
| **Total income** | **264** | **323** |

* All investments have been designated as fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss.

** Income on financial assets not designated as fair value through profit or loss.

## 3. Investment management and performance fee

| | Year ended 30 September 2019 | | | Year ended 30 September 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Investment management fee | 109 | 327 | 436 | 164 | 491 | 655 |

Details of the investment management fee and performance fee are set out in the Directors' Report on page 19. As at 30 September 2019, £90,000 (2018: £159,000) was outstanding in respect of amounts due to the Investment Manager. No performance fee was due as at 30 September 2019 (2018: nil).

# Financial Statements (continued)

## Notes to the Financial Statements (continued)

## 4. Other expenses

| | Year ended 30 September 2019 | | | Year ended 30 September 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Directors' remuneration (excluding VAT and national insurance) | 63 | – | 63 | 64 | – | 64 |
| Administrator's fees | 36 | – | 36 | 36 | – | 36 |
| Printing costs | 31 | – | 31 | 26 | – | 26 |
| Registrar fees | 23 | – | 23 | 25 | – | 25 |
| Auditor remuneration: | | | | | | |
| Fees for the audit of the Company's annual financial report | 19 | – | 19 | 19 | – | 19 |
| VCT tax advisory services | 16 | – | 16 | 15 | – | 15 |
| Corporate Broker fee | 12 | – | 12 | 12 | – | 12 |
| Stock Exchange fees | 12 | – | 12 | 12 | – | 12 |
| Directors' & Officers' liability insurance | 6 | – | 6 | 6 | – | 6 |
| Other expenses | 35 | 1 | 36 | 37 | 2 | 39 |
| | **253** | **1** | **254** | **252** | **2** | **254** |

The Company has no employees (2018: none).

The above expenses include irrecoverable VAT where charged except where indicated.

## 5. Taxation on ordinary activities

| | Year ended 30 September 2019 | | | Year ended 30 September 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Corporation tax | – | – | – | – | – | – |

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%).

The differences are explained below:

| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| (Loss)/return on ordinary activities before taxation | (98) | (5,731) | (5,829) | (93) | 7,431 | 7,338 |
| (Loss)/return on ordinary activities multiplied by the applicable rate of corporation tax of 19.0% (2018: 19.0%) | (19) | (1,089) | (1,108) | (18) | 1,412 | 1,394 |
| Effects of: | | | | | | |
| Non taxable gains | – | 1,027 | 1,027 | – | (1,505) | (1,505) |
| UK dividends | (44) | – | (44) | (57) | – | (57) |
| Unutilised management expenses | 63 | 62 | 125 | 75 | 93 | 168 |
| | **–** | **–** | **–** | **–** | **–** | **–** |

No provision for deferred tax has been made in the current year (2018: nil).

The Company has not recognised a deferred tax asset of £1,678,000 based on a prospective corporation tax rate of 17.0% (2018: £1,568,000) arising as a result of unutilised excess management expenses. These expenses will only be utilised if the tax treatment of capital gains made by VCTs changes or the Company's taxable investment income increases significantly.

## 6. Dividends paid and proposed

Set out below are the total dividends recognised in respect of the financial year.

| | Year ended 30 September 2019 £'000 | Year ended 30 September 2018 £'000 |
|---|---|---|
| Second interim dividend for year ended 30 September 2018: 2.00 pence (2017: 2.00 pence) | 1,063 | 1,063 |
| Second special dividend for the year ended 30 September 2018: nil (2017: 6.00 pence) | – | 3,189 |
| Third special dividend for the year ended 30 September 2018: 4.00 pence (2017: nil) | 2,126 | – |
| First interim dividend for year ended 30 September 2019: 2.00 pence (2018: 2.00 pence) | 1,059 | 1,063 |
| First special dividend for the year ended 30 September 2019: 1.00 pence (2018: 8.00 pence) | 530 | 4,252 |
| Second special dividend for the year ended 30 September 2019: 3.00 pence (2018: 5.00 pence) | 1,578 | 2,658 |
| Unclaimed dividends refunded to the Company | (8) | – |
| | **6,348** | **12,225** |

Under FRS 102, dividends are recognised in the accounting period in which they are authorised for payment and are shown in the Statement of Changes in Equity as such.

