

THIS DOCUMENT IS IMPORTANT AND REQUIRES IMMEDIATE ATTENTION. If you are in any doubt as to any aspect of the Proposals referred to in this document, or as to the action you should take, you are recommended to seek your own financial advice immediately from a stockbroker, solicitor, accountant, or other independent adviser authorised under the Financial Services and Markets Act 2000 (“**FSMA**”). If you have sold or otherwise transferred all of your Shares in Downing ONE VCT plc (the “**Company**”), please pass this document together with all accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer, so they can pass them to the person who now owns the Shares. Application will be made to the UKLA for Offer Shares to be listed on the premium segment of the Official List and an application will be made to the London Stock Exchange for the Offer Shares to be admitted to trading on its main market for listed securities. The Offer Shares will rank *pari passu* with the existing issued Shares from the date of issue. The Company’s existing Shares are listed on the premium segment of the Official List and traded on the London Stock Exchange’s main market for listed securities.

SPARK Advisory Partners Limited (“**SPARK**”), which is authorised and regulated in the UK by the FCA, is acting as sponsor for the Company and no-one else and will not be responsible to any other person for providing the protections afforded to customers of SPARK or for providing advice (subject to those responsibilities and liabilities arising under FSMA and the regulatory regime established thereunder).

DOWNING ONE VCT PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 03150868)

Circular to Shareholders in connection with proposed:

**Offer for Subscription to raise up to £15 million
(with an over-allotment facility of a further £25 million)**

and

Notice of General Meeting to approve:

Issues of new Ordinary Shares

Disapplication of pre-emption rights in respect of the Ordinary Shares to be issued

Cancellation of share premium account and capital redemption reserve

Related party transactions with investment adviser Downing LLP

Amendments to the Company’s investment policy

You will find, set out at the end of this document, notice of a general meeting of the Company to be held at the offices of Downing LLP (“**Downing LLP**”), at St. Magnus House, 3 Lower Thames Street, London EC3R 6HD on 6 November 2019 at 11.00 a.m. (“**General Meeting**”). Shareholders’ authority to effect the Proposals contained herein shall be sought at the General Meeting.

Whether or not you plan to attend the General Meeting, please complete and submit a proxy form in accordance with the instructions printed on the enclosed form. Proxy forms must be received by 11.00 a.m. on 4 November 2019.

Your attention is drawn to the letter from the chairman of the Company set out in Part II of this document which contains a recommendation to vote in favour of the Resolutions to be proposed at the General Meeting.

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Part I: Definitions

Admission	date on which the Offer Shares allotted pursuant to the Offer are listed on the Official List of the FCA and admitted to trading on the London Stock Exchange's main market for listed securities
Adviser Charge	a fee, payable to an Intermediary, agreed with the Investor for the provision of a personal recommendation and/or related services in relation to an investment in Offer Shares, and detailed on the Application Form
AIM	a sub-market of the London Stock Exchange established in 1995 to provide a market for small, growing companies with greater regulatory flexibility than applies to the main market
Annual Running Costs	annual running costs incurred by the Company in the ordinary course of its business (including irrecoverable VAT but excluding any amount payable in respect of the Performance Incentive)
Applicant	person who applies for Offer Shares under the Offer through means of completing an Application Form
Application Form(s)	a form of application for Offer Shares
Articles	the articles of association of the Company as at the date of this document
Board or Directors	the board of directors of the Company
Business Days	any day (other than a Saturday or Sunday) on which clearing banks in London are open for normal banking business in sterling
CA 2006	Companies Act 2006 (as amended)
Circular	this document
Closing Date	3.00 p.m. on 30 April 2020 unless extended at the discretion of the Directors but no later than 31 August 2020
Company or Downing ONE	Downing ONE VCT plc (registered number 03150868)
CREST	relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)) for the paperless settlement of transfers and the holding of Shares in uncertificated form which is administered by Euroclear UK & Ireland Limited (registered number 02878738)
Dividend Reinvestment Scheme or DRIS	the Company's dividend reinvestment scheme, details of which are set out in Annex I to the Prospectus
Downing LLP	Downing LLP, the Company's Investment Adviser
Downing VCT	a VCT managed or advised by Downing LLP
DTR	the Disclosure Guidance and Transparency Rules, made by the FCA under Part VI of FSMA and relating to the disclosure of information in respect of financial instruments
Existing Shares	the Ordinary Shares in issue at the date of this Circular
fixed income securities	investments made by the Company which do not comprise Qualifying Investments, such as bank deposits, loan stock, bonds, preference shares and other debt instruments
General Meeting	the general meeting of the Company to be held on 6 November 2019 at 11.00 a.m. (or any adjournment thereof)
FSMA	Financial Services and Markets Act 2000, as amended from time to time
IRR	internal rate of return, which, when applied to the relevant cash flows, produces a net present value of zero (expressed as a percentage)
ITA	Income Tax Act 2007, as amended from time to time.

