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Tax Efficient Review

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Venture Capital Trusts

Review of Generalist VCTs

Northern Venture Trust
Northern 2 VCT
Northern 3 VCT

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Venture Capital Trusts

1. An investment in a VCT carries a higher risk than many other forms of investment.
2. A VCT's shares, although listed, are likely to be difficult to realise.
3. You should regard an investment in a VCT as a long term investment, particularly as regards a VCT's investment objectives and policy and the five year period for which shareholders must hold their ordinary shares to retain their initial income tax reliefs.
4. The investments made by VCTs will normally be in companies whose securities are not publicly traded or freely marketable and may therefore be difficult to realise and investments in such companies are substantially riskier than those in larger companies.
5. If a VCT loses its Inland Revenue approval tax reliefs previously obtained may be lost.
6. No investment can made by the VCT in a company whose first commercial sale was more than 7 years prior to date of investment, except where previous State Aid Risk Finance was received by the company within 7 years (10 years for a 'knowledge intensive' company) or where a turnover test is satisfied; and
7. No funds received from an investment by the VCT into a company can be used to acquire another existing business or trade.

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Northern Venture Trust
Northern 2 VCT
Northern 3 VCT

Type	Generalist VCT
Size	£60 million combined fundraise across the three VCTs (£20 million per VCT)
Manager	NVM Private Equity LLP
Sponsor	Howard Kennedy Corporate Services LLP
Promotor	Downing LLP
Focus	Diversified portfolio of development capital investments and MBOs in unquoted companies with some investments in quoted AIM companies
Funds initially invested	Cash deposits, fixed income securities and other securities
Minimum investment	£6,000
Minimum subscription	Not applicable
Closing dates	5 April 2018 or when each individual offer becomes fully subscribed
Issue costs	2.0% of amount subscribed for direct investment and via advisory IFA's 4.0% of amount subscribed for investment via execution only discount brokers, of which 2.25% up front commission is rebated to clients by way of extra shares. Trail commission of 0.2% for five years on subscription via execution only brokers.
Initial advisor charges	If charged, these will be facilitated by the VCTs on subscription.

Table 1: Tax Efficient Review summary of offering Pros and Cons

PROs	CONs
• Good performance to date based on previous management buyout and early stage development capital investment strategy.	• Performance fees are complex and marginally differ between the funds.
• History of good exits from high risk, high technology investments.	• NVM has around £70 million in Buyout funds to continue its MBO strategy. Is this a distraction for VCT investors?
• NVM has significantly expanded its business and is building a new VCT team under Charlie Winward who has a good track record with IP Group and Tim Levett who has long experience of successful investment in early stage deals.	• Once the pre 2015 investments are realised (possibly in the next four years), dividends will be dependent on capital growth in the VCT portfolio.
• Good pipeline of prospective VCT opportunities.	
• Current dividends of 6.0p for Northern Venture Trust and 5.5p for Northern 2 VCT and Northern 3 VCT sustainable in near term based on pre 2015 portfolio of 24 companies currently valued at £103 million.	
• One of the lowest expenses caps of any Generalist VCT at 2.9%.	

Effect of VCT rule changes

The changes to VCT investment rules introduced in November 2015 that require new investments by all the VCT industry to be made in younger and smaller companies for growth and development purposes has impacted Generalist VCTs such as NVM who relied on a mainly Management Buy Out driven investment strategy and a small number of early stage investments.

Post the rule change, the Boards of most Generalist VCTs took a pause in fund raising in the tax year 2016/17 to evaluate the manager's team composition and the manager's plan to conform to the new investment rules going forward. The manager also had to invest the funds raised in tax year 2015/16 plus any funds secured from exits.

So how could investment in younger, smaller companies requiring growth (and possibly, in the future, some replacement) capital affect returns? We see a number of consequences over time for Generalist VCT investors:

- overall we think that risk will increase for Generalist VCTs
- over time there is likely to be a gradual reduction in the overall income yield on VCT portfolios as a whole, although there should be a commensurate increase in the level of capital returns albeit with a more volatile profile
- more variable returns
- generating the level of consistently high returns achieved by Generalist VCTs in the past is likely to be more challenging

TER classification

Tax Efficient Review has always sub-divided the Generalist category of VCTs into those with and those without a track record. We have revisited and revalidated our approach now that most Generalists VCTs are having to change their investment strategies. We have concluded that it is still valid to classify some managers as having a track record given the changes put in place by the various Generalist managers together with the fact that most VCT portfolios contain, and will continue to contain for many years, MBO investments which form the major portion of most VCT track records.

Later in this review we cover the specific actions taken by NVM in this regard.

Patient Capital Review

The Patient Capital Review, launched by the Treasury, is trying to address why firms are failing to attract scale-up capital. Even though the UK ranks third in the OECD for business start-ups, with 350,000 new businesses created in 2014, when it comes to the number of scale-up businesses based in the country, the UK only ranks 13th in the OECD, despite being home to one of the world's most dominant financial centres.

The review, announced in November 2016, is part of the Government's Industrial Strategy to increase productivity and drive growth as the UK prepares to leave the EU. A consultation has just been published and will result in recommendations to the Chancellor to inform the Autumn Budget (22 November 2017). The paper states that "Decisions around the allocation of resources across existing and any new programmes will be made by the Chancellor at Autumn Budget 2017".

The potential recommendations of the consultation could include changes to the initial tax relief and other reliefs. Should such an outcome prevail, then we believe it could impact negatively on future fund raisings which in turn could mean that VCTs would most likely either:

- restrict buybacks to the level of current liquidity in the VCT plus the current fund raising (in effect new investor are funding exits for current shareholders who have passed the five year lock-in period to exit) or
- husband cash resources by stopping/reducing any buyback activity altogether in order to pay the VCT manager fees and fund some follow-on funding of investee companies.