Set out below are the total dividends paid and proposed in respect of the financial year.

| | Year ended 30 September 2019 £'000 | Year ended 30 September 2018 £'000 |
|---|---|---|
| First special dividend for the year ended 30 September 2019: 1.00 pence (2018: 8.00 pence) | 530 | 4,252 |
| First interim dividend for year ended 30 September 2019: 2.00 pence (2018: 2.00 pence) | 1,059 | 1,063 |
| Second special dividend for the year ended 30 September 2019: 3.00 pence (2018: 5.00 pence) | 1,578 | 2,658 |
| Second interim dividend for the year ended 30 September 2019: 2.00 pence (2018: 2.00 pence) | 1,050 | 1,063 |
| Third special dividend for the year ended 30 September 2019: 4.00 pence (2018: 4.00 pence) | 2,100 | 2,126 |
| | **6,317** | **11,162** |

## 7. Return per share

| | Year ended 30 September 2019 | | | Year ended 30 September 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue | Capital | Total | Revenue | Capital | Total |
| (Loss)/return per share (pence) | (0.18) | (10.83) | (11.01) | (0.18) | 13.98 | 13.80 |

Revenue loss per share is based on the net revenue loss attributable to shareholders of £98,000 and on 52,926,190 shares, being the weighted average number of shares in issue during the year (2018: £93,000 and on 53,150,516 shares).

Capital loss per share is based on net capital losses attributable to shareholders of £5,731,000 and on 52,926,190 shares, being the weighted average number of shares in issue during the year (2018: returns £7,431,000 and on 53,150,516 shares).

Total loss per share is based on the total loss attributable to shareholders of £5,829,000 and on 52,926,190 shares, being the weighted average number of shares in issue during the year (2018: return £7,338,000 and on 53,150,516 shares).

# Financial Statements (continued)

## Notes to the Financial Statements (continued)

## 8. Investments

The following tables provide an analysis of investments based on the fair value hierarchy described below, which reflects the reliability and significance of the information used to measure their fair value.

The levels are determined by the lowest (that is the least reliable or least independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

Level 1 – investments with unadjusted quoted prices in an active market;

Level 2 – investments whose fair value is based on inputs other than quoted prices as included in Level 1 that are either directly or indirectly observable; and

Level 3 – investments whose fair value is based on inputs that are unobservable (i.e. for which market data is unavailable).

| | Year ended 30 September 2019 £'000 | Year ended 30 September 2018 £'000 |
|---|---|---|
| AIM Quoted (Level 1) | 14,414 | 25,926 |
| AIM Quoted (Level 2) | 2,338 | 2,300 |
| Unquoted (Level 3) | – | – |
| **Total financial asset investments** | **16,752** | **28,226** |

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Opening book cost | 11,071 | 1,919 | 995 | 13,985 |
| Fair value adjustment at 30 September 2018 | 14,855 | 381 | (995) | 14,241 |
| Valuation at 30 September 2018 | 25,926 | 2,300 | – | 28,226 |
| Purchases at cost | – | – | – | – |
| Disposals – proceeds | (6,071) | – | – | (6,071) |
| – realised gains | 3,844 | – | – | 3,844 |
| Transfers | (806) | 806 | – | – |
| Decrease in fair value adjustment | (8,479) | (768) | – | (9,247) |
| **Valuation at 30 September 2019** | **14.414** | **2,338** | **–** | **16,752** |
| Book cost at 30 September 2019 | 8,038 | 2,725 | 995 | 11,758 |
| Fair value adjustment | 6,376 | (387) | (995) | 4,994 |
| **Valuation at 30 September 2019** | **14,414** | **2,338** | **–** | **16,752** |

The cost and value of individual investments held as at 30 September 2019 are given on pages 8 to 11.

Losses on investments of £5,403,000 (2018: gains of £7,924,000) is comprised of realised gains of £3,844,000 (2018: £11,114,000) and unrealised losses of £9,247,000 (2018: £3,190,000).

Dods Group, MyCelx Technologies and ClearStar are included in Level 2 (Dods Group transferred from Level 1 during the year). They are valued using market quoted prices but following assessment have been identified as having had a consistently low trading volume.

The purchases and sales proceeds figures above include transaction costs of £600 on purchases (2018: £600) and £3,500 on sales (2018: £8,500), making a total of £4,100 (2018: £9,100).

## 9. Significant interests

At 30 September 2019 the Company held shares amounting to 3% or more of the nominal value of any class of share in the following investee companies:

| Company | Class held | Percentage of class held % |
|---|---|---|
| ClearStar | Ordinary | 4.8 |
| Croma Security Solutions Group | Ordinary | 3.4 |
| ECSC Group | Ordinary | 3.2 |
| KRM22 | Ordinary | 3.2 |

It is considered that the above investments are held as part of an investment portfolio as their value to the Company is through their marketable value as part of a portfolio of investments rather than as a medium through which the Company carries out its business.

