

Electra Private Equity PLC

08 October 2015

Publication of circular to shareholders in response to Sherborne's proposed resolutions to change the Board of Directors of Electra Private Equity PLC

Further to the announcement made by Electra Private Equity PLC ("Electra" or the "Company") on 18 September 2015 confirming receipt of a requisition notice from Pershing Nominees Limited on behalf of Sherborne Investment Management (Guernsey) LLC and its associates ("Sherborne"), the Company has today published a circular containing a letter from the Chairman to shareholders (the "Circular"). The Chairman's letter details the Board of Directors of Electra's response to Sherborne's proposed resolutions and its unanimous voting recommendation.

The full text of the Chairman's letter is below. Highlights are as follows:

On 17 September 2015, Sherborne, through Pershing Nominees Limited, requisitioned Electra to convene a general meeting ("General Meeting") to propose resolutions to appoint Edward Bramson and Ian Brindle (the "Sherborne Nominees") to the Board of Directors of Electra.

**The Board of Directors of Electra does not support these proposals.**

- **Electra and its manager, Electra Partners, are continuing to deliver excellent investment returns for shareholders: strong results do not require a "turnaround" by Sherborne**
- **In light of these strong results, it is for Sherborne to make a case for why other shareholders should support its proposals - no such case has been made**
- **Having nominees from Sherborne, an activist investor, on Electra's Board is potentially destabilising, divisive and value destructive**

**The Board continues to believe that an independent and non-executive Board is best for all shareholders**

**The Board of Directors of Electra unanimously recommends that all shareholders VOTE AGAINST BOTH the General Meeting resolutions**

**TIMETABLE FOR GENERAL MEETING**

Latest time and date for receipt of Form of Proxy from shareholders:  
11.00 a.m. on Tuesday 3 November 2015

Voting record time for the General Meeting:  
6.00 p.m. on Tuesday 3 November 2015

Time, date and location of the General Meeting:  
11.00 a.m. on Thursday 5 November 2015  
at Allen & Overy LLP, One Bishops Square, London, E1 6AD

Commenting on the Circular, Electra's Chairman, Roger Yates, said:

*"Electra goes from strength to strength, outperforming its relevant benchmarks over the past three, five and ten years. Sherborne has been invested in Electra for 21 months, yet has singularly failed to make a*

*case for changing its proven, highly successful model. Despite repeated requests to share his analysis, Mr Bramson has declined to explain how he would run the business better, offering merely a void of substance in lieu of a credible plan. His presence on the board would potentially be divisive and value destructive and, accordingly, the Board urges all shareholders to vote against the Sherborne resolutions.”*

All capitalised terms used in this announcement have the same meaning as applied within the Circular.

The Circular will be posted to shareholders today, 08 October 2015. It will also be available at <http://www.electraequity.com/>. A copy of the Circular has been submitted to the National Storage Mechanism and will shortly be available for inspection at [www.hemscott.com/nsm.do](http://www.hemscott.com/nsm.do).

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#### **Chairman's Letter to Shareholders Extracted from Today's Circular**

Dear Shareholder,

The Board of Directors (“the Board”) of Electra Private Equity PLC (“Electra” or the “Company”) is writing today to all Electra shareholders in response to the requisition made by Pershing Nominees Limited on behalf of Sherborne Investment Management (Guernsey) LLC and its associates (“Sherborne”) to convene a general meeting (the “General Meeting”) to propose resolutions to appoint the founder and a partner of Sherborne, Edward Bramson, and his associate Ian Brindle\* (the “Sherborne Nominees”) to the Board.

This is the second time shareholders have been asked to consider such resolutions. In October 2014 similar resolutions were defeated with 62% of votes cast against, representing approximately 82% of the Company’s shareholders, excluding Sherborne, who voted. It is a source of considerable disappointment to the Board that Sherborne has elected to requisition the Company again, after a clear message from shareholders.

Since the General Meeting in October 2014 the Board has continued to engage in discussions with Sherborne. The Board has consistently asked Sherborne to share its analysis of Electra so that the Board can understand where it sees the opportunity to improve shareholder returns. The Board believes that this is an essential step in evaluating Sherborne’s request for Board representation, especially since Sherborne’s public statements make clear its belief that Electra requires a turnaround to be driven by the Sherborne Nominees. Regrettably Sherborne has declined to share any details with the Board.