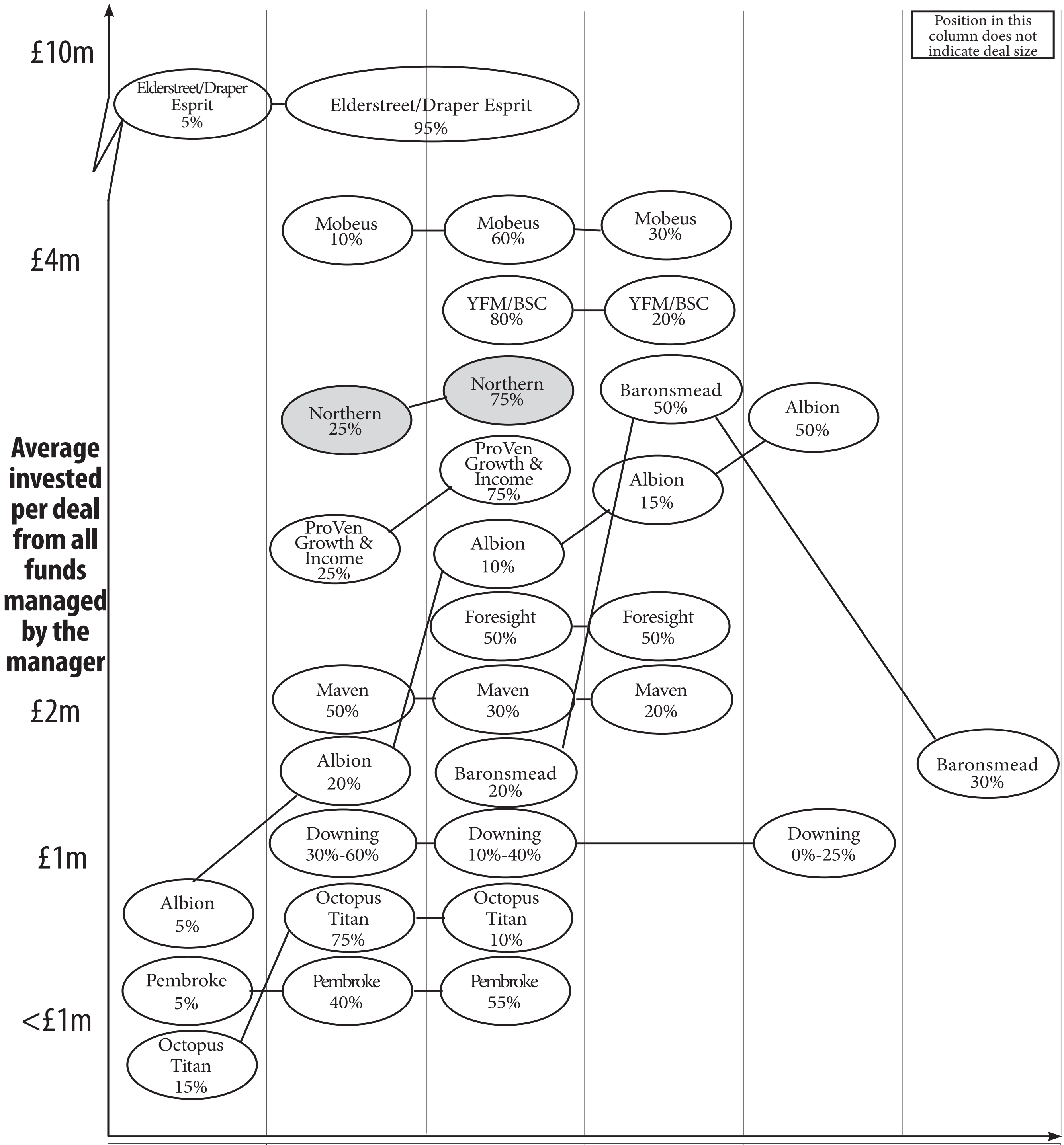
Table 2 – NVM VCTs summary

	NVT	N2VCT	N3VCT
Estimated issue price	72.2p	69.3p	99.6p
Size prior to new funds – net of declared dividends	£74m	£76m	£74m
Current VCT funds allocation			
Unquoted companies	£43m (66%)	£34m (52%)	£31m (48%)
AIM – listed	£3m (5%)	£3m (5%)	£8m (13%)
Cash etc	£19m (29%)	£28m (43%)	£25m (39%)
Average dividend per share paid per annum in last 5 years	11.4p	9.5p	9.5p
Historic yield (average dividend/ estimated issue price excluding tax break)	15.8%	13.7%	9.5%
Dividend policy	6.0p	5.5p	5.5p
Forecast yield (current dividend/ estimated issue price excluding tax break)	8.3%	7.9%	5.5%
Historic Total Expense Ratio	2.55%	2.58%	2.52%

Source: Published Accounts and Securities Note

Diagram 1: Investment strategies of main Generalist VCT managers raising funds in 2016/17 as at August 2017

Source: Fund Managers (% figures refer to funds invested in qualifying companies, not funds raised)



Seed capital/ Early stage	Pre-Profit	Post-Profit	Larger Development Capital Deals	Asset backed opportunities	AIM stocks
	High Growth and Development capital				
- high risk with hopefully high return - all equity investment - should have potential for rapid growth	- should have potential for rapid growth and exit within 3-5 years - some VCT loan interest may be deferred until exit - usually no bank debt because of lack of assets for security and companies may not be able to support interest payments - focus on high growth market sectors in which company growth should be less dependent on the performance of the whole economy		- relatively low returns but should be lower risk - companies usually profitable - companies should be able to sustain loan interest payments - profitable companies seeking capital for expansion	- low return and should be low risk - should be able to support interest on debt	-some stocks are dividend paying - limited liquidity - potential volatility

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The Northern VCTs' prospectus covers the Patient Capital Review and its possible outcomes as follows:

> *"Any solutions or measures implemented following the Treasury consultation could impact the investment policies of the Companies, the levels of tax reliefs that are available to Investors, and the level of demand and competition for investment in the target markets of the Companies. Decisions around the allocation of resources across existing and any new programmes will be made by the Chancellor in the Autumn Budget 2017, considering potential benefits of options against their costs. It has been announced that the Budget will take place on 22 November 2017".*

It should be noted that the VCTs together have cash or near cash resources of over £73 million as at 31 August 2017 until it receives funds from this offer and that NVM tell us that as at 6 April 2018 investors who are out of the five year lock-in period (and hence may be interested in exiting) total £140 million. However, the 'Northern' shareholders have always taken a long term view and NVM do not expect a high level of exiting shareholders.

We asked NVM to comment on how they would see the VCT moving forward should VCT fund raising be either completely halted or heavily reduced by any change to the up-front tax relief. Their comment is:

> *"The NVM view is that the Patient Capital Review will conclude that VCTs will continue to be a vital component in providing scale-up capital of between £2 - £10 million because of their evergreen nature, transparency, stability and access to capital. The top ten VCT managers, of which NVM is one, are making recommendations to HMT on excluding capital preservation schemes that HMT consider to be contrary to the spirit of the 2015 legislation and so long as HMT are satisfied that VCTs will be properly focussed on making high growth, high risk investments in future, NVM considers that VCTs could maintain their current tax status"*

The offer

The offer from all three of the Northern VCTs to raise, in aggregate, £60 million. The Board of each VCT has set out the amount sought of £20 million for Northern Venture Trust, £20 million for Northern 2 VCT and £20 million for Northern 3 VCT.

Investors should note that this offer is not linked. Under this offer, the investor can choose to invest in any or all of the Northern VCTs in any combination, subject to a minimum total application of £6,000. This leads to a detailed application form where investors need to choose which VCTs to invest in and how funds are destined for VCTs that close early are dealt with.

The offers are open for the current tax year only and will close no later than 5 April 2018, unless one or more offers are fully subscribed by an earlier date.

Current shareholder priority period

In recognition of their loyalty, existing shareholders have priority in the share offer for 21 days from the date the Prospectus is issued (i.e. until 13 October 2017). However, applications are being accepted on a first come first served basis and NVM will be logging applications from new prospective shareholders when received and will prioritise their applications on a when received basis from 13 October.

Strategy

Northern Venture Trust (NVT), Northern 2 VCT (N2VCT) and Northern 3 VCT (N3VCT) are the three VCTs advised by NVM Private Equity LLP (NVM). They are all Generalist VCTs with a combined asset base of £224 million with the same investment strategy and with similar portfolios. In our opinion, NVM is one of the leading VCT management groups in the unquoted VCT arena.

The three VCTs are each seeking to raise £20 million each before expenses. The last major fundraising was in 2013/14 when £50 million was raised.

Each VCT offer is a further issue to invest into a mature portfolio with the potential for an immediate dividend stream and capital appreciation. The three VCTs have developed over much the same periods and 92% of the portfolio relates to investments in common over all three VCTs. As a result, investors can buy into virtually identical portfolios in each of these three VCTs. Northern 3 VCT has a slightly higher proportion of investments in AIM-quoted companies with 19% of its current funds invested in AIM as opposed to 6% for the other two VCTs.

The three Northern VCTs pay current dividends as follows: NVT 6.0p, N2VCT 5.5p and N3VCT 5.5p. All three VCTs have stated that future dividends may fluctuate because dividends from the new VCT portfolio will be more dependent on capital gains on exit. However, the funds have 24 investments made prior to 2015, valued at £103 million, providing income from dividends and the potential of capital gain on exit.

Over the last three years, NVM has had a very strong run of cash exits from realising 14 unquoted investments since August 2014 (Refer Table 13). These 14 sales have realised cash proceeds of £116 million, a profit of £71 million against the £45 million cost of the investments. Making an average 2.6x money multiple on these exits has contributed to the Northern VCT dividends paid. An investor who subscribed in any of the three Northern VCTs in November 2013 will have already received 42p per share in tax free dividends. This should not be taken as an indication that this level of exits or payouts can be achieved in the future.

All the VCTs managed by NVM are generalist with the same investment remit. NVM has adapted its approach to making qualifying investments in response to the new VCT rules introduced in November 2015. Before Qualifying Investments are identified, the net proceeds will be invested by the VCTs in accordance with their respective published investment policies, initially in a portfolio of cash and a range of quoted securities.

Unquoted investments will be spread geographically over the United Kingdom and will not concentrate on any one specific industry sector. These VCTs play to the strengths of NVM's regional network of offices in Manchester, Newcastle, Reading and a presence in London and the Midlands. Over the last 22 years, VCTs managed by NVM have invested over £280 million in 139 unquoted companies.

Following the change in investment strategy in 2015, NVM is focussing on providing scale-up capital for earlier stage businesses with growth potential. This is likely to involve rounds of follow-on investment, with an initial investment of £2 million - £4 million with the potential to rise up to £12 million in some companies. The intention is to build a portfolio of around 40 companies in the next four years.