## 10. Debtors

| | As at 30 September 2019 £'000 | As at 30 September 2018 £'000 |
|---|---|---|
| Prepayments | 8 | 10 |
| Accrued income | 1 | 34 |
| | **9** | **44** |

## 11. Creditors – amounts falling due within one year

| | As at 30 September 2019 £'000 | As at 30 September 2018 £'000 |
|---|---|---|
| Accrued expenses | 167 | 241 |
| | **167** | **241** |

# Financial Statements (continued)

## Notes to the Financial Statements (continued)

## 12. Share capital

| | As at 30 September 2019 £'000 | As at 30 September 2018 £'000 |
|---|---|---|
| **Allotted, called up and fully paid:** | | |
| 52,493,516 ordinary shares of 10 pence each (2018: 53,150,516) | 5,249 | 5,315 |

During the year, a total of 657,000 shares (2018: nil) were bought back at a total cost of £281,000 (2018: £nil) and were cancelled.

The capital of the Company is managed in accordance with its objective and investment policy as set out on page 13. The Company does not have any externally imposed capital requirements.

## 13. Net asset value per share (pence)

The net asset value per share at the year end is calculated in accordance with the Company's Articles and is as follows:

| | As at 30 September 2019 | As at 30 September 2018 |
|---|---|---|
| Net asset value per share (pence) | 41.48 | 64.40 |

The net asset value per share is based on net assets of £21,773,000 and 52,493,516 shares, being the number of shares in issue at 30 September 2019 (2018: net assets of £34,231,000 and 53,150,516 shares in issue).

## 14. Reconciliation of (loss)/return on ordinary activities before taxation to cash used in operations

| | Year ended 30 September 2019 £'000 | Year ended 30 September 2018 £'000 |
|---|---|---|
| Net (loss)/return before finance costs and taxation | (5,829) | 7,338 |
| Losses/(gains) on investments | 5,403 | (7,924) |
| Decrease in debtors and prepayments | 35 | 12 |
| (Decrease)/increase in creditors and accruals | (74) | 18 |
| Interest received | (29) | (20) |
| **Cash used in operations** | **(494)** | **(576)** |

## 15. Financial commitments

At 30 September 2019 the Company did not have any financial commitments which had not been recognised in the financial statements (2018: none).

## 16. Financial instruments

The Company's financial instruments comprise equity investments, cash balances and liquid resources which include debtors and creditors. The Company holds such financial assets in accordance with its investment policy which is to invest mainly in a portfolio of AIM traded companies.

Non-current assets are valued at fair value. The basis for determining fair value for these investments is detailed in note 1(b) on page 40.

The Company is exposed to a number of risks that are associated with the financial instruments and markets in which it invests. The most significant risks to which the Company is exposed to are market risk, credit and counterparty risk and liquidity risk.

### Market risk

Market risk, which includes currency risk, interest rate risk and other price risk, arises mainly from uncertainty about future values of financial instruments held in the Company's investment portfolio.

The day to day management of the portfolio is the responsibility of the Investment Manager, in accordance with the Company's investment policy. This includes ongoing detailed analysis of existing and potential investee companies. Consideration is also given to the size of each holding, as a proportion of the Company's assets, on an ongoing basis.

No derivatives or hedging instruments are used by the Company to manage market risk. The Board monitors the Company's overall market positions on a regular basis.

Details of the Company's investments at the balance sheet date are disclosed in the investment portfolio set out on pages 8 to 11.

#### *Currency risk*

The Company's financial assets and liabilities are all denominated in Sterling. As a result, the Company has no direct exposure to currency movements, other than any impact currency movements have on the investee companies businesses.

#### *Interest rate risk*

The majority of the Company's financial assets are non-interest bearing and therefore exposure to fair value interest rate fluctuations is limited.

#### *Floating rate*

| | As at 30 September 2019 £'000 | As at 30 September 2018 £'000 |
|---|---|---|
| Cash and cash equivalents | 5,179 | 6,202 |

The Company retains its cash balances in interest bearing accounts. The rate which determined the interest payments on these cash balances was 0.8% at 30 September 2019 (2018: 0.8%).

There was no interest rate risk associated with other short-term creditors at 30 September 2019 or 30 September 2018.

# Financial Statements (continued)

## Notes to the Financial Statements (continued)

### *Other price risk*

Other price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices (other than those relating to interest rate and foreign currency risk), whether caused by factors specific to an investment or wider issues affecting the market generally.