Initial Adviser Charge	a one-off Adviser Charge to be paid at the time of or shortly after an investment for Offer Shares is made by an Investor
Intermediary	a financial intermediary or adviser, authorised under FSMA, who signs the Application Form and whose details are set out in the Application Form
Investment Adviser	Downing LLP
Investment Advisory Agreement	the investment services agreement dated 22 July 2014 between (1) the Company and (2) Downing LLP which is proposed, subject to Shareholders' approval at the General Meeting, to be amended as set out in paragraph 6(a) of Part III of this Circular
Investment Policy	the Company's investment policy, as currently set out in its accounts for the year ended 31 March 2019 and which is proposed to be amended as set out in the appendix to the notice of General Meeting which accompanies this Circular
Investor	an individual who subscribes for Offer Shares pursuant to the Offer
Listed	admitted to the premium segment of the Official List and to trading on the London Stock Exchange
Listing Rules	the listing rules of the FCA
London Stock Exchange or LSE	London Stock Exchange plc
Management	individuals engaged in the business of the Company and/or the Investment Adviser
ML Regulations	the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (as amended)
Net Assets	gross assets less all liabilities (excluding contingent liabilities) of the Company calculated in accordance with the Company's normal accounting policies in force at the date of circulation
NAV or Net Asset Value	net asset value per Share
Offer	offer for subscription to raise in aggregate up to £15 million (subject to the Directors' discretion to increase the maximum size of the Offer by up to an additional £25 million) by issues of Ordinary Shares by the Company pursuant to the Prospectus
Offer Price	the latest published NAV per Offer Share adjusted for any dividends declared and ex-dividend since the NAV date, as appropriate, and determined for each Investor by the application of the Pricing Formula to their personal circumstances
Offer Shares	those Ordinary Shares being made available for subscription pursuant to the Offer
Official List	the official list of the FCA maintained in accordance with section 74(1) FSMA
Ordinary Shares or Shares	ordinary shares of 1p each in the capital of the Company (ISIN: GB00BFRSVQ41)
Ordinary Shareholders or Shareholders	holders of Ordinary Shares
Performance Incentive Agreement or Scheme	a proposed agreement between the Company and Downing LLP documenting the proposed performance incentive arrangements as described on pages 10 – 11 of this Circular
Pricing Formula	the pricing formula by which the number of Offer Shares issued under the Offer is determined for each Investor
Promoter	Downing LLP, in its capacity as promoter of the Offer
Promoter's Agreement	the conditional agreement dated 19 September 2019 between the Company (1), the Directors (2) the Sponsor (3) and Downing LLP (4), a summary of which is set out in paragraph 6(c) of Part III of this Circular

Proposals	as defined on page 6 of this Circular
Prospectus	the prospectus issued by the Company of even date herewith which describes the Offer (and any supplements thereto)
Prospectus Regulation	Regulation (EU) 2017/1129 (as amended)
Qualifying Company	an unquoted (including an AIM-quoted) company which satisfies the requirements of Part 4 of Chapter 6 of the ITA
Qualifying Investments	shares in, or securities of, a Qualifying Company held by a venture capital trust which meets the requirements described in Parts 3 and 4 of Chapter 6 of the ITA
Receiving Agent	Downing LLP
Registrar	Link Asset Services
SPARK or the Sponsor	SPARK Advisory Partners Limited
Total Return	NAV, together with cumulative dividends paid since the merger completed on 12 November 2013
VCT Rules	legislation, rules and HM Revenue and Customs interpretation and practice regulating the establishment and operation of venture capital trusts
Venture Capital Trust or VCT	venture capital trust as defined in section 259 of the ITA

Part II: Letter from the Chairman of the Company



Downing ONE VCT plc
(Registered No. 03150868)

Directors
Chris Kay (Chairman)
Barry Dean
Stuart Goldsmith

Registered Office
St Magnus House
3 Lower Thames Street
London EC3R 6HD

19 September 2019

Dear Shareholder

1. Introduction

Downing ONE was created by a merger of six VCTs managed by Downing LLP in November 2013. The Company now has net assets in excess of £104 million making it one of the top 20 VCTs by size. Its Total Return (net assets plus dividends paid since the merger) now stands at 110.1p per Share (as at 31 July 2019) which represents an increase of 10.1p per Share since the merger. It has also grown its net assets through a number of offers for subscription.

There have been substantial changes to the VCT regulations since 2017 as the UK Government has sought to refocus the scheme towards the exclusive funding of young growth businesses. Regulations have been introduced which restrict the age of businesses that VCTs can now invest in and require the investee businesses to have clear plans to develop and grow their trade. Additionally, for new investments made by the VCT, the risk/reward profile must be at a level where there is a significant risk of a loss of some or all of the capital invested. As a result, Downing ONE (along with many other VCTs) has had to modify the focus of its investing activities. New investments made by the Company in future will now mainly be into growth businesses and accordingly, as older existing investments mature and exit, the overall risk profile of the Company's portfolio will shift.

The purpose of this Circular is:

- to inform Shareholders of a new Offer for Subscription to be launched shortly by the Company to issue additional Ordinary Shares; and
- to set out proposals (i) to allot shares pursuant to the Offer and disapply pre-emption rights in respect of such issues (ii) to update the Company's Investment Policy, (iii) to enter into related party transactions with Downing LLP, specifically a) amendments to the Company's Investment Advisory Agreement, b) the entry into a performance incentive arrangement and c) the entry into a Promoter's Agreement and (iv) for the Company's share premium account and capital redemption reserve to be cancelled.

Together the above items are referred to as the "Proposals".

A general meeting of the Company has been convened at which resolutions will be put to Shareholders seeking their authority in connection with the Proposals mentioned above and described in detail below.

2. New Offer for Subscription

I am pleased to introduce a new Offer for Subscription to issue new Ordinary Shares in the Company, full details of which are contained in a Prospectus published today by the Company (a copy of which will be available from Downing's website).