I gave the following advice to Edward Bramson in August (as we announced on 18 September) and, since Sherborne has chosen to requisition the Company again, I reiterate the following statement for the benefit of all shareholders:

*“If Sherborne, based on your advice, requisitions another General Meeting, you will be putting before shareholders a clear choice: On the one hand venturing into an uncertain future with unknown and unquantifiable risks to the relationships at both the Electra Partners and the portfolio company levels; and on the other hand, preserving the success and stability of the present arrangements which the Board*

*believes are operating to the advantage of shareholders. The choice will be for all shareholders to make. The Board's judgement and the Board's recommendation to all shareholders will be to stay with the current model which is delivering strong returns for shareholders."*

**The Board of Directors of Electra is unanimous in recommending that all shareholders VOTE AGAINST BOTH the resolutions proposed by Sherborne.**

**Electra is a successful investment company whose strategy has achieved superior long-term returns with an appropriate level of risk – the current model is effective and proven**

The strong underlying investment performance achieved by the Company and Electra Partners ("the Manager") has resulted in Electra delivering an annualised return on equity over the last 10 years (to 31 March 2015) of 13%, within its target range of 10%-15%. This performance has been delivered by the Manager successfully selecting and managing a diverse portfolio of high-performing private equity investments. These portfolio investments number 29 direct unlisted holdings, 6 portfolios of secondaries, 7 listed investments and 15 fund positions (as at 31 March 2015). Sherborne's allegation that increased risk exists in the portfolio is unfounded.

The Board remains confident about the Manager's continued ability to achieve returns in the target range over the long term.

The strong underlying investment performance achieved by Electra and its Manager has supported the delivery of long-term Net Asset Value ("NAV") and share price total returns for shareholders that have outperformed the Morningstar Private Equity and FTSE All-Share indices since 12 October 2006, when the current investment strategy was approved by shareholders.

Over the longer term, the cumulative impact of the NAV and share price outperformance is significant, and reinforces Electra's delivery of superior returns to its shareholders.

The table below compares Electra's share price total returns to 30 September 2015 with selected indices:

<b><u>Share Price Total Return</u></b>	<b><u>3 years</u></b>	<b><u>5 years</u></b>	<b><u>10 years</u></b>
<b>Electra</b>	87%	141%	210%
<b>FTSE All-Share</b>	23%	38%	72%
<b>FTSE 250</b>	54%	81%	176%
<b>FTSE Small Cap</b>	50%	71%	84%
<b>Morningstar Private Equity Index (excluding Electra)</b>	69%	77%	10%

*Source: Calculated using Morningstar UK Limited as at 30 September 2015.*

The Board's strategy takes advantage of the inherent competitive advantages of a flexible investment mandate within a long-term capital structure. Based on this strategy, the Company and Electra Partners continue to achieve excellent returns for shareholders from the investment portfolio with an appropriate level of risk.

Electra Partners has been and will continue to be subject to robust and constructive challenge from a fully independent and non-executive Board and the Board should be allowed to continue to perform this role without interference from the Sherborne Nominees.

## **21 months after Sherborne invested in Electra, Sherborne has still made no case for changing this successful, proven model**

In Sherborne's letter to Electra shareholders of 17 September 2014, Sherborne stated that:

*"Sherborne Investors believes that, with certain changes in approach, the aggregate value of shareholdings in Electra could be increased by more than £1 billion with lower risks and less volatility than under the current strategy".*

One year on, this claim has been restated by Sherborne in its announcement of 18 September 2015 but with the same void of substance to support it. For over a year the Board has been asking Sherborne to explain the "certain changes in approach" and where the extra £1 billion of value would come from, but despite meetings and correspondence, Sherborne has not done so.

We have been surprised by the lack of engagement of Sherborne with Electra Partners. In the normal course of events, large shareholders would engage in a detailed dialogue with the Manager around the announcement of results and other developments but this has been noticeably lacking from Sherborne and, in particular, the Sherborne Nominees.

At various points over the past year Edward Bramson has described to the Board the role he expects to take in different ways.

At a meeting on 15 April 2015 between Edward Bramson and Stephen Welker of Sherborne, and Roger Yates and Geoffrey Cullinan of Electra, Edward Bramson proposed that if he and Ian Brindle were to join the Board, they would lead a review process. However, during August 2015 in private discussions with the Company, Edward Bramson changed the description of the position being sought to that of a "non-executive directorship".

Contradicting these private overtures, Sherborne has publicly reconfirmed its pursuit of an "active" role in its recent interim report published on 7 August 2015, where Sherborne states that *"[Sherborne] has advised [its] Board that it continues to believe that Electra represents an attractive investment opportunity resulting from [Sherborne]'s participation in an operating Turnaround"*.

It is clear from this that, while in private Sherborne has been disclaiming its earlier statements of intent, in public it has confirmed that its intentions are unchanged.

While we still do not know where Sherborne will direct its active involvement, the concept carries unacceptable risks. Electra's assets are managed by Electra Partners under an exclusive and wholly discretionary investment management contract. Accordingly, responsibility for investment management lies with Electra Partners and the Board's role in this context is to scrutinise and monitor performance with constant challenge.