The portfolio is invested across a number of industries as detailed on page 12. Additionally, the portfolio is predominantly invested in securities domiciled in the UK. Despite this, due to the underlying business activities of some of the companies held, the Company may be exposed to the economic movements of countries other than the UK.

The value of equities is dependent on a number of factors, such as the performance of the individual company itself or matters arising in the wider market (for example the state of the underlying economy and current government policy). As part of the ongoing management of the portfolio, the Investment Manager monitors and reviews these factors.

A 5% increase in the value of the Company's investment portfolio would have the effect of increasing the return and net assets by £838,000 (2018: £1,411,000). A 5% decrease would have an equal and opposite effect.

### Credit and counterparty risk

This is the risk that a party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss.

The risk is managed as follows:

- The Company's investments are held on its behalf by J.P. Morgan Chase Bank N.A., the Company's Custodian. Bankruptcy or insolvency of the Custodian may cause the Company's rights with respect to securities held by the Custodian to be delayed. The Investment Manager monitors the Company's risk by reviewing the Custodian's internal control reports and reporting on its findings to the Board.
- Investment transactions are carried out with brokers whose creditworthiness is reviewed by the Investment Manager. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Company's Custodian ensures that the counterparty to any transaction entered into by the Company has delivered on its obligations before any transfer of cash or securities away from the Company is completed.
- Cash is only held at banks that are regularly reviewed by the Investment Manager.

The Company is also exposed to counterparty risk through holding specific financial instruments. At the reporting date, the Company's financial assets exposed to this risk amounted to the following:

| | As at 30 September 2019 £'000 | As at 30 September 2018 £'000 |
|---|---|---|
| Cash and cash equivalents | 5,179 | 6,202 |
| Interest and dividends | 1 | 34 |
| | **5,180** | **6,236** |

There were no significant concentrations of credit and counterparty risk to counterparties other than to the Custodian bank, at 30 September 2019 or 30 September 2018. At the balance sheet date there was no significant exposure of the net assets attributable to the Company's shareholders to credit and counterparty risk.

### Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial commitments.

The majority of the Company's financial instruments comprise companies that are traded on AIM. Being listed on an active exchange provides a company with liquidity in its shares although at times trading may be infrequent due to the size of some of these companies. As a result, the Company may not be able to realise some of its investments quickly at their fair value to meet any liquidity requirements, or to respond to specific events that may have an impact on the Company's valuation.

While the Company does not currently invest in any unquoted companies, its investment objective does allow it to. Given the nature of these companies any holdings in unquoted companies would be deemed to be illiquid.

The AIFM has a liquidity management monitoring programme for the Company which is intended to ensure that the Company's investment portfolio maintains a level of liquidity which is appropriate to the Company's expected outflows, which include share buy backs, dividends and operational expenses. This policy involves an assessment of the prices or values at which it expects to be able to liquidate its assets over varying hypothetical periods in varying market conditions, taking into account the sensitivity of particular assets to particular market risks and other relevant factors. This requires the AIFM to identify and monitor investment in asset classes which are considered to be relatively illiquid. The companies in the portfolio are generally deemed to be liquid, but from time to time the liquidity in these holdings might be affected by wider economic events. The portfolio is monitored on an ongoing basis to ensure that it is adequately diversified. At each Board meeting, a detailed cash flow forecast is presented by the Investment Manager to the Board.

The Company's liquidity management monitoring programme is reviewed and updated, as required, on at least an annual basis. There have been no material changes to the liquidity management systems and procedures during the year and none of the Company's assets are subject to any special arrangements that are linked to their liquidity.

There is no difference between the fair value of the Company's financial liabilities and their carrying value.

## 17. Transactions with the Investment Manager and related parties

The amounts paid to the Investment Manager and amounts outstanding at the year end are disclosed in note 3. However, the existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies and therefore, under guidance from the AIC SORP, the Investment Manager is not considered to be a related party.

Fees payable during the year to the Directors and their interests in shares of the Company are considered to be related party transactions and are disclosed within the Directors' Remuneration Report on pages 25 and 26.

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting ('AGM') of Artemis VCT plc (the 'Company') will be held at the offices of Artemis Fund Managers Limited, Cassini House, 57-59 St James's Street, London, SW1A 1LD on Wednesday, 5 February 2020 at 11.00 a.m. for the purpose of transacting the following business:

### Ordinary Business

To consider and, if thought fit, to pass the following as ordinary resolutions:

Resolution 1. To receive the Report of the Directors and audited Financial Statements for the year ended 30 September 2019.