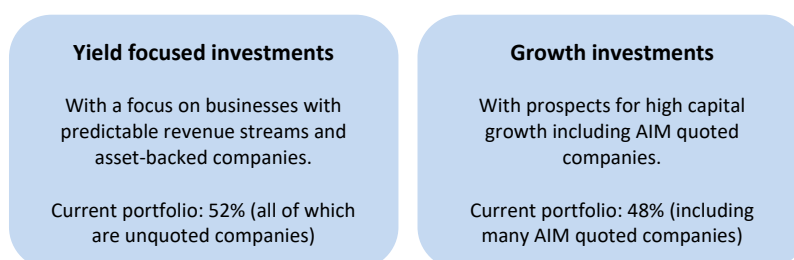
The key benefits of the Offer for existing investors are:

- A further increase in the size of the Company allowing the fixed running costs of the Company to be spread over a greater asset base.

- Additional funds available for investment, which will allow the Company to support existing investee companies with further investment if required and to take advantage of further attractive new investment opportunities that arise.
- Greater diversification of the growth investment portfolio.

The Board believes that the proposed Offer for Subscription will be attractive to potential new investors for the following reasons:

- 30% income tax relief: will be available on the value of the Offer Shares subscribed for, providing they are held for at least five years and you have not sold any shares in the Company six months either side of the issue of the new Shares. Capital gains on VCT shares are tax-free.
- Tax-free dividends: The Company's target minimum dividend equates to a tax-free yield of 5.7% p.a. on the current Offer Price net of 30% income tax relief. Dividends paid by the Company in respect of the last three years have exceeded the target dividend level. It should be noted that there is no guarantee of dividend levels.
- Dividend Reinvestment Scheme: dividends can be paid directly to investors' bank accounts, or can be automatically reinvested into the Company through the purchase of additional shares. By reinvesting dividends, investors are able to accelerate the capital growth of their investment and receive an additional 30% income tax relief on their reinvestment amount (provided that amount has been paid in tax), on total VCT investments of up to £200,000 per tax year.
- Benefits of investing in a larger VCT:
 - (i) Lower running costs – the Company's annual running costs will be spread over a large asset base which will be increased by the proceeds of the Offer. Costs are currently capped by the Investment Adviser at 2.75% of net assets and it is proposed to further reduce this cap to 2.6% of net assets, which the Directors believe to be one of the lowest caps in the VCT market, subject to Shareholders' approval at the General Meeting; and
 - (ii) Greater diversification – the Company currently holds investments in approximately 92 businesses which are in various stages of maturity. Investors will acquire immediate exposure to these holdings, which should diversify risk and provide the potential for earlier realisations than some newly launched VCTs or share pools.
- Experienced Investment Adviser: Downing LLP is an experienced VCT manager, and its business dates back to 1986. It is responsible for the management of four VCTs with net assets of approximately £210 million.
- Investment strategy: In line with the Company's investment strategy, it holds a mixture of yield focused and growth assets. The current portfolio can be summarised as follows:



Currently, investors benefit from the Company holding a significant number of investments in the Yield focused portfolio that can no longer be made as new investments by VCTs. Over time the proportion of investments is expected to shift to towards higher risk/reward Growth investments.

- Share buyback policy: the Company's policy is to buy back its own Shares in the market at a **discount of 5%** to its latest published Net Asset Value, subject to liquidity and applicable rules and regulations, so investors may be able to realise their shareholding if required.

If you wish to invest, please read the Prospectus in full before applying, paying particular attention to the risk factors section, and contact your financial intermediary with any questions. For questions relating to an application, please telephone Downing LLP on 020 7416 7780. Potential investors should note that no investment advice can be given by Downing LLP.

3. Promoter's Agreement

In respect of the proposed Offer for Subscription, it is proposed that Downing LLP will be appointed by the Company as promoter pursuant to an agreement ("**Promoter's Agreement**") as has been the case under previous offers made by the Company.

Under the proposed Promoter's Agreement, the Company will pay to Downing LLP a promoter's fee of (i) 2.5% of the NAV per Offer Share for each Offer Share subscribed under the Offer by, and issued to, investors where no Adviser commission is payable (ii) 4.5% of the NAV per Offer Share for each Offer Share subscribed under the Offer where Adviser commission is payable (save to the extent this is rebated in full). The Company shall also be responsible for paying 0.25% per annum of the Net Asset Value of the Offer Shares to Downing LLP for a maximum of five years, from which Downing LLP will pay annual trail commission to those intermediaries entitled to receive it. At Downing LLP's discretion, the trail commission may be waived in favour of additional upfront commission of 0.75%. The Promoter's Agreement contains standard provisions indemnifying Downing LLP against any liability not due to its default, gross negligence, fraud or breach of FSMA.

The Investment Adviser is regarded as a related party of the Company under the Listing Rules. Therefore, the entry into the Promoter's Agreement constitutes a related party transaction for the purpose of the Listing Rules and require Shareholders' approval.

The Board, which has been so advised by SPARK, considers that the implementation of the Promoter's Agreement is fair and reasonable so far as Shareholders are concerned.

4. Investment Policy

The VCT regulations were changed significantly in 2017 as the UK Government sought to focus future VCT investing on younger growth businesses and closed down many of the broader range of investments that VCTs had been able to make in the past. In line of these changes, the Board has reviewed the Company's Investment Policy and proposed to make some minor amendments to ensure it remains consistent with the current VCT regulations. In particular this involves a refocusing of the Company's investment strategy towards new investments being in younger companies seeking growth capital. Additionally, the opportunity is being taken to rename "Income focused" investments to "Yield focused" investments which the Board believes is a more appropriate title. Set out in the appendix to the Notice of General Meeting you will find on page 16 of this Circular, the proposed amendments to the existing policy. Shareholders will be asked to approve these changes as required by the Listing Rules and the Company will separately seek the approval of the FCA to these amendments.

5. Proposed amendments to the Investment Advisory arrangements with Downing LLP

At the time of the change of VCT rules in 2017 the Company held a large diversified portfolio comprising both Yield focused investments and Growth investments. Since that time, new investments have mostly been in the Growth investment category and the balance of the portfolio has started to shift towards a greater proportion of value in Growth Investments.