Investors will benefit from investment into an existing portfolio of 24 companies, predominantly MBO investments valued at £103 million, which have historically had a low loss ratio, delivered a strong yield and attractive returns to the VCTs (this should not be taken as an indication that this level of exits or payouts can be achieved in the future). This will be balanced with recent and future investments in younger and fast growing companies which could have the potential for significant capital growth.

The track record of the VCTs reflects the success of their former investment strategy whereby NVM focused on financing management buyouts (MBOs) of established, profitable businesses, using a combination of loan stock and equity and a small number of early stage development capital investments. The VCTs made investments under this former investment strategy up to November 2015. These predominantly MBO investments still comprise 69% of the VCTs' investment portfolio (by value), though this percentage will reduce over time as further growth capital

Table 3: Funds under management - NVM Private Equity: Source: NVM August 2017

VCTs	Net assets Note 1 £m	Annual Management Fee Note 2 £m	Annual dividend Note 3 £m	Requiring investment over next three years Note 4 £m	Cash in acquisition Vehicles £m	Net amount to be invested £m
Northern Venture Trust	74.4	1.6	5.7	22.9	Nil	22.9
Northern 2 VCT	75.7	1.5	5.1	24.4	Nil	24.4
Northern 3 VCT	74.0	1.4	3.6	26.3	Nil	26.3
Total funds	224.1	4.5	14.4	73.6	Nil	73.6

Note 1: Net assets as at 30 June 2017
Note 2: Excluding performance fees.
Note 3: Based on present issued capital and current annual dividend.
Note 4: Investment required to maintain 75% VCT qualifying level for all previous share issues before taking account of annual management fees/dividend payments.

investments are made and as sales of investments under the previous strategy occur.

The key aspects of this former strategy are explained below.

The Northern VCTs pursued this strategy because MBO deals were considered as attractive and lower risk for two reasons:-

- The VCTs were frequently able to buy these businesses alongside management teams that had a unique and informed understanding of the financial opportunities and risks within their business.
- The incumbent management teams were highly incentivised to buy these businesses on attractive terms for themselves and for the VCTs. Management teams were prepared to put at risk significant personal capital to purchase shares at the same time as the VCTs. Both parties were seeking to buy the business together on the most attractive terms with the mutual objective of realising maximum value through selling the business in the medium term.

The new rules introduced in November 2015 require new investments by all the VCT industry to be made in younger and smaller companies for growth and development purposes. The Northern VCTs have adapted to these new rules by amending their investment policies.

To face this challenge NVM, Martin Green and Tim Levett manage the day to investment management of the VCTs, with Tim taking the lead in developing the revised strategy under the new VCT rules, given his extensive experience and consistent track-record in early-stage and growth investing through market lifecycles.

In early 2016 NVM recruited Charles Winward, who was previously a board director at IP Group PLC, one of the UK's leading early-stage investors. This leadership team has subsequently augmented the existing NVM investment team, having focused initially on deepening technology expertise, given the strength of tech innovation in the UK driving the need for scale up investment. In early 2017, Jason Warren and Victoria Howarth, were recruited as mid-career hires, to transfer their early career experience of software programming in algorithmic hedge funds, and technology infrastructure program management respectively, to the NVM investment management process. Aaron Clark, who was previously a Director in Barclay's venture debt group in the North of England is set to join the investment team in October. The combination of this team and the existing NVM partners have delivered 11 new investments in which £28 million has been invested. NVM recognize the need to add value to the portfolio, and see the fund-raising as a catalyst to further expand the team, with investment managers and senior staff with track records in successfully scaling up businesses, with specialist skills in digital marketing and sales development targeted to join the team in 2018.

NVM recognise the need to add value to the portfolio and in addition to recruiting three more investment managers and directors over the next 10 months, are also recruiting two people experienced in digital marketing and sales and marketing development to work with the investee companies.

For NVM, growth capital (also called venture capital, development capital or expansion capital) means equity investment in privately owned or unquoted companies which are beyond the stage of start-up and are usually looking for capital to finance a transformational event in their lifecycle. With established products/services, operations and revenue, each target company has to prove the initial market opportunity and the attractiveness of its offering. To continue to grow rapidly, it now requires funding to support major expansion to deliver its potential.

Fast growing smaller and younger companies can be attractive investment opportunity due to a number of factors:

- In many cases, with limited security to support a loan, such companies struggle to achieve bank funding and are open to a combination of equity and debt funding from an investor.
- Key employees within the business are usually significant shareholders in the company and are highly incentivised to grow their business and equity value.
- Their existing small scale allows them to be focused on specific niches, developing targeted products and services which are differentiated from their competitor

Table 4: New strategy investments made to 31 August 2017 Source NVM

Company	Business	Structure	Month	£m
Sorted	Parcel delivery comparison site	F Ord shares with liquidation and sale preference plus loan with no fixed and floating charge	Apr 2016	4.0
Lending Works	Peer-to-peer lending platform	A Ord shares with no liquidation and sale preference	Jun 2016	2.0
AVID Technology	Design and manufacture technology for heavy vehicles	A Ord shares with no liquidation and sale preference, preferred shares plus loan with fixed and floating charge	Jul 2016	2.0
Rockar	e-commerce and fulfilment platform for new cars	B Ord shares with liquidation and sale preference, plus loan with fixed and floating charge	Jul 2016	2.5
Customs Connect	Duty and customs consultancy specialist	A Ord shares with no liquidation and sale preference, preferred shares plus loan with fixed and floating charge	Jul 2016	4.0
Channel Mum	Online parenting focussed videos	B Ord shares with liquidation and sale preference	Aug 2016	2.0
Intelling	Data, lead generation and customer handling specialist	A Ord shares with no liquidation and sale preference, preferred shares plus loan with fixed and floating charge	Mar 2017	3.0
Velocity Composites	Carbon fibre manufacturer for aircraft production	Ord shares	May 2017	0.3
Knowledgemotion	Education video aggregator and distributor	A Ord shares and B Ord shares with liquidation and sale preference	Jul 2017	3.0
Contego Fraud Solutions	Identity verification software and solutions	A Ord shares with no liquidation and sale preference	Jul 2017	1.5
Volo Commerce	SaaS based ERP platform to support online merchants	D Ord shares with no liquidation and sale preference	Aug 2017	3.4
Total invested				**£27.7m**

- They can experience significant revenue growth far exceeding the general economy as their offering achieves greater market awareness.
- As they begin to benefit from economies of scale they can dramatically improve profitability during the lifetime of the investment.
- Smaller fast growing companies can be attractive acquisition targets to larger competitors, as they look to supplement their own growth. In many instances they are willing to pay premium prices for the asset, providing the investor with an attractive exit.

However, growth capital investments will carry higher risk, because the companies may be less established than companies under the previous policy and may still be loss-making, but should have the potential for greater growth and returns than more established companies.

The implementation of this new strategy commenced with the first investment for NVM being completed in April 2016 and in the 18 months since then, eleven investments, have been completed at a cost of £28 million. Although it is too early to draw conclusions, the initial performance of these investments has been encouraging in NVM's view. Each of these eleven investments, is set out in Table 4

Frequently, funds from the VCTs will be the first institutional investment in the business, where previously the business has been self-funded and/or supported by Angel investors. Investments will be made using a range of financial structures and instruments including:

- equity instruments which provide investor controls and protections, allowing NVM significant influence over the company's plans and development;
- secured debt instruments, which provide for priority repayment when the company exits thereby reducing the downside risk of the investment; and
- instruments which develop as the company matures, for example involving increased interest and dividend payments only once the company matures and has the capacity to pay.

NVM have provided an example investment since the introduction of the VCT rule changes in November 2015 to depict the variety of expansion finance and growth financing opportunities, company maturities, and breadth of available deal structures available, that include measures of downside protection:

As an example, one of the eleven investments made since the rule changes came in is Avid Technology Limited (Avid), an established engineering manufacturing business in Cramlington (near Newcastle). The Northern VCTs invested £2 million in Avid in July 2016, leading a syndicate that included Downing Funds and IP Group PLC. The investment was managed by Mauro Biagioni and Charles Winward of NVM, in support of increasing demand for more sophisticated electric controllers and components, initially in buses, but expanding into a broad array of vehicles, driven by the need for increasing fuel efficiency and reduced environmental harm. Subsequent to investment, the specialist engineering Avid team has nearly doubled in size, growing its client base significantly as trends to vehicle electrification gather pace. NVM provided finance in a mixture of loans, preference and ordinary shares that mean that the Northern VCTs have a measure of downside protection but get to participate fully as a circa 24% equity owner in the growth of the company, with Mauro Biagioni joining the board to support the scale up.