Resolution 2. To approve the Directors' Remuneration Policy.

Resolution 3. To approve the Directors' Remuneration Report for the year ended 30 September 2019.

Resolution 4. To re-elect Fiona Wollocombe as a Director of the Company.

Resolution 5. To re-elect Edward Murray as a Director of the Company.

Resolution 6. To re-elect Calum Paterson as a Director of the Company.

Resolution 7. To appoint Ernst & Young LLP as independent auditor of the Company to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which financial statements are laid and to authorise the Directors to determine their remuneration.

To consider and, if thought fit, to pass Resolutions 8 and 9 as special resolutions:

Resolution 8. **Authority to repurchase the Company's shares**

That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date hereof, the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of any of its ordinary shares in the capital of the Company for cancellation or to be held in treasury provided that:

(a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 7,868,778 or, if less, the number representing approximately 14.99% of the issued ordinary share capital of the Company (excluding treasury shares) as at the date on which this resolution is passed;

(b) the minimum price (excluding expenses) which may be paid for any ordinary share is 10 pence, being the nominal value thereof;

(c) the maximum price (exclusive of associated expenses) which may be paid for an ordinary share shall not be more than the higher of:

(i) 5% above the average of the middle market quotations of the ordinary shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date of purchase; and

(ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and

(d) unless previously varied, revoked or renewed by the Company in general meeting, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company, save that the Company may, prior to such expiry, enter into a contract or arrangement to purchase ordinary shares under this authority which will or may be completed or executed wholly or partly after the expiry of this authority and may make a purchase of ordinary shares pursuant to any such contract or arrangement as if the authority hereby conferred had not expired.

### Special Business

Resolution 9: That a general meeting of the Company, other than an annual general meeting, may be called on not less than 14 clear days' notice provided that this authority shall expire at the conclusion of the next annual general meeting of the Company.

By order of the Board

**Artemis Fund Managers Limited**
**Company Secretary**
19 December 2019

Registered Office:
6th Floor, Exchange Plaza
50 Lothian Road,
Edinburgh, EH3 9BY

Notes:

1. Attending the AGM in person

   If you wish to attend the AGM in person, you should arrive at the venue for the AGM in good time to allow your attendance to be registered. It is advisable to have some form of identification with you as you may be asked to provide evidence of your identity prior to being admitted to the AGM.

2. Appointment of proxies

   Members are entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM to represent a member. To be validly appointed a proxy must be appointed using the procedures set out in these notes and in the notes to the accompanying form of proxy.

   If members wish their proxy to speak on their behalf at the meeting, members will need to appoint their own choice of proxy (not the chairman of the AGM) and give their instructions directly to them.

   Members can only appoint more than one proxy where each proxy is appointed to exercise rights attached to different shares. Members cannot appoint more than one proxy to exercise the rights attached to the same share(s). If a member wishes to appoint more than one proxy, they should contact the Registrar on 0371 384 2710. Lines are open from 8.30 a.m. to 5.30 p.m., Monday to Friday. Overseas shareholders please call +44 121 415 7047.

   A member may instruct their proxy to abstain from voting on any resolution to be considered at the meeting by marking the 'vote withheld' option when appointing their proxy. It should be noted that an abstention is not a vote in law and will not be counted in the calculation of the proportion of votes 'for' or 'against' the resolution.

   The appointment of a proxy will not prevent a member from attending the AGM and voting in person if he or she wishes.

   A person who is not a member of the Company but who has been nominated by a member to enjoy information rights does not have a right to appoint any proxies under the procedures set out in these notes and should read note 9 below.

3. Appointment of a proxy using a form of proxy

   A form of proxy for use in connection with the AGM is enclosed. To be valid any form of proxy or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand by the Registrar at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA no later than 48 hours (excluding non-working days) before the time of the AGM or any adjournment of that meeting.

   If you do not have a form of proxy and believe that you should have one, or you require additional forms of proxy, please contact the Registrar on 0371 384 2710. Lines are open from 8.30 a.m. to 5.30 p.m., Monday to Friday. Overseas shareholders please call +44 121 415 7047. Alternatively, you can photocopy the forms of proxy received.

4. Appointment of a proxy online

   As an alternative to completing a form of proxy, you can appoint (a) proxy(ies) electronically by visiting sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (as printed on your form of proxy). Alternatively, if you have already registered with Equiniti's online portfolio service, Shareview, you can submit your form of proxy at shareview.co.uk. Full instructions are given on both websites. To be valid your proxy appointment(s) and instructions should reach Equiniti no later than 48 hours (excluding non-working days) before the time of the AGM or any adjournment of that meeting.