With these changes to the VCT regulations, the Investment Adviser, Downing LLP has made substantial changes to its business and has developed a sizable team of investment executives that operate in the ventures sector. Compared to historic activities, investing in this area tends to be significantly more labour intensive as initial investments size are typically smaller, further funding rounds are common and such business often require a greater level of support from investment executives. The Downing team is now well established in this area, although continuing to expand, and produces a steady pipeline of investment opportunities suitable for the Company.

The Board has been in ongoing discussions with Downing LLP as it has transitioned this part of its businesses and has become aware the market for top quality investment executives is very competitive. In some cases, Downing LLP has been unable to offer packages strong enough to secure the services of some of the most talented individuals. The Board is also aware that, even with the right offer packages, talented executives might not be attracted to join, leaving Downing LLP unable to optimise its investment advisory services as it hopes, which may in turn hold back performance. If performance is held back, for any reason, there is the increased chance that deal flow may be limited which may impact VCT qualification. The Board is sympathetic to the challenges faced by Downing LLP and believes it is in the best interests of Shareholders to try to support Downing LLP where it can.

Accordingly, the Board has agreed some proposals to increase the basic Investment Adviser fee to a level in line with the lower end of the market and introduce a performance incentive arrangement. The Board has also negotiated a reduction of the annual running cost cap provided by Downing LLP which limits the maximum level of running costs that Shareholders can suffer in any year and also made some minor clarification in respect of the charging of arrangement and monitoring fees. The Directors believe that failure to introduce such changes could present a risk to the business. Details are set out below:

(a) Investment advisory fee

The basic investment advisory fee charged by Downing LLP to the Company has been 1.8% of net assets per annum since the Merger in 2013. This level is below the standard fees in the VCT market which typically range between 2.0% and 2.5% per annum. While the Board is mindful that Shareholders will not welcome an increased basic advisory fee, the Board recognises the considerable additional workload that comes with operating in the younger growth business sector and believes that it is in the best interest of the Company that it has an Investment Adviser that is remunerated at proper market rates as this will help it to attract highest quality investment executives.

It is therefore proposed that Downing LLP’s annual management charge is increased from 1.8% to 2.0% per annum with effect from 1 October 2019.

Investment Advisory Fees payable to Downing LLP in the previous three years have been as set out below

	Year Ended 31 March 2019	Year Ended 31 March 2018	Year Ended 31 March 2017
Investment Advisory Fees	£1.95 million	£1.67 million	£1.75 million

If the proposed advisory fee had been in place for the year ended 31 March 2019 Downing LLP would have been entitled to be paid an increased investment advisory fee of £2.19 million, being £240,000 more than they actually received.

(b) Reduction in running costs cap

It is proposed that the existing annual expenses cap, above which Downing LLP will bear the running costs of the Company (including irrecoverable VAT but excluding any amount payable in respect of the Performance Incentive), is reduced from 2.75% to 2.6% of the Company’s net assets. The Board believes this is one of the lowest running costs caps currently provided by any VCT adviser/manager to a VCT and gives Shareholders comfort that the annual running costs can never rise to an unreasonable level.

The running costs of the Company for the past three years have been as set out in the table below:

	Year Ended 31 March 2019	Year Ended 31 March 2018	Year Ended 31 March 2017
Running Costs	£2.7 million	£2.4 million	£2.4 million
% of NAV	2.4%	2.4%	2.5%

Whilst in previous years the running costs have not reached the level of the current annual expenses cap, the Board considers the certainty afforded to Shareholders by the further reduction to be a positive benefit. Subject to Shareholders’ approval the new cap will come into effect from 1 October 2019.

(c) Arrangement and Monitoring fees

It is customary in the venture capital industry that companies receiving investments pay arrangement fees on completion of fundraising. For investments made by the Company, some of these fees are likely to be paid to third parties and some to Downing LLP. These fees will be borne by all the shareholders of the investee company and so some will ultimately be borne by the Company’s Shareholders. The Board has put in place limits on the level of arrangement fees, and ongoing monitoring fees, that Downing LLP can charge to the Company’s investee businesses.

An amendment is proposed regarding the structure of arrangement fees charged by Downing LLP to investee companies on new investments. Under the Company’s existing Investment Advisory Agreement, Downing LLP is entitled to charge arrangement and monitoring fees to investee companies subject to certain caps. It is proposed that those caps be amended as set out below in order to eliminate charges that are disproportionality borne by Shareholders and to ensure a better fit for the variety of current transactions.

As stated within the existing Investment Advisory Agreement, Downing LLP is entitled to receive arrangement fees (capped at 3.0% of amounts invested unless specifically approved by the Board) and monitoring fees (capped at the higher of (a) 0.75% of the sum invested per annum and (b) £10,000 per annum, in respect of each of the Company’s investments) from investee companies.

This was previously modified between the Board and Downing to the extent that Downing LLP is entitled to receive arrangement fees (capped at 2.0% of the sums invested by the Company, with any excess paid to the Company) and monitoring fees (capped at the higher of £10,000 per annum or 0.5% of the cost of the investment, in respect of each of the Company’s investments) from investee companies.

It is proposed that the arrangement be updated going forward, such that Downing LLP will receive arrangement fees up to a maximum of 3.0% of sums invested in any one investee company subject to an average overall cap of 2.0% across all investee companies of sums invested at the time of investment and a basic monitoring fee of 0.5%. To the extent an arrangement fee of less than 2.0% is charged to a particular investee company, Downing LLP will be entitled to an additional monitoring fee equal to 50% of the shortfall up to a maximum of 0.5%.