We asked NVM to identify for the eleven new investments what structure was put in place in order to help protect the downside risk. This is shown below in Table 4.

NVM say that deal flow is healthy and importantly so are the quality of the deals, given that bank finance has essentially evaporated in this space in the MBO market, and that NVM are "seeing some great opportunities to invest in some very good businesses".

Tax Efficient Review Strategy rating: 29 out of 30

Track record

Our approach to comparing track records between providers is to use the Internal Rate of Return (IRR) for all relevant VCT fund raisings. The IRR on an investment is the "annualised effective compounded return rate" or "rate of return" that makes the net present value of all cash flows (both positive and negative) equal to zero. We calculate it on a daily basis using the net of income tax relief original cost (negative cash flow), the flow of dividends on the date they were paid and the net asset value published in the latest quarterly report from the VCT (both positive cash flows). We favour the IRR over measures such as Total Return as it factors in the "time value of money" and rewards early distributions of cash. We consider relevant VCT fund raisings to be those launched in tax year 2012/13 or before, larger than £6m and where the current management team have been involved since launch.

The result for each VCT manager is a number of IRRs each associated with a position within the relevant launches made in the same tax year. To compare results between providers we calculate the "Percent Ranking" figure for each fund raising and then average them all for the provider. The Percent Ranking shows the position within the relevant launches for each fundraising with 100% for first position and 0% for last position. Therefore the higher the "Percent Ranking" figure the better.

Table 5 shows the results for the NVM fund raisings that meet the above criteria and Table 6 shows the position of NVM compared to its main competitors using Percent Ranking as a measure as applied to the fund raisings in Table 5.

When these separate fundraisings are considered, they show delivery of the NVM proposition of excellent returns, lower risk and consistency.

In Table 7, in order to check on potential manager overvaluation of holdings, we asked NVM for the previous four valuations (as reported in quarterly published statements) for each of the last five exits. All of the valuations were below the exit value achieved which in our view is important. We also noted that there were significant uplifts on exit compared to the average valuation one year previously. The existing portfolio could therefore be a store of future value to be realised.

Table 8 shows the stage of development of the Northern VCT unquoted investee companies at the time of investment. The results show that around 37% of investments are currently in mature stage management buyouts and around 13% in later stage expansion or development capital. It should be noted that around 40% of funds are in early stage companies.

Table 9 shows the valuation methods applied to Northern VCTs unquoted holdings, with about 30% still held at cost, about 32% having had some amount of write-down and about 38% having been uplifted by the manager.

Table 10 shows the age (time in portfolio, rather than age of company) of current holdings. A high proportion of young investments (less than two years old in our view) in the portfolio could indicate that exits are not close and a high proportion of old investments (six or more years old in our view) could indicate trouble in exiting investments. The Northern VCTs have around 28% of their holdings less than two years old and around 51% of them less than 4 years old. Average portfolio age is 5 years.

Table 11 looks at average buyback discounts. Discounts are within the industry norm of a 5% discount.

In our view this gives credence to NVM's confidence that 'Northern' shareholders take a long

Table 5: VCT Performance of NVM fund raisings

Launch year	Net Asset Value/Date	Total Dividends to date	Total return (dividends plus latest net asset value)	Annual IRR post initial tax relief/Position in peer group
Northern Venture Trust VCT ord share (1995/96 £16m fund raising) TIDM NVT TER Ref 82				
1995/96	70.8p 30/06/2017	159.4p	230.2p	8% 3rd out of 8
Northern Venture Trust VCT ord share (1996/97 £19m fund raising at 105p) TIDM NVT TER Ref 518				
1996/97	70.8p 30/06/2017	155.79p	226.59p	8% 2nd out of 7
Northern 2 VCT ord share (1999/00 further issue at 100p raised £22m) TIDM NTV TER Ref 291				
1999/00	76.4p 30/06/2017	101.4p	177.8p	7% 3rd out of 7
Northern 2 VCT ord share (2000/01 further issue at 105p raised £22m, opened January 2001 and closed 28 June 2001) TIDM NTV TER Ref 501				
2000/01	76.4p 30/06/2017	98.2p	174.6p	6% 4th out of 15
Northern 3 VCT ord share (2001/02 investors at 100p, merged with Northern AIM September 2011) TIDM NTN TER Ref 100				
2001/02	106.1p 30/06/2017	75.4p	181.5p	7% 3rd out of 8
Northern 3 VCT ord share (2004/05 top-up at 99p per share raising £10m, merged with Northern AIM September 2011) TIDM NTN TER Ref 105				
2004/05	106.1p 30/06/2017	72.3p	178.4p	13% 7th out of 21
Northern 2 VCT ord share (2005/06 further issue at 91p raised £6.3m) TIDM NTV TER Ref 500				
2005/06	76.4p 30/06/2017	78p	154.4p	14% 3rd out of 22
Northern Venture Trust VCT ord shares (2005/06 investors in C share fund raising £20.7m at 100p per share, each C share converted into 0.931 ord shares as at 29 October 2009) TIDM NVT TER Ref 256				
2005/06	65.94p 30/06/2017	78.4p	144.34p	10% 10th out of 22
Northern 2 VCT ord share (2007/08 further issue at 95p raised £9.5m) TIDM NTV TER Ref 392				
2007/08	76.4p 30/06/2017	66p	142.4p	12% 3rd out of 25
Northern 3 VCT ord share (2009/10 further £13m offer at 95p per share, first dividend expected July 2010, merged with Northern AIM September 2011) TIDM NTN TER Ref 522				
2009/10	106.1p 30/06/2017	47p	153.1p	15% 9th out of 22
Northern Venture Trust VCT ord share (2010/11 £15m ord share further offer at 87p) TIDM NVT TER Ref 623				
2010/11	70.8p 30/06/2017	64.5p	135.3p	19% 6th out of 38
Northern 2 VCT ord share (2011/12 £15m top-up at 82p per share) TIDM NTV TER Ref 869				
2011/12	76.4p 30/06/2017	40.5p	116.9p	18% 12th out of 33

Table 6: Generalist VCT provider comparison as at 30 June 2017

Provider	Percent Ranking (Higher number is better see Note 1)
Baronsmead VCTs	78%
Mobeus VCTs	77%
Northern VCTs	76%
Maven (measuring MIG3 and MIG4 since inception and three "synthetic" VCTs to measure Nixon's performance in MIG1 since he took over in August 2004, MIG2 since July 2004 and MIG5 since February 2011)	58%
YFM (measuring two "synthetic" VCTs to measure Hall's performance in BSC1 & BSC2 since he took over in October 2003)	56%
ProVen VCTs	46%
Albion VCTs	46%
Foresight VCTs	43%
Elderstreet VCT	43%

Source: Tax Efficient Review calculation based on data from public accounts

Note 1: Each provider has launched a large number of fund raisings over many years, so we use "Percent Ranking" as a way of comparing results for each provider. "Percent Ranking" is the rank of a value in a data set as a percentage of the data set. For each fund raising the data set are the Generalist VCTs launched in the same year. A figure of 100% means the fund raising from the manager ranks ahead of all others in the data set, so the higher the figure the better.
Figure is an average of all fund raisings where the manager has managed the fund since launch, raised more than £6m and launched in tax year 2012/13 or before. Performance for launches after that period are not included as they will be distorted by the initial tax break.
YFM figure measures performance for BSC1 & BSC2 VCTs since the current manager took over the funds in October 2003.
Maven measures MIG3 and MIG4 since inception and three "synthetic" VCTs to measure Nixon's performance in MIG1 since he took over in August 2004, MIG2 since July 2004 and MIG5 since February 2011.

Table 7: Last five NVM exits (whole exits not split by fund) August 2017 Source NVM						
Company name	**Exit date**	**Value achieved on exit £000**	**Valuation last 4 quarters before exit**			
			Q1 prior to exit £000	**Q2 prior to exit £000**	**Q3 prior to exit £000**	**Q4 prior to exit £000**
Optilan	April 2017	7,143	7,143	7,103	7,094	3,356
Cawood*	March 2017	Base +62%	Base +43%	Base +40%	Base valn	Base valn
Arleigh	July 2016	4,095	3,124	3,124	3,535	3,952
Silverwing	May 2016	7,672	6,806	6,820	5,828	6,452
Kitwave	March 2016	8,590	8,033	6,999	5,651	2,968

*Details regarding disposal proceeds for Cawood are not to be disclosed so the uplift on the Base valuation (valuation Q4 prior to exit) is shown in the above table.