**In the light of Electra's strong long-term investment performance, it is for Sherborne to make a case for why other shareholders should support its proposals. No such case has been made.** In the absence of any credible plan to consider from Sherborne, there is no reason for the Board to change its view that a wholly independent and non-executive Board is best for all shareholders.

## **The appointment of the nominees of this activist investor to the Board would risk introducing confusion to existing and prospective portfolio businesses over Electra's investment strategy – this is potentially value destructive**

In the absence of any credible plan from Sherborne, your Board has considered Sherborne's stated objectives as an investor - namely identifying companies *"which [Sherborne] considers to be undervalued as a result of operational deficiencies and which [Sherborne] believes can be rectified by [Sherborne's]*

*active involvement.*" On 7 August 2015, Sherborne reiterated its approach in its Interim Report by stating, "[Sherborne] continues to believe that Electra represents an attractive investment opportunity resulting from [Sherborne's] participation in an operating turnaround."

Sherborne's investment track record is patently misaligned with Electra's investment strategy. Sherborne has been short-termist, only invests in one company at a time\*\* and has emphasised cost-cutting in relation to both historical investments and its investment in Electra. Electra has a long-term investment time horizon and is growth orientated with a focus on achieving successful partnerships with private businesses to generate shareholder returns.

The average holding period of Sherborne's prior disclosed UK investments (4imprint Group plc, F&C Asset Management plc, Spirent Communications plc, Elementis plc and 3i Group plc) was approximately 24 months.

<b>Sherborne's investment holding periods</b>						
	<b>4imprint</b>	<b>Spirent</b>	<b>Elementis</b>	<b>F&amp;C</b>	<b>3i</b>	<b>Electra</b>
<b>Entry Date</b>	Jul-03	Apr-06	Dec-04	Aug-10	Jan-13	<b>Jan-14</b>
<b>Exit Date</b>	Jul-04	Sep-09	Aug-06	Aug-13	Nov-13	?
<b>No. of Months</b>	12	41	20	36	10	<b>21</b>

The relationships between the Board, the Manager and the management teams of companies in the portfolio are, in the Board's view, critical to the success of Electra and its ability to deliver the outperformance enjoyed by all shareholders. Sherborne is proposing to interpose Edward Bramson and Ian Brindle in these relationships.

The Board believes that this proposal carries unacceptable risks, especially combined with an attempt to change the growth strategy of the portfolio companies to one of cost-cutting which Sherborne espouses as a route to success. Board representation for such an activist would be a radical change and, in the absence of any well thought out and credible plan being put to the Board, this is not a change the Board is prepared to endorse.

The appointment of the Sherborne Nominees to the Board would introduce confusion for existing and prospective portfolio business management teams over Electra's strategy and would run material risks of:

- Undermining Electra Partners' ability to source deals and attract management to portfolio companies;
- Introducing uncertainty for portfolio company management over Electra's investment plans for their businesses; and
- Talent attrition from those businesses, where high quality management teams are in place and already achieving strong results in partnership with Electra.

While the Sherborne Nominees may serve the short-term interests of a minority of shareholders, they are potentially damaging to long-term shareholder interests.

## **Conclusion**

The stability and experience of the Board and the Manager, each with clearly defined roles, have enabled Electra to maintain its long-term investment focus and successfully capitalise on its competitive advantages in order to deliver positive shareholder returns over many years.

Sherborne is again challenging for Board seats without putting forward any explanation of its proposals. In the absence of any credible case from Sherborne to consider, the Board's view remains that a wholly independent and non-executive Board best serves the interests of all shareholders including Sherborne.

Shareholders will remember that Sherborne's track record and investment objective are firmly activist, characterised by cost-cutting and short termism, and your Board considers that the appointment of Sherborne Nominees could be materially damaging to the success of a long-term private equity mandate where the strategy for creating value is based on growth.

### **Recommendation**

In the light of Electra's strong long-term investment performance, it is for Sherborne to make a case for why other shareholders should support its proposals.

The Board of Directors unanimously considers that the resolutions to appoint Edward Bramson and Ian Brindle to the Board of Directors of Electra are not in the best interests of the Company's shareholders as a whole.

**The Board of Directors of Electra unanimously recommends that all shareholders  
VOTE AGAINST BOTH the resolutions proposed by Sherborne.**

Yours sincerely,

**Roger Yates**  
**Chairman**

*\*Ian Brindle has a long-standing working relationship with Edward Bramson and was the Chairman of Sherborne Investors (Guernsey) B Ltd ("SIGB") until May 2013.*

*\*\*SIGB's published investment policy states that it will only invest in one company at a time.*