Average arrangement and monitoring fee percentages charged to investee companies in the previous three years are set out below:

	Year Ended 31 March 2019	Year Ended 31 March 2018	Year Ended 31 March 2017
Arrangement fee	2.0%	1.8%	2.0%
Monitoring fee	0.5%	0.5%	0.5%

Subject to Shareholders’ approval, these new arrangements will come into effect from 1 October 2019.

(d) Proposed Performance Incentive Scheme

I referred in my most recent Chairman’s statement in the last Annual Report to discussions with Downing LLP about the possible introduction of a Performance Incentive Scheme. The Board has worked with Downing LLP to develop proposals which it believes helps address the challenges that Downing LLP is facing, provides a fair reward for strong future performance but intends to protect Shareholders from a mismatch where a performance fee may be earned in inappropriate circumstances.

Subject to Shareholders’ approval, the Board proposes that Downing LLP is entitled to receive a performance incentive fee equal to 20% of the **realised** gains on any exit from **new** investments made since 1 April 2019 (“**New Investments**”) where, and to the extent that, the following conditions are met:

- (a) The Internal Rate of Return (“**IRR**”) of all New Investments at the year-end exceeds the hurdle rate of 5% per annum (based on audited valuations and including realised and unrealised gains and losses and all investment income, measured from 1 April 2019) (“**IRR Hurdle**”); and
- (b) The Total Return per share at the year-end exceeds the Base Value per share (“**Base Value Hurdle**”). The Base Value per Share is set at the Total Return per share (NAV plus dividends paid since the date of the merger) as at 31 March 2019, being 109.8p per Share.

If any amount is not paid in a year when an investment is realised because the IRR Hurdle and/or Base Value Hurdle are not met, such amounts are deferred and can be paid in a future year if and when the IRR Hurdle and Base Value are both met again. Additionally, the amounts payable under this proposed scheme are only paid to the extent that the IRR Hurdle and Base Level are exceeded, and no payment will be made which would cause either hurdle to cease to be met.

It is intended that Downing LLP will allocate a substantial proportion of these potential fees to specific individuals within the Downing LLP organisation. The Board will monitor this to ensure that it is the case.

If a similar performance incentive arrangement had been in place since 1 April 2016, it is unlikely that a performance incentive fee would have been paid to date.

The Board considers this arrangement to be typical of the venture capital industry, having reviewed a number of alternative structures in place in the VCT market and believes it should achieve the intended goal of incentivising the Investment Adviser whilst representing value for money for the Company through the requirement to meet challenging year-on-year hurdles.

The Investment Adviser is regarded as a related party of the Company under the Listing Rules. Therefore, the implementation of (i) the amendments to the Investment Advisory Agreement and (ii) the Performance Incentive Scheme set out above each constitute related party transactions for the purpose of the Listing Rules and require Shareholders' approval.

The Board, which has been so advised by SPARK, considers that (i) the implementation of the amendments to the Investment Advisory Agreement; (ii) the Performance Incentive Agreement are fair and reasonable so far as Shareholders are concerned.

Downing LLP, as a related party of the Company under the Listing Rules, cannot vote (and, as it does not hold any Shares in the Company, would not be entitled to vote) on Resolutions 4 and 6, which approves the above arrangements, to be proposed at the General Meeting. Downing LLP will take all reasonable steps to ensure that its associates (including any of its members, partners or employees) will also not vote on Resolutions 4 and 6 to be proposed at the General Meeting.

6. Risks associated with the Proposals

The Directors have identified the following principal risks associated with the Proposals:

Failure to (a) effect the proposed changes to the Investment Advisory Agreement and (b) introduce the performance incentive arrangement, could present a risk to the Company if, as a consequence, the Investment Adviser is less able to attract talented individuals to its investment team, leading ultimately to the poorer performance of the Company's investments.

Whilst the current cost of the investment management arrangements falls within the existing (2.75% of net assets) cost cap, and notwithstanding that the cost cap is proposed to be reduced to 2.6%, the aggregate amount payable to Downing LLP under the Investment Advisory Agreement will increase as a result of the Proposals, and there is no guarantee that the proposed changes to the Investment Advisory Agreement, and the introduction of the performance incentive scheme, will lead to an improvement in the performance of the Company.

7. General Meeting

In order to make the Offer, the Company requires the authority of Shareholders. The Company is also seeking authority to cancel the share premium account created by the issue of Offer Shares pursuant to the Offer which will, subject to certain restriction contained in the VCT Rules, create a distributable reserve from which the Company can pay future dividends and finance share buybacks. Finally, the above amended arrangements with Downing LLP also require Shareholders' approval under the Listing Rules as do the proposed changes to the Company's investment policy.

Accordingly, a notice convening a General Meeting is set out at the end of this document. The General Meeting will be held at the office of Downing LLP, at St. Magnus House, 3 Lower Thames Street, London EC3R 6HD on 6 November 2019 at 11.00 a.m. The resolutions to be proposed at the General Meeting are set out on pages 16 to 17.

8. Resolutions and action to be taken

Before taking any action, you are recommended to read the further information set out in this document. Shareholders will find a Form of Proxy for the Company enclosed with this document for use at the General Meeting. Shareholders are asked to complete and return it, by post or hand, to Downing LLP, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD, or electronically at proxy@downing.co.uk, in each case to arrive not later than 48 hours before the time of the meeting. Completion and return of the Form of Proxy will not affect a Shareholder's right to attend and vote at the General Meeting should he or she wish to do so.