Table 8: Current NVT, N2VCT and N3VCT portfolio stages breakdown by original cost Source: NVM		
Development stage of investee companies	Cost £000	%
Early stage	52.3	40.2
Later stage expansion	17.2	13.2
Mature stage MBO	48.0	36.8
AIM	12.8	9.8
	£130.3m	**100%**

Table 9: NVT, N2VCT and N3VCT current unquoted portfolio valuation (excluding interest and dividends) Source: NVM		
Valuation methodology	Cost£m	%
Uplift	44.5	37.9
Cost	34.7	29.5
Write-down 0 % to 25%	3.3	2.8
Write-down 26% to 50%	17.9	15.2
Write-down 51% to 75%	12.0	10.2
Write-down 76% to 100%	5.1	4.4
	£117.5m	**100.0%**

Table 10: Northern VCTs current portfolio as at 30 June 2017: Age breakdown by original cost Source NVM	
Less than 1 year old	9%
1 to 2 year old	19%
2 to 3 year old	0%
3 to 4 year old	23%
4 to 5 year old	21%
5 to 6 year old	2%
6 to 7 year old	2%
7 to 8 year old	7%
8 to 9 year old	0%
9 to 10 year old	3%
10 to 15 year old	7%
16 years+	7%
AVERAGE AGE	**5.0 years**

Table 11: NVM buyback details Source: NVM		
VCT name	**Discount range**	**Last 12 month activity**
Northern Venture Trust	5%	Buybacks – Since Aug 2016 – 125,000 shares (0.1%) have been repurchased at a cost of £87k.
Northern 2 VCT	5%	Buybacks – Since Aug 2016 – 485,000 shares (0.5%) have been repurchased at a cost of £336k.
Northern 3 VCT	5%	Buybacks – Since Aug 2016 – 699,000 shares (1.0%) have been repurchased at a cost of £665k.

Table 12: Loan interest details Source: NVM			
	Total loans outstanding£m	Loan interest receivable for last 12 months£m	Non-performing loans as a% of total loans outstanding£m
NVT	£29	£1.7	2.9%
N2VCT	£25	£2.1	3.2%
N3VCT	£23	£2.0	3.1%

term view.

Table 12 looks at levels of non performing debt held by VCTs in investee companies (non performing is defined as the investee companies not making debt interest or debt repayments on schedule). The numbers are in line with other Generalist VCTs.

This indicates that the VCT portfolio is performing to plan.

Tax Efficient Review Track Record rating: 32 out of 40

Manager NVM manages three VCTs: Northern Venture Trust, Northern 2 VCT and Northern 3 VCT with a combined Net Asset Value of £224 million.

NVM was established in 1988 by the executive team that was previously employed by Northern Investors, and its 17 strong team of investment executives operates out of offices in Manchester, Newcastle and Reading. In June 2000, they became part of the Edinburgh Fund Managers (EFM) group. In late 2003 Aberdeen Asset Management purchased EFM and the NVM management team took the company private again. In the last fourteen years Tim Levett and Alastair Conn, who were the principals in the MBO, have been joined in the equity by a team of investment executives led by Martin Green who is now the Managing Partner. We believe that the combination of the involvement of the founders and the rest of the team, who have previous experience in 3i, Lloyds Development Capital and Montagu, is effective and hopefully will continue to deliver good returns.

The NVM VCT investment team comprises 17 executives who have an average of approximately 12 years' service with NVM. The background and experience of the team is in Appendix A.

Employees of NVM currently hold over 3,500,000 shares in the VCTs and have undertaken to subscribe in an additional £505,000 in this offer which we welcome as a strong sign of commitment and their confidence in the future success of the Northern VCTs.

Tim Levett has committed to remain as Executive Chairman at least until 2020, and will be focussed solely on the VCT strategy during that period and probably beyond.

Deal Flow The key focus of NVM is deal generation capabilities based on a strong regional network. The regional offices in Manchester, Newcastle and Reading are supplemented by two investment executives who are resident in Birmingham. London and the South East are covered by five dedicated investment executives based in Reading.

Deals are sourced from a regional network of people with whom NVM have worked over the last 33 years, accountants, lawyers and corporate finance houses.

Not only must an investment manager obtain deal flow but it must have a team resourced to invest at the correct rate to satisfy the VCT rules. The 70% investment rule requires that by the end of the third accounting period after launch and in every accounting period thereafter the VCT must have at least 70% of its funds invested in qualifying holdings. Most Boards impose a minimum level that is higher than this to ensure that any exits do not push the VCT below the 70% level. In this case NVM tell us that the Boards of all three VCTs prefer investment levels of around 75%.

The size of the challenge for an investment team depends on: funds already raised and requiring investing, forthcoming exits that will require re-investing and the impact of new funds being raised.

So how does NVM fare?

Table 14 shows the NVM team members and where they spend their time. In terms of investing the team is equivalent to 3.85 full-time VCT individuals (the sum of rows "Deal origination" and "New deal doing" and excluding any member with less than two years experience in venture capital).

The funds still awaiting investment to meet the Boards preferred level of 75% total £73m (see Table 3 for breakdown) which needs to be invested over the next 36 months i.e. £24m per annum.

Assuming the current offering raises its full subscription of £60m, this would add another £45m (75% of £60m) or around £15m per annum over three years.

We would normally assume that on average 15% of the VCT unquoted portfolios need to be re-invested each year following realisations (based on the average time to exit being around six

Table 13: Realisation events for Northern VCTs unquoted investments in last three years (July 2014 - June 2017) Source NVM

Investee company name	Altacor	Cleveland Biotech	CloserStill	Envirotec	Kerridge Commercial Systems	Mantis Deposition	Promatic
Structure of investment	Equity	Equity & debt	Equity & debt	Equity & debt	Equity & debt	Equity & debt	Equity & debt
Industry sector	Pharma	Organic waste degradation	B2B events	Manuf'g	Software	Scientific instruments	Manuf'g
Financing stage when first invested	Early stage	MBO	Dev capital	MBO	MBO	Early stage	MBO
Board seat	No	Yes	Yes	Yes	Yes	Yes	Yes
Co-invested	Yes	Solus	Solus	Solus	Solus	Solus	Solus
Total financing round	3,300	3,000	4,000	2,200	9,000	2,250	3,400
Date of original investment	Jan-11	Jun-13	Mar-08	Jan-05	Mar-10	Jul-09	Aug-07
Amount originally invested (£000)	1,250	3,000	2,700	2,200	5,000	1,600	2,400
Further investments (£000)	250	-	-	-	-	400	-
Date of exit	Aug-14	Mar-15	Mar-15	Jan-15	Feb-15	Sep-14	Dec-14
Income and capital proceeds (£000)	500	3,300	6,600	4,900	29,000	2,700	4,900
Annual Internal Rate of Return	**LOSS**	**6%**	**45%**	**16%**	**48%**	**LOSS**	**13%**
Length of investment	3 years	2 years	7 years	10 years	5 years	5 years	7.5 years
Investee company name	**Control Risks**	**Kitwave**	**Tinglobal**	**Silverwing**	**Arleigh**	**Cawood**	**Optilan**
Structure of investment	Equity	Equity & debt	Equity & debt	Equity & debt	Equity & debt	Equity & debt	Equity & debt
Industry sector	Security	Wholesaler	IT hardware	NDT testing Services	Leisure	Business services	Telecoms
Financing stage when first invested	Refinancing	Dev capital	MBO	MBO	MBO	MBO	MBO
Board seat	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Co-invested	Yes	Solus	Solus	Solus	Solus	Solus	Solus
Total financing round	6,000	7,500	6,000	6,000	1,500	4,200	9,000
Date of original investment	Mar-11	Mar-11	Jun-11	Aug-12	Oct-04	Dec-10	Mar-08
Amount originally invested (£000)	2,200	3,800	6,000	6,000	1,000	2,900	3,000
Further investments (£000)	-	-	-	-	1,200	-	-
Date of exit	Mar-16	Mar-16	Sep-15	May-16	Jul-16	Mar-17	Apr-17
Income and capital proceeds (£000)	Not disclosed	11,000	Not disclosed	12,400	7,700	Not disclosed	9,800
Annual Internal Rate of Return	**Not disclosed**	**27%**	**Not disclosed**	**24%**	**25%**	**Not disclosed**	**14%**
Length of investment	5 years	5 years	4 years	4 years	11.5 years	6 years	8 years