5. Appointment of a proxy through CREST

   CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the following website: euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by the Registrar (ID RA 19) no later than 48 hours (excluding non-working days) before the time of the AGM or any adjournment of that meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Registrar is able to retrieve the message by

# Shareholder Information (continued)

## Notice of Annual General Meeting (continued)

enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

6. Appointment of proxy by joint holders

In the case of joint holders, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

7. Corporate representatives

Any corporation which is a member can appoint one or more corporate representatives. Members can only appoint more than one corporate representative where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).

8. Entitlement to attend and vote

To be entitled to attend and vote at the Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.30 p.m. on 3 February 2019 (or, if the Meeting is adjourned, at 6.30 p.m. two working days prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Meeting.

9. Nominated persons

Any person to whom this notice is sent who is a person nominated under Section 146 of the Act to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

10. Forms of proxy

A personalised form of proxy will be sent to each registered shareholder with the Annual Financial Report and instructions on how to vote will be contained therein.

11. Website giving information regarding the AGM

Information regarding the AGM, including the information required by Section 311A of the Act, and a copy of this Notice of AGM is available on the Company's website at artemisfunds.com/vct

12. Voting rights

As at 5 December 2019 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consisted of 52,493,516 ordinary shares, carrying one vote each. The Company holds no shares in treasury. Therefore, the total voting rights in the Company as at 5 December 2019 were 52,493,516 votes.

13. Notification of shareholdings

Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the General Meeting as his proxy will need to ensure that both he, and his proxy, comply with their respective disclosure obligations under the UK Disclosure Guidance and Transparency Rules.

If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes of those proxies are cast, and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's ordinary shares already held by the Chairman, result in the Chairman holding such number of voting rights that she has a notifiable obligation under the Disclosure Guidance and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any member holding 3% or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure Guidance and Transparency Rules, need not make a separate notification to the Company and the FCA.

14. Members' right to require circulation of resolution to be proposed at the meeting

    Members meeting the threshold requirements set out in the Act have the right to: (a) require the Company to give notice of any resolution which can properly be, and is to be, moved at the meeting pursuant to Section 338 of the Act; and/or (b) include a matter in the business to be dealt with at the meeting, pursuant to Section 338A of the Act.

15. Further questions and communication

    Under Section 319A of the Act, the Company must cause to be answered any question relating to the business being dealt with at the AGM put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

    Members who have any queries about the AGM should contact the Company Secretarial Department by writing to Artemis Fund Managers Limited, 6th Floor, Exchange Plaza, 50 Lothian Road, Edinburgh EH3 9BY.

    Members may not use any electronic address provided in this notice or in any related documents (including the accompanying form of proxy) to communicate with the Company for any purpose other than those expressly stated.

16. Documents available for inspection

    The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and English public holidays excepted) from the date of this notice until the conclusion of the AGM:

    16.1. a statement of all transactions of each Director and of their family interests in the share capital of the Company;

    16.2. copies of the Directors' letters of appointment; and

    16.3. the Articles of Association.

    No Director has a service contract with the Company.

17. Directors' biographies

    The biographies of the Directors standing for re-election are set out on page 18 of the Company's Annual Financial Report for the year ended 30 September 2019.

18. Announcement of results

    As soon as practicable following the AGM, the results of the voting at the AGM, the number of votes cast for and against and the number of votes withheld in respect of each resolution will be announced via a Regulatory Information Service and placed on the Company's website at artemisfunds.com/vct

19. Audit concerns

    Members should note that it is possible that, pursuant to requests made by members of the Company under Section 527 of the Act, the Company may be required to publish on a website a statement setting out any matter relating to: (a) the audit of the Company's financial statements (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements were laid in accordance with Section 437 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under Section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Act to publish on a website.

# Shareholder Information (continued)

## General Information

### Buying shares in the Company

The Company's shares are listed on the London Stock Exchange and can be bought or sold through a stockbroker.

The Company, through its corporate broker, purchases shares from shareholders from time to time, subject to the Company having the necessary shareholder authorities in place and having sufficient funds available for this purpose. Any shareholders wishing to sell their shares should arrange for their stockbroker to call Nplus1 Singer Advisory LLP on 0203 205 7505 to register their interest to sell their shares.