9. Recommendations

The Board is of the opinion that the Proposals described in this Circular which are to be proposed at the General Meeting are in the best interests of the Shareholders as a whole and unanimously recommends you to vote in favour of all the Resolutions as they intend to do in respect of their own holdings of 98,310 Ordinary Shares, representing 0.07% of the voting rights in the Company.

I look forward to welcoming you at the General Meeting and to your support for the Resolutions to be proposed.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Chris Kay', written in a cursive style.

Chris Kay
Chairman

Part III: Additional Information

1. Responsibility

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

2. Major Shareholders

As at 18 September 2019 (this being the latest practicable date prior to publication of this Circular), the Company is not aware of any person who has, or immediately following the issue of Offer Shares pursuant to the Offer will have, an interest in the Company's capital and voting rights which is notifiable under UK law (under which, pursuant to CA 2006 and the Listing Rules and the DTR, a holding of 3% or more of the voting rights of each class of Share must be notified to the Company). No shares are held in treasury.

3. No Significant Change

On 30 August 2019, the Company paid a dividend of 2.0p per Share totalling £2.66 million.

Since the 31 March 2019 year end, the Company has made the following investment additions:

Additions	£'000
Limitless Limited	583
Lignia Wood Company Limited	333
StreetHub Limited	300
Channel Mum Limited	300
Empiribox Holdings Limited	250
E-Fundamentals (Group) Limited	250
Cambridge Touch Technologies Limited	459
Hummingbird Technologies Limited	500
JRNI Limited	525
Volo Commerce Limited	510
	<u>4,010</u>

Since the 31 March 2019 year end, the Company has made the following investment disposals:

Disposals	Valuation		Proceeds	Gain/ (loss) against cost	Gain/ (loss) in period
	Cost	at 31 March 2019			
	£'000	£'000	£'000	£'000	£'000
Pabulum Pubs Limited	607	607	607	-	-
Wickham Solar Limited	473	660	716	243	56
Mosaic Spa and Healthclub Limited	706	58	58	(648)	-
Craneware plc	497	2,550	2,095	1,598	(455)
	<u>2,283</u>	<u>3,875</u>	<u>3,476</u>	<u>1,193</u>	<u>(399)</u>

Other than as noted above, there has been no significant change in the financial position of the Company since the end of the last financial period for which financial information has been published (being the audited financial information to 31 March 2019) to the date of this Circular.

4. Pro forma financial information

There is no pro forma financial information contained in this document.

5. Interests of the Directors in the Company

The Directors' shareholdings in the Company are as set out in the table below.

Director	Number of Shares	Percentage of issued share capital
Chris Kay	83,300	0.06%
Barry Dean	7,129	0.01%
Stuart Goldsmith	7,881	0.01%

None of the Directors has a service contract. Directors' appointments are subject to 3 months' notice and all Directors are subject to retirement by rotation. Their appointment does not confer any right to hold office for any period or any right to compensation if they cease to be directors. The office of non-executive director is also not pensionable. Aggregate Directors' emoluments for the year ended 31 March 2019 amounted to £105,000 (plus applicable VAT and employer's National Insurance Contributions). Each Director is currently entitled to receive annual fees as listed below. These were last reviewed in February 2017.

Name	Annual Remuneration (£)
Chris Kay	45,000
Barry Dean	30,000
Stuart Goldsmith	30,000
	<u>105,000</u>

6. Material contracts

The following are the only contracts, not being contracts entered into in the ordinary course of business, that have been entered into by the Company within the two years immediately preceding publication of this document and which are or may be material to the Company which contains any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this document:

- (a) An Investment Services Agreement ("**ISA**") dated 22 July 2014 between the Company (1) and Downing LLP (2) pursuant to which Downing LLP has been appointed as the investment adviser to the Company and which is proposed to be amended pursuant to Resolution 6 to be proposed. Under the existing ISA, Downing LLP receives an annual management fee of an amount equivalent to 1.8% of the Company's net assets and the annual running costs of the Company are capped at 2.75% (including irrecoverable VAT) with Downing LLP paying any excess running costs above the cap. The appointment is not for a fixed term and may be terminated by either side giving not less than 12 months' notice in writing.

Downing LLP also provides administration services to the Company for a formula based fee comprising three elements: (i) a basic fee of £40,000; (ii) a fee of 0.125% of NAV per annum on funds in excess of £10 million; (iii) £10,000 per additional share pool.

The agreement contains usual provisions indemnifying Downing LLP against any liability not due to its default, gross negligence, fraud or breach of FSMA.

- (b) A letter of engagement dated 6 August 2019 from SPARK Advisory Partners Limited ("**SPARK**") pursuant to which SPARK has been appointed as sponsor to the Company in connection with an offer for subscription. The Company has agreed to indemnify SPARK for any loss suffered in respect of its role as sponsor to the Offer (save for when such loss has arisen out of SPARK's breach, wilful default, misconduct or gross negligence). The Company's liability under this indemnity is unlimited.

In addition, the following contracts have been conditionally entered into, and are subject to Shareholders' approval at the General Meeting on 6 November 2019:

- (c) A promoter's agreement ("**Promoter's Agreement**") dated 19 September 2019 between the Company (1), the Directors (2), Downing LLP (3) and SPARK Advisory Partners Limited (4) whereby Downing LLP has agreed to act as promoter in connection with the Offer. The agreement contains warranties given by the Company and the Directors to Downing LLP. The Company will pay to Downing LLP a promoter's fee of (i) 2.5% of the NAV per Offer Share for each Offer Share subscribed under the Offer by, and issued, in cases where no Adviser

commission is payable or who invest direct without an intermediary, and (ii) 4.5% of the NAV per Offer Share for each Offer Share subscribed under the Offer where Adviser commission is payable. The Company shall also be responsible for paying 0.25% per annum of the Net Asset Value of the Offer Shares to Downing LLP for a maximum of five years, from which Downing LLP will pay annual trail commission to those intermediaries entitled to receive it. At Downing LLP's discretion, the trail commission may be waived in favour of additional upfront commission of 0.75%. Downing LLP's role as both promoter of the Offer and investment adviser to the Company is not considered to be a material conflict of interest.