Table 14: Matrix of Individual Responsibilities Source NVM

Names	Tim Levett	Martin Green	Alastair Conn	Chris Mellor	James Arrowsmith	Mauro Biagioni	Peter Hodson	Andy Leach	David Rolfe
Deal origination %	25%	15%			10%	10%	10%	10%	10%
General enquiries %	15%	10%	25%	10%					
New deal doing %	15%	5%							
Exits %		5%			5%	5%	5%	5%	5%
Investee board seats No.	3	1			3	3	3	7	3
Sitting on boards / monitoring %	10%	10%	20%	20%	20%	20%	20%	25%	20%
Fundraising %	25%	5%	10%	20%					
Internal issues %	10%	5%	15%	45%					
Total VCT related work	100%	55%	70%	95%	35%	35%	35%	40%	35%
Non-VCT work %		45%	30%	5%	65%	65%	65%	60%	65%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Years in Venture Capital	32	27	37	32	13	13	17	32	5
Years involved with VCTs	22	13	22	22	13	13	17	22	5
Years with current team	32	13	37	32	13	13	13	5	5
Names	**Charles Winward**	**Karl Cockwill**	**Charlie Pidgeon**	**Liam May**	**Victoria Howarth**	**Jason Warren**	**Simon John**	**Sue Bromham**	
Deal origination %	80%	5%	35%	35%	75%	75%		30%	
General enquiries %							30%	25%	
New deal doing %	10%		40%	40%	25%	25%			
Exits %		35%							
Investee board seats No.	2	5	1	2					
Sitting on boards / monitoring %	10%	60%	10%	10%			30%	10%	
Fundraising %							20%	10%	
Internal issues %							20%	25%	
Total VCT related work	100%	100%	85%	85%	100%	100%	100%	100%	
Non-VCT work %			15%	15%					
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	
Years in Venture Capital	17	16	5	6	1	1	1	13	
Years involved with VCTs	17	16	5	4	1	1	1	13	
Years with current team	2	4	5	4	1	1	1	13	

years from Table 13). This would add roughly another £24m (total funds under management is £224m, 75% being the preferred investment level gives £168m and 15% of that is £25m).

The figure could be lower than this as some of the exit value will be profit which will be paid out as dividends and account also needs to be taken of cash needed to fund buybacks and pay VCT running costs.

So the annual amount that we think the team could, under our assumptions, need to invest annually is £44m (£24m from funds awaiting investment, £15m from this fund raising and reinvestment of exits at £25m per year less annual cash of £20m needed for fees, buybacks and dividends).

Based on industry averages, our view is that each investment team member can transact around three deals per year. The average deal size of new NVM deals is £2.5m (from Table 4).

On our assumptions this activity converts to a potential annual investing rate for the team of about £29m (3.85 man years times three deals per year times average deal size of £2.5m) compared to our computed rate of investment required of around £44m per annum. NVM believe this figure to be lower at around £30 million per year.

This seems to indicate that the team might need increasing to invest the new funds being raised.

Tax Efficient Review Team/Deal Flow rating: 17 out of 20

Costs The initial charge is 2.0% for direct and advised applications or 4.0% for execution only. Annual running costs are capped at 2.9% of net assets for all of the VCTs, any excess being borne by NVM by way of a reduction of their fees. In the last financial year, annual running costs were significantly lower than the cap at 2.55% of average net assets for NVT, 2.58% for N2VCT and 2.52% for N3VCT. Introductory commissions of 2.25% initial plus 0.4% for five years are payable to authorised advisers who submit applications on an execution only basis.

The Manager is entitled to receive a performance-related management fee from each Company, calculated as follows:

- Northern Venture Trust: 15% of the amount, if any, by which the increase in Total Return in each financial year (expressed as a percentage of opening NAV) exceeds a performance hurdle. The hurdle is a composite rate based on 7% on average long-term investments and the higher of base rate and 3% on average cash and near-cash investments during the year, subject to such cash investments being limited to 25% of the total investments of Northern Venture Trust.
- Northern 2 VCT: 12.0% of the amount, if any, by which the increase in Total Return in each financial year (expressed as a percentage of opening NAV) exceeds a performance hurdle. The hurdle is a composite rate based on 7% on average long term investments and base rate on average cash and near-cash investments during the year.
- Northern 3 VCT: 14.2% of the amount, if any, by which the increase in Total Return in each financial year (expressed as a percentage of opening NAV) exceeds a performance hurdle. The hurdle is a composite rate based on 7% on average long term investments and the higher of base rate and 3% on average cash and near-cash investments during the year.

Following a year in which Total Return decreases, a "high water mark" will apply to the calculation of the performance related fee, whereby, in the case of Northern Venture Trust an amount equivalent to the reduction will be deducted from subsequent increases in Total Return achieved prior to any further performance-related fee calculation taking place, and in respect of Northern 2 VCT and Northern 3 VCT the "high water mark" will be adjusted downward to the extent that a positive return is achieved in the following financial year. The performance-related fee payable in any financial year is subject to an overall cap of 2.25% of the respective Company's net assets.

NVM executives invest alongside the Northern VCTs in every deal in a co-investment scheme on the following basis:

• where the investment comprises a mixture of ordinary shares and loans or redeemable preference shares, for 5% of the aggregate amounts invested in ordinary shares at the same time as the relevant VCT fund; or

• where the investment is structured entirely as shares in an unquoted company, for 5% of the aggregate investment in ordinary shares at the same time as the relevant VCT fund, subject to not less than 70% of the VCT's investment being in shares with preferential rights.

At 30 June 2017 participants in the co-investment scheme held investments in 35 companies acquired at an aggregate cost of £786,000. NVM believes that the co-investment scheme has been effective in focusing the investment team's attention on sourcing and bringing good deals to the funds and has created a genuine alignment of interests which should add value for the VCT shareholders.

Tax Efficient Review Costs rating: 8 out of 10

Conclusion

Each VCT has a portfolio of generalist companies aiming to generate an income stream as well as capital growth for investors. The key points are:-

- Strong Track Record – NVM has a good long term track record. This track record has been particularly strong over the last 5 – 10 years where they maintained capital value and paid high levels of dividends.
- Significant Diversification – new investors' funds will immediately benefit from a highly diversified portfolio of 52 maturing venture capital investments, which provides both immediate potential for capital growth as well as reducing risk.
- Investment strategy - The manager had a focus on investing into the MBOs of established larger, profitable and cash generative businesses. These investments still constitute 69% of the VCTs' investment portfolio by value. Hiring Charlie Winward has spearheaded NVM's new growth investment strategy that was required following the change in the VCT Regulations in 2015 and the completion of eleven investments with £28 million invested is impressive. NVM continues to be very confident around dealflow and new investment prospects.
- Performance – A series of profitable exits has delivered cash profits to each of the four VCTs that have translated into large dividend payouts. The VCTs remain significantly invested in MBO investments and it would not be unreasonable to expect further attractive investments in the future.
- High Income - Tax-free annual dividend yields of: (i) NVT: 11.9%; (ii) N2: 11.3%; and (iii) N3: 7.9% (based on each VCT's stated dividend policy and their initial offer prices after 30% income tax relief. It should be noted that dividend levels are not guaranteed).
- Buybacks – this is the fund manager with an active buyback policy at a 5% discount to NAV. Around 1% of the shares were traded in 2016 and there is significant capacity within the general buyback policy.

We welcome the Manager's commitment to invest at least £505,000 in the offers as a sign of confidence in the VCTs' future success.

Overall a set of three VCTs that score highly and deserve a place in most VCT portfolios based on past track record.