### Company numbers:

London Stock Exchange (SEDOL) number: B02WQ94

ISIN number: GB00B02WQ947

Ticker: AAM

LEI: 549300R6443VUTMRCP48

### Share register enquiries

All queries concerning holdings, dividend payments, notification of change of address or loss of certificate should be addressed to Equiniti at: Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA or by calling 0371 384 2710. Lines are open from 8.30am to 5.30pm, Monday to Friday excluding public holidays in England and Wales. Overseas shareholders please call +44 121 415 7047.

If you prefer to communicate electronically, please visit the 'Help' section of Equiniti's website at shareview.co.uk where you will find a detailed list of frequently asked questions and answers along with additional guidance and forms. If these do not resolve your query, you will also find details of how to contact Equiniti using the secure online service.

Dividends are normally paid by cheque. However, if you would like to receive payments directly into your bank account, please contact Equiniti and arrangements will be made to have a bank mandate sent to you. A bank mandate is also included with each dividend cheque you receive.

If you receive multiple copies of shareholder communications in respect of the Company, it may be that you have more than one holding on the Company's share register. Should you wish to consolidate your holdings into one, you can do so by contacting Equiniti.

### Financial Advisors and retail investors

The Company currently conducts its affairs so that the shares in issue can be recommended by Financial Advisors to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to do so for the foreseeable future.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in a VCT.

### Further information on the Company

The Company's net asset value is calculated daily and released to the London Stock Exchange. The share price is listed in the Financial Times and also on the TrustNet (trustnet.com) and London Stock Exchange (londonstockexchange.com) websites. Up to date information can be found on the Company's website artemisfunds.com/vct, including a monthly factsheet. Shareholders can also contact the Chairman to express any views on the Company, or to raise any questions they have, using the email address: vctchairman@artemisfunds.com.

### AIFMD disclosures

A number of disclosures are required to be made under the AIFMD as follows:

- Information in relation to the leverage of the Company is provided in the Strategic Report on page 17.
- Details of the Company's principal risks and their management are provided in the Strategic Report on page 16.
- Details of the monitoring undertaken of the liquidity of the portfolio is provided in note 16 in the notes to the financial statements.
- the Investment Manager is not able to enter into any stocklending agreements; to borrow money against the security of the Company's investments; nor create any charges over any of the Company's investments, unless prior approval has been received from the Board.
- Details of the Company's strategy and policies, administration arrangements and risk management and monitoring, required to be made available to investors in the Company before they invest, are available at artemisvct.co.uk.

Any material changes to this information is required to be reported in the Company's Annual Financial Report.

There have been no material changes from the prior year to the information above which requires disclosure to shareholders.

## Remuneration

Artemis operates its remuneration policies and practices at a group level which includes both Artemis Investment Management LLP and its subsidiary Artemis Fund Managers Limited (AFML). Details of the group remuneration policies are available on Artemis' website artemisfunds.com. No staff are employed by AFML directly but are employed and paid by other entities of Artemis. Artemis has apportioned the total amount of remuneration paid to all 171 Artemis partners and staff in respect of AFML's duties performed based on the number of funds. It has estimated that the total amount of remuneration paid in respect of duties for the Company for the year ended 31 December 2018 is £1,254,507, of which £327,834 is fixed remuneration and £926,673 is variable remuneration.

The aggregate amount of remuneration paid to Identified Staff that is attributable to duties for the Company for the year ended 31 December 2018 is £307,248. Identified Staff are those senior individuals whose managerial responsibilities or professional activities could influence, and have a material impact on, the overall risk profile of each regulated entity and the funds it manages. The AFML Code staff are the members of Artemis' Management and Executive Committees, certain fund managers, the General Counsel, the Head of Compliance and the Head of Risk. This includes certain individuals who are partners in Artemis Investment Management LLP.

## Common Reporting Standard

The Organisation for Economic Co-operation and Development's Common Reporting Standard for Automatic Exchange of Financial Account Information (the 'Common Reporting Standard') requires the Company to provide information annually to HM Revenue & Customs ("HMRC") on the tax residencies of those certificated shareholders that are tax resident in countries out with the UK that have signed up to the Common Reporting Standard. All new shareholders, excluding those whose shares are held in CREST, will be sent a certification form by the Registrar to complete. Existing shareholders may also be contacted by the Registrar should any extra information be needed to correctly determine their tax residence. Failure to provide this information may result in the holding being reported to HMRC.

For further information please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders; gov.uk/government/publications/exchangeofinformationaccount-holders.

## Data protection

The Company is committed to ensuring the protection of any personal data provided to them. Further details of the Company's privacy policy can be found on the Company's website at artemisfunds.com/vct.