- (d) A deed of variation dated 19 September 2019 between the Company (1) and Downing LLP (2) amending the ISA described at (a) above by (i) the increase of the basic investment advisory fee (ii) the reduction in the running costs cap (iii) the amendment to the structure for charging arrangement and monitoring fees, each as described more fully on pages 8 to 11 of this Circular.
- (e) A performance incentive agreement dated 19 September 2019 between the Company (1) and Downing LLP (2) pursuant to which Downing LLP will be entitled to performance incentive payments equal to 20% of realised gains on investments made by the Company on or after 1 April 2019, subject to the achievement of IRR and Total Return hurdles, as more fully described on pages 10 and 11 of this Circular.

7. Consents

Downing LLP has consented to the issue of this Circular with the inclusion of references to their name appearing in the form and context in which they appear.

SPARK Advisory Partners Limited has consented to the issue of this Circular with the inclusion of references to their name appearing in the form and context in which they appear.

8. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of this document until the close of the Offer at the offices of SPARK, at 5 St John's Lane, London EC1M 4BH and also at the registered office of the Company:

- 8.1 the audited report and accounts of the Company for the financial years ended 31 March 2017, 31 March 2018 and 31 March 2019.
- 8.2 the Prospectus issued by the Company dated 19 September 2019;
- 8.3 this Circular.

19 September 2019

Part IV: Notice of General Meeting

Downing ONE VCT PLC

(Registered in England and Wales with registered number 03150868)

NOTICE OF GENERAL MEETING

Notice is hereby given that a general meeting of Downing ONE VCT plc (the “**Company**”) will be held at the offices of Downing LLP at St. Magnus House, 3 Lower Thames Street, London EC3R 6HD on 6 November 2019 at 11.00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions, of which Resolutions 1, 4, 5 and 6 will be proposed as ordinary resolutions and Resolutions 2 and 3 as special resolutions.

All capitalised terms used in this notice of meeting shall bear the meanings given to them in the circular to shareholders dated 19 September 2019 (the “**Circular**”).

Resolution 1:

Authority to allot new Ordinary Shares pursuant to the Offer (Ordinary Resolution)

1. **THAT** the Directors be generally and unconditionally authorised pursuant to section 551 of the CA 2006 to allot Ordinary Shares having the rights and being subject to the restrictions set out in the articles of association of the Company and to grant rights to subscribe for or to convert any security into Ordinary Shares in the Company up to an aggregate nominal amount of £400,000 provided that this authority shall expire on the fifth anniversary of the date of the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require Ordinary Shares to be allotted or rights to subscribe for or to convert securities into Ordinary Shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or to convert securities into Ordinary Shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

This resolution is additional to and does not revoke or replace existing and unexercised authorities previously granted to the Directors to allot Ordinary Shares or grant rights to subscribe for or convert securities into Ordinary Shares.

Resolution 2:

Disapplication of pre-emption rights (Special Resolution)

2. **THAT** the Directors be and hereby are given the general power to allot equity securities (as defined by section 560 of CA 2006) pursuant to the authorities conferred by Resolution 1 as if section 561(1) of the CA 2006 did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities with an aggregate nominal value not exceeding £400,000 in connection with the Offer.

The power granted by this resolution will expire on the fifth anniversary of the passing of this resolution save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Resolution 3:

Cancellation of Share Premium Account and Capital Redemption Reserve (Special Resolution)

3. **THAT** the Company’s share premium account and capital redemption reserve each be cancelled.

The authority conferred by this resolution will expire on the fifth anniversary of the date of the passing of this resolution unless renewed, varied or revoked by the Company in general meeting.

Resolution 4:

Approval of the Promoter's Agreement (Ordinary Resolution)

4. **THAT** the entry by the Company into the Promoter's Agreement with Downing LLP and others, as described in the Circular, be and is hereby approved.

Resolution 5:

Approval of the amendments to the Company's investment policy (Ordinary Resolution)

5. **THAT** the amendments to the Company's investment policy, as set out in the appendix to this Notice, be and are hereby approved.

Resolution 6:

Approval of (a) amendments to the investment advisory agreement with the Company's investment adviser (including a reduction in the overall running cost cap, an increase to the investment advisory fee and adjustments to the arrangement and monitoring fees) and (b) the introduction of a performance incentive scheme (Ordinary Resolution)

6. **THAT** the amendments to the Company's investment advisory agreement with Downing LLP, and introduction of a performance incentive scheme, each as described in the Circular, be and are hereby approved.

By order of the Board

Grant Whitehouse

Company Secretary

Downing ONE VCT plc

19 September 2019

Registered Office: St. Magnus House, 3 Lower Thames Street, London EC3R 6HD

Information regarding the General Meeting, including the information required by section 311A of the Act, is available from www.downing.co.uk.

Appendix to the Notice of General Meeting

Proposed changes to the company's investment policy which are the subject of Resolution 5

The Company's existing investment policy is set out in its audited accounts for the year ended 31 March 2019.

Shareholders are now being asked to vote to amend that policy as set out below. The proposed amendments are shown (a) in the case of additions, as underlined and (b) in the case of deletions, as struck through.