Tax Efficient Review rating: 87 out of 100 (for Generalist VCTs with track record)

Table 15: Northern Venture Trust unquoted holdings as at 30 June 2017 In order of value Source: NVM

Investee company	Cost £000	Value £000	Date invested	Syndicated	Lead Investor	Valuation % Equity	Valuation % Debt	Industry sector	Finance stage	Valuation method	Board seat
Entertainment Magpie	1,611	4,550	Sep-15	N	Y	69%	31%	Consumer	Dev cap	Earnings multiple	Y
No 1 Lounges	2,006	4,012	Mar-14	N	Y	55%	45%	Leisure	MBO	Earnings multiple	Y
Buoyant Upholstery	1,674	3,263	Jul-13	N	Y	54%	46%	Consumer	MBO	Earnings multiple	Y
MSQ Partners	1,695	2,798	Jul-14	N	Y	47%	53%	Business Services	MBO	Earnings multiple	Y
Lineup Systems	974	2,468	Dec-11	N	Y	68%	32%	Technology	Dev cap	Revenue	Y
Agilitas IT Holdings	1,662	1,981	Jun-14	N	Y	27%	73%	Technology	MBO	Earnings multiple	Y
Wear Inns	1,640	1,854	Feb-06	Y	Y	0%	100%	Leisure	Acq cap	Earnings multiple	Y
Biological Preparations	2,366	1,759	Jun-13	N	Y	0%	100%	Business Services	MBO	Earnings multiple	Y
It's All Good	1,205	1,751	Feb-14	N	Y	38%	62%	Consumer	Dev cap	Earnings multiple	Y
Closerstill	1,747	1,747	Mar-11	Y	N	0%	100%	Business Services	SBO	Earnings multiple	Y
Weldex (Intl) Offshore	3,262	1,670	May-96	Y	N	0%	100%	Industrial	MBO	Earnings multiple	Y
Graza	1,581	1,581		N	Y	10%	90%	Financial	N/A	Earnings multiple	Y
Volumatic	1,423	1,555	Apr-10	N	Y	22%	78%	Manufacturing	MBO	Earnings multiple	Y
Customs Connect	1,406	1,406	Aug-16	N	Y	14%	86%	Business Services	Early stage	Cost	Y
Love Saving	1,204	1,327	Sep-15	N	Y	25%	75%	Business Services	Early stage	Earnings multiple	Y
Intuitive	1,674	1,095	Dec-12	N	Y	0%	100%	Technology	MBO	Earnings multiple	Y
Intelling	1,048	1,048	Mar-17	N	N	10%	90%	Technology	Early stage	Cost	Y
Axial Systems	1,004	978	Mar-08	N	Y	12%	88%	Technology	MBO	Earnings multiple	Y
CGI Group	3,818	945	Feb-99	Y	N	0%	100%	Manufacturing	MBO	Earnings multiple	Y
Sorted	905	905	Apr-16	N	Y	80%	20%	Technology	Early stage	Cost	Y
Rockar	874	874	Jul-16	Y	Y	72%	28%	Technology	Early stage	Cost	Y
Avid Technology	715	715	Jul-16	Y	Y	10%	90%	Manufacturing	Early stage	Cost	Y
Haystack	1,661	706	Nov-12	N	Y	0%	100%	Leisure	Dev cap	Earnings multiple	Y
Lanner	523	699	Mar-10	N	Y	48%	52%	Technology	MBO	Earnings multiple	Y
Channel Mum	662	662	Aug-16	N	Y	100%	0%	Consumer	Early stage	Cost	Y
Arnlea	1,305	585	May-14	N	Y	0%	100%	Technology	MBO	Cost less provision	Y
Lending Works	746	447	Jun-16	Y	Y	100%	0%	Consumer	Early stage	Cost less provision	Y
Gentronix	678	339	Feb-07	N	Y	0%	100%	Biotech	Early stage	Cost less provision	Y
Fresh Approach	1,475	239	Jun-14	N	Y	0%	100%	Business Services	MBO	Earnings multiple	Y
S&P Coil	48	-	Apr-04	N	Y			Manufacturing	MBO	Cost less provision	Y
AJ Way	293	-	Jun-13	N	Y			Consumer	MBO	Cost less provision	Y
	£42.8m	**£43.9m**									

Table 16: Northern 2 VCT unquoted holdings as at 30 June 2017 In order of value Source: NVM

Investee company	Cost £000	Value £000	Date invested	Syndicated	Lead Investor	Valuation % Equity	Valuation % Debt	Industry sector	Finance stage	Valuation method	Board seat
Entertainment Magpie	1,503	4,247	Sep-15	N	Y	69%	31%	Consumer	Dev cap	Earnings multiple	Y
No 1 Lounges	1,977	3,962	Mar-14	N	Y	55%	45%	Leisure	MBO	Earnings multiple	Y
Buoyant Upholstery	1,508	2,941	Jul-13	N	Y	54%	46%	Consumer	MBO	Earnings multiple	Y
MSQ Partners	1,672	2,756	Jul-14	N	Y	47%	53%	Business Services	MBO	Earnings multiple	Y
Lineup Systems	975	2,468	Dec-11	N	Y	68%	32%	Technology	Dev cap	Revenue	Y
Wear Inns	1,868	2,113	Feb-06	Y	Y	0%	100%	Leisure	Acq cap	Earnings multiple	Y
Agilitas IT Holdings	1,638	1,952	Jun-14	N	Y	18%	82%	Technology	MBO	Earnings multiple	Y
Closerstill	1,683	1,683	Mar-11	Y	N	0%	100%	Business Services	SBO	Earnings multiple	Y
It's All Good	1,145	1,668	Feb-14	N	Y	38%	62%	Consumer	Dev cap	Earnings multiple	Y
Biological Preparations	2,166	1,605	Jun-13	N	Y	0%	100%	Business Services	MBO	Earnings multiple	Y
Volumatic	1,423	1,555	Apr-10	N	Y	22%	78%	Manufacturing	MBO	Earnings multiple	Y
Graza	1,522	1,522		N	Y	10%	90%	Financial	N/A	Earnings multiple	Y
Customs Connect	1,322	1,322	Aug-16	N	Y	14%	86%	Business Services	Early stage	Cost	Y
Love Saving	1,124	1,239	Sep-15	N	Y	25%	75%	Business Services	Early stage	Earnings multiple	Y
Intuitive	1,508	987	Dec-12	N	Y	0%	100%	Technology	MBO	Earnings multiple	Y
Intelling	979	979	Mar-17	N	N	9%	91%	Technology	Early stage	Cost	Y
Axial Systems	1,004	979	Mar-08	N	Y	12%	88%	Technology	MBO	Earnings multiple	Y
Rockar	823	823	Jul-16	Y	Y	72%	28%	Technology	Early stage	Cost	Y
Sorted	813	813	Apr-16	N	Y	80%	20%	Technology	Early stage	Cost	Y
Channel Mum	674	674	Aug-16	N	Y	100%	0%	Consumer	Early stage	Cost	Y
Avid Technology	673	673	Jul-16	Y	Y	10%	90%	Manufacturing	Early stage	Cost	Y
Lanner	486	649	Mar-10	N	Y	48%	52%	Technology	MBO	Earnings multiple	Y
Haystack	1,497	636	Nov-12	N	Y	0%	100%	Leisure	Dev cap	Earnings multiple	Y
Arnlea	1,287	577	May-14	N	Y	0%	100%	Technology	MBO	Cost less provision	Y
Lending Works	672	402	Jun-16	Y	Y	100%	0%	Consumer	Early stage	Cost less provision	Y
Gentronix	579	289	Feb-07	N	Y	0%	100%	Biotech	Early stage	Cost less provision	Y
Fresh Approach	1,454	236	Jun-14	N	Y	0%	100%	Business Services	MBO	Earnings multiple	Y
S&P Coil	62	-	Apr-04	N	Y			Manufacturing	MBO	Cost less provision	Y
AJ Way	267	-	Jun-13	N	Y			Consumer	MBO	Cost less provision	Y
	£34.3m	£39.7m									

Table 17: Northern 3 VCT unquoted holdings as at 30 June 2017 In order of value Source: NVM