## Reporting calendar

**Year End**

30 September

**Results Announced**

Interim: May

Annual: December

**Dividends Payable**

November and June

**Annual General Meeting**

February

# Shareholder Information (continued)

## Glossary

### Administrator

Is an entity that provides certain services to support the operation of an investment fund or investment company. These services include, amongst other things, settling investment transactions, maintaining accounting books and records and calculating daily net asset values. For the Company, J.P. Morgan Europe Limited is the administrator.

### Alternative Investment Fund Managers Directive (AIFMD)

Is a European Union directive that applies to certain types of investment funds, including investment companies.

### Alternative Investment Fund Manager (AIFM)

Is an entity that provides certain investment services, including portfolio and risk management services. For the Company, Artemis Fund Managers Limited is the AIFM.

### Alternative Performance Measure ('APM')

An alternative performance measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

### Banker and Custodian

Is a bank that is responsible for holding an investment fund's or investment company's assets and securities and maintaining their bank accounts. For the Company, J.P. Morgan Chase Bank N.A. is the banker and custodian.

### Depositary

Is a financial institution that provides certain fiduciary services to investment funds or investment companies. The AIFMD requires that investment funds and investment companies have a depositary appointed to safe-keep their assets and oversee their affairs to ensure that they comply with obligations in relevant laws and constitutional documents. For the Company, J.P. Morgan Europe Limited is the depositary.

### Discount/Premium

If the share price of an investment trust is lower than the net asset value per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the net asset value per share and is usually expressed as a percentage of the net asset value per share. If the share price is higher than the net asset value per share, the shares are said to be trading at a premium.

### Gearing

Gearing is the process whereby changes in the total assets of a company have an exaggerated effect on the net assets of that company's ordinary shares due to the use of borrowings.

### Leverage

Leverage is defined in the AIFMD as any method by which an AIFM increases the exposure of an Alternative Investment Fund it manages, whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means. There are two measures of calculating leverage:

- the Gross Method, which does not reduce exposure for hedging; and
- the Commitment Method, which reduces exposure for hedging.

### Net asset value

Net asset value represents the total value of the Company's assets less the total value of its liabilities, and is normally expressed on a per share basis.

### Ongoing charges

Total expenses (excluding finance costs, performance fees and taxation) incurred by the Company as a percentage of average net asset values.

| | Holding as at 30 September 2019 £'000 | Holding as at 30 September 2018 £'000 |
|---|---|---|
| Investment management fee | 436 | 655 |
| Other expenses | 254 | 254 |
| Total expenses | 690 | 909 |
| Average net assets | 25,752,791 | 37,425,852 |
| **Ongoing charges** | **2.7%** | **2.4%** |

### Total return

The total return on an investment is made up of capital appreciation (or depreciation) and any income paid out (which is deemed to be reinvested) by the investment. Measured over a set period, it is expressed as a percentage of the value of the investment at the start of the period.

## Net asset value return

| | 2019 | 2018 |
|---|---|---|
| Opening net asset value | 64.40p | 73.60p |
| Closing net asset value | 41.48p | 64.40p |
| Dividends paid | 12.00p | 23.00p |
| | **(18.2)%** | **21.1%** |

## Share price return

| | 2019 | 2018 |
|---|---|---|
| Opening share price | 71.00p | 68.75p |
| Closing share price | 37.50p | 71.00p |
| Dividends paid | 12.00p | 23.00p |
| | **(33.2)%** | **42.7%** |

The total returns percentages assumes that dividends paid out by the Company are re-invested into shares at the value on the ex-dividend date and so the figure will be slightly different to the arithmetic calculation.

# Shareholder Information (continued)

## Investment Manager, Company Secretary and Advisers

### Registered office
6th Floor, Exchange Plaza
50 Lothian Road,
Edinburgh, EH3 9BY

Website: artemisfunds.com/vct

### Investment Manager, Alternative Investment Fund Manager and Company Secretary
Artemis Fund Managers Limited
Cassini House
57-59 St James's Street
London SW1A 1LD

Tel: 0800 092 2051
Email: investor.support@artemisfunds.com
Website: artemisfunds.com

The Investment Manager is authorised and regulated by the Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN

### Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Shareholder enquiries: 0371 384 2710
Lines are open from 8.30am to 5.30pm, Monday to Friday.
Overseas shareholder enquiries: +44 121 415 7047

### Administrator
J.P. Morgan Europe Limited
25 Bank Street
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London E14 5JP

### Depositary
J.P. Morgan Europe Limited
25 Bank Street
Canary Wharf
London E14 5JP

### Banker & Custodian
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London E14 5JP

### Independent Auditor
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