Asset allocation

The Company will seek to maintain a minimum of 70% (80% from 1 April 2020) of its funds invested in VCT qualifying investments, with the balance held in non-qualifying investments. New funds raised will initially be held in non-qualifying investments and cash and will gradually be invested in VCT qualifying investments over a two to three year period.

VCT qualifying investments

The Company seeks to hold a portfolio of VCT qualifying investments as follows:

Investment type	Target	Maximum	Target IRR
Growth	25%-50% <u>40%-100%</u>	100%	15% <u>and above</u>
Income-Yield focused	50%-75% <u>0%-60%</u>	100%	10%

Growth investments will be in companies with prospects for high capital growth, ~~and may include companies quoted on AIM or the NEX Exchange Growth market as well as unquoted companies reflecting higher risk, predominantly focusing on:~~

- investments in unquoted companies where there are reasonable prospects of a trade sale or clear exit strategy over a five to seven year time horizon and the prospects of a reasonable level of capital growth. Start-ups will not generally be considered although the fund may consider investments in early stage companies offering higher risk and higher potential returns; and
- companies already quoted on AIM, the NEX Exchange Growth market or the Main Market of the London Stock Exchange, or being admitted to AIM, the NEX Exchange Growth market or the Main Market of the London Stock Exchange.

~~**Income-Yield focused investments**~~ will generally be in unquoted businesses (although this may include some quoted businesses), with a preference for companies which, subject to prevailing VCT rules, own substantial assets or have predictable revenue streams. These investments ~~are likely to~~ may be structured such that they comprise ~~significant levels of secured loan stock and/or preference shares, subject to applicable VCT rules.~~

Some investments may exhibit features of both of the above categories.

~~VCT Qualifying investments made after November 2015 will comply with new VCT regulations which introduced new restrictions including that such investments will, in most cases, be in businesses that are less than 7 years old and funds invested will not be used by the business to make an acquisition.~~

Non Qualifying Investments

Non-qualifying investments invested after 5 April 2016 will only be made in the following categories:

- Shares or units in an AIF (alternative investment fund) e.g. an investment trust or in a UCITS (undertakings for the collective investment in transferable securities) e.g. an OEIC (open ended investment company) which may be repurchased or redeemed by the investor on no more than 7 days' notice; and
- Ordinary shares or securities in a company which are acquired on a European regulated market e.g. in companies with shares listed on the main market of the London Stock Exchange.

The existing non-qualifying portfolio includes investments made before 5 April 2016 within the following categories:

- Non-qualifying listed investments which are in quoted companies where the holdings can be traded and in companies in which the Investment Adviser has detailed knowledge as a result of VCT qualifying investments made previously;
- Secured loans which are secured on assets held by the borrower; and
- Non-qualifying unquoted investments which will generally not exceed 5% of the overall fund.

In addition to the above, the Company may hold non-qualifying funds in cash or bank deposits, which fall within the VCT rules.

The allocation between asset types in the non-qualifying portfolio will vary depending upon opportunities that arise, with any one asset class having a maximum exposure of 100% of the non-qualifying portfolio.

Risk diversification

The Directors will control the overall risk of the Company. The Investment Adviser will ensure the Company has exposure to a diversified range of VCT qualifying investments from different sectors and generally no more than 15% of the Company's funds in any one company or any one issue of fixed income securities ~~(except deposit accounts with UK clearing banks).~~

Further investment restrictions:–

Venture Capital Trust Regulations

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the Income Tax Act 2007 VCT Rules.

Borrowing policy Limits

It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a sum equal to no more than 10% of the aggregate amount of the nominal capital of the Company (being issued and paid up) paid up on the issued share capital of the Company plus the amounts standing to the credit of the consolidated reserves of the Company. ~~As at 31 March 2019, the maximum amount of borrowings allowed, without the previous sanction at a General Meeting, stood at £10.5 million. There are no plans to utilise this ability at the current time.~~

Notes to the Notice of General Meeting

- (a) Any member of the Company entitled to attend and vote at the General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the General Meeting in order to represent his appointor. A member entitled to attend and vote at the General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Act, the Company must answer any question a member asks relating to the business being dealt with at the General Meeting unless:
- answering the question would interfere unduly with the preparation for the General Meeting or involve the disclosure of confidential information;
 - 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 General Meeting that the question be answered.
- (b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.
- (c) In order to revoke a proxy instruction a member will need to inform the Company using one of the following methods:
- by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Downing LLP, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice;
 - by sending an e-mail to proxy@downing.co.uk.
- In either case, the revocation notice must be received by Downing LLP before the General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' letters of appointment, the register of directors' interests in the shares of the Company, a copy of the altered Articles of Association (marked up to show the proposed changes) and a copy of the current Articles of Association will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday, Sunday and Public Holidays excluded) from the date of this notice, until the end of the General Meeting for at least 15 minutes prior to and during the meeting.

- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 11.00 a.m on 4 November 2019 or, in the event that the General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 11.00 a.m. on 4 November 2019 or, in the event that the General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the General Meeting.
- (g) As at 9.00 a.m. on 18 September 2019, the Company's issued share capital comprised 133,314,236 Ordinary Shares and the total number of voting rights in the Company was 133,314,236. Information on the number of shares and voting rights will be available at www.downing.co.uk.
- (h) If you are a person who has been nominated under section 146 of the Act to enjoy information rights ("**Nominated Person**"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("**Relevant Member**") to be appointed or to have someone else appointed as a proxy for the General Meeting;
 - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
 - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the General Meeting.
- (k) Except as provided above, members who have general queries about the General Meeting should write to the Chairman at the registered office set out above.
- (l) Members may not use any electronic address provided either in this notice of General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.