Investee company	Cost £000	Value £000	Date invested	Syndicated	Lead Investor	Valuation % Equity	Valuation % Debt	Industry sector	Finance stage	Valuation method	Board seat
Entertainment Magpie	1,360	3,842	Sep-15	N	Y	69%	31%	Consumer	Dev cap	Earnings multiple	Y
No 1 Lounges	1,748	3,511	Mar-14	N	Y	55%	45%	Leisure	MBO	Earnings multiple	Y
MSQ Partners	1,478	2,628	Jul-14	N	Y	43%	57%	Business Services	MBO	Earnings multiple	Y
Buoyant Upholstery	1,294	2,518	Jul-13	N	Y	54%	46%	Consumer	MBO	Earnings multiple	Y
Lineup Systems	974	2,468	Dec-11	N	Y	68%	32%	Technology	Dev cap	Revenue	Y
Agilitas IT Holdings	1,448	1,725	Jun-14	N	Y	18%	82%	Technology	MBO	Earnings multiple	Y
It's All Good	1,131	1,656	Feb-14	N	Y	39%	61%	Consumer	Dev cap	Earnings multiple	Y
Wear Inns	1,406	1,589	Feb-06	Y	Y	0%	100%	Leisure	Acq cap	Earnings multiple	Y
Volumatic	1,423	1,555	Apr-10	N	Y	14%	86%	Manufacturing	MBO	Earnings multiple	Y
Closerstill	1,520	1,520	Mar-11	Y	N	0%	100%	Business Services	SBO	Earnings multiple	Y
Biological Preparations	1,915	1,412	Jun-13	N	Y	0%	100%	Business Services	MBO	Earnings multiple	Y
Graza	1,375	1,375		N	Y	10%	90%	Financial	N/A	Earnings multiple	Y
Customs Connect	1,242	1,242	Aug-16	N	Y	14%	86%	Business Services	Early stage	Cost	Y
Axial Systems	1,293	1,224	Mar-08	N	Y	12%	88%	Technology	MBO	Earnings multiple	Y
Love Saving	1,017	1,121	Sep-15	N	Y	25%	75%	Business Services	Early stage	Earnings multiple	Y
Intelling	958	958	Mar-17	N	N	9%	91%	Technology	Early stage	Cost	Y
Intuitive	1,293	846	Dec-12	N	Y	0%	100%	Technology	MBO	Earnings multiple	Y
Rockar	773	773	Jul-16	Y	Y	72%	28%	Technology	Early stage	Cost	Y
Sorted	761	761	Apr-16	N	Y	80%	20%	Technology	Early stage	Cost	Y
Channel Mum	644	644	Aug-16	N	Y	100%	0%	Consumer	Early stage	Cost	Y
Avid Technology	632	632	Jul-16	Y	Y	9%	91%	Manufacturing	Early stage	Cost	Y
Haystack	1,284	546	Nov-12	N	Y	0%	100%	Leisure	Dev cap	Earnings multiple	Y
Arnlea	1,138	510	May-14	N	Y	0%	100%	Technology	MBO	Cost less provision	Y
Lanner	299	399	Mar-10	N	Y	48%	52%	Technology	MBO	Earnings multiple	Y
Lending Works	628	376	Jun-16	Y	Y	100%	0%	Consumer	Early stage	Cost less provision	Y
Fresh Approach	1,286	208	Jun-14	N	Y	0%	100%	Business Services	MBO	Earnings multiple	Y
Gentronix	397	198	Feb-07	N	Y	0%	100%	Biotech	Early stage	Cost less provision	Y
S&P Coil	24	-	Apr-04	N	Y			Manufacturing	MBO	Cost less provision	Y
AJ Way	226	-	Jun-13	N	Y			Consumer	MBO	Cost less provision	Y
	£30.9m	£35.2m									

Appendix A: NVM team members

- James Arrowsmith has over 20 years' experience of SME finance having worked as investment director for 3i's London and Birmingham offices, and for HSBC as part of their corporate finance team.
- Mauro Biagioni qualified as a chartered accountant with KPMG before joining NVM in 2004 as financial controller, responsible for the financial management of the NVM funds. In 2008, he moved to the investment team and now is the NVM partner responsible for investment activity in the North East and Yorkshire transacting deals and working with portfolio companies.
- Sue Bromham qualified as a chartered accountant with BDO Binder Hamlyn and worked in financial management for The Go-Ahead Group before joining NVM in 2005. She carries out market research and financial analysis projects as well as working with other members of the team on portfolio matters.
- Karl Cockwill joined NVM as portfolio manager from 3i where he worked for eleven years as portfolio manager responsible for investments in the North of England, Scotland and Northern Ireland. He actively managed 29 exits, achieving substantial value uplifts, across a range of notable transactions.
- Alastair Conn qualified as a chartered accountant with Price Waterhouse before co-founding NVM in 1988. He was managing director of NVM until 2008 when he became financial director. He is a non-executive director of Northern 2 VCT and a member of The Association of Investment Companies' VCT Technical Committee.
- Martin Green qualified as a chartered accountant before joining 3i in Birmingham. He became a director responsible for 3i's investment activity across the Midlands before leaving in 2001 to join Montagu Capital as a founding director. He joined NVM in 2004 and became managing director in 2008. He has over 20 years' experience in private equity and is the managing partner and chief investment officer of NVM.
- Peter Hodson started his early career as an engineer working for BMW Group. He started his private equity career at 3i in Birmingham and then London. He is responsible for generating investments for NVM opportunities in London.
- Victoria Howarth joined NVM as an investment associate in 2017 from IBM Global Business Services where she worked for over five years as a senior business and technology consultant, undertaking a wide range of technology consultancy programmes with FTSE 250 clients. She also completed placements in the NHS after gaining a degree in Information Systems from Newcastle University.
- Simon John joined NVM in 2016 as financial controller and is responsible for the accounting and financial reporting of the Northern VCTs. He qualified as a chartered accountant with PricewaterhouseCoopers and was for four years an assistant director in the corporate finance team of the Newcastle office, working on a range of corporate transactions, before spending two years with Sage Group where he was director of investor relations.
- Andy Leach has 29 years of private equity experience, with the last 23 being focused on the North West of England. He was previously CEO of North West Business Finance, which managed the £185m North West Fund, created to support small-to-medium sized businesses across the North West region. Prior to this he was a Director of LDC in Manchester, with prime responsibility for managing LDC's Northern investment portfolio. Andy also established Montagu Capital, a sister company to Montagu Private Equity, set up to invest in UK based businesses in the sub-£50m value range. He first worked in the North West 3i's Manchester Office, spending 10 years as part of the investment team
- Tim Levett co-founded NVM in 1988 and was chief investment officer until 2008. During this period NVM built a mixed portfolio including early stage investments such as DxS and Alaric Systems. After 20 years leading the investment team he became chairman of NVM in 2008, taking responsibility for corporate strategy and investor relations. Since 2015 he has led the VCT investment team's re-focus on early stage investment. He is a non-executive director of Northern Venture Trust and Northern 3 VCT and a member of The Association of Investment Companies' VCT Forum.
- Liam May joined NVM in 2014 from Altium Capital where he worked for two years as a corporate finance associate, with responsibility for advising clients on deal structuring, execution and negotiation strategy. Previously, he spent four years in Ernst & Young's corporate finance department where he qualified as a chartered accountant. He is responsible for making VCT investments in the North of England.
- Chris Mellor qualified as a chartered accountant with Spicer and Pegler. He was a co-founder of NVM in 1988, becoming a director in 1996 and is company secretary of the Northern VCTs and Northern Investors Company. He is also responsible for compliance, legal services, information technology systems, London Stock Exchange liaison and personnel.
- Charlie Pidgeon qualified as a chartered accountant with PricewaterhouseCoopers, where he was involved in M&A advisory work across a variety of business sectors. He joined NVM in 2012, based in the Reading office, and works with the investment team on new business generation and portfolio issues. He is responsible for making VCT investments in the Southern region.
- David Rolfe joined NVM in May 2012 and is responsible for generating investments in the South. Prior to NVM, David was a Director in Corporate Finance at PwC leading deal activity in the South East. During David's 15 years with PwC, exclusively in the South, he has advised both local private businesses and private equity houses on mid-market M&A transactions.
- Jason Warren joined NVM in 2017 as an investment associate. He studied Mathematics and Computer Science at the University of Oxford, where he obtained a Masters degree. He became a software engineer with Morgan Stanley, before joining a systematic hedge fund as a quantitative developer, where he was responsible for the trade generation systems and working with the research team on automated trading algorithms.
- Charles Winward joined NVM in 2016, having over 12 years' experience in venture investing having been a director of IP Group, where he ran the fund management subsidiary. Whilst at IP Group, he was intensively involved from the earliest stages as investor and director with a number of companies that scaled up successfully, including Tracsis, Xeros Technology and Retroscreen. Charles holds an engineering degree as well as an MBA from the University of California at Berkeley, and is also a CFA Charterholder.