

news//views January 2020

# newsletter

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# Welcome.



Dear Northern VCT shareholders,

This year I am writing to you at a time of great change in the UK and a great change in NVM as well. On 3 December it was announced that Mercia Asset Management had agreed to take over the management of the Northern VCTs from NVM, which has managed all three funds since inception. Of course this is a major change but can I reassure that in another sense it isn't. The whole NVM VCT investment team, led by Charlie Winward, is joining Mercia, and I will move over to continue supporting the team in the same way as I have done for the last three years. The investment policy remains the same and we are determined to build a diversified portfolio which will deliver good returns. We have also entered into a comprehensive support agreement under the terms of which NVM will continue to manage many aspects of the day-to-day operations of the Northern VCTs for at least 21 months and will support Mercia with the management of most of the legacy MBO investments until exit.

You may be wondering already why NVM, with a long track record of independence and delivering returns, would want to do this. The answers lie in changing market dynamics, deal flow and the restrictive nature of the VCT rules. But first, who are Mercia?

Mercia Asset Management PLC is an AIM listed investment company with a net asset value of £128 million (at 30 September 2019) focused on making venture investments regionally (particularly in the Midlands and North of England) and with total assets under management of £500 million, before the acquisition.

As the total value of the Northern VCTs is £270 million this is transformational for Mercia. It will make it possible to fund fast growing regional businesses from start-up through scale-up capital from the VCTs, to institutional funding and then sale or flotation. Back to why we believe that this change will benefit shareholders.

Venture investment is growing faster in the UK than in any other EU country and it is already clear that alongside VCT and EIS investment, direct government investment through the British Business Bank, is playing a bigger part. Having the Northern VCTs managed by a fund manager with good relationships with both the British Business Bank and other institutions to co-invest alongside the VCTs, will increase the scope for providing financial support to the Northern VCT portfolio.

Deal flow is the life blood of venture funds. NVM has been generating around 400 scale-up opportunities per year and completing eight new deals per year. Mercia (who are focused on earlier stage and smaller deals), are seeing around 2000 opportunities and completing between 40 and 50 deals per year, and have a portfolio of just under 200 companies. Although many of these companies may never be suitable for VCT investment, they have a track record of nurturing some gems. Most recently they realised their investment in Blue Prism, a North-West based software company, which they backed as a start-up in 2004, floated in 2016, and now has a value of £790 million. Mercia realised the investment, returning 95 times the cost.

The potential opportunities we will have to invest in their venture portfolio is in addition to the Northern VCT investment team continuing to source external scale-up opportunities.

Apologies for harping back to the 2015 rule changes, but it is this that led to the change in investment policy and there being a portfolio of 30 high growth companies in which £100 million has been invested. This in itself is fine, but the 2015 EU exclusions now preclude any investment to fund acquisitions or make management changes. This may seem a bit technical but it is restricting the ability of the Northern VCTs to provide the range of funding needed to let companies change management, acquire and consolidate to drive growth. Being part of Mercia will provide the opportunity for the Northern VCTs to co-invest with the PLC and overcome this. We are looking forward to this happening enormously.

In October 2019 the Northern VCTs announced that they intended to launch a prospectus issue to raise £40 million, (£13.3million per fund) and, subject to shareholder approval, this is expected to open on or around 13 January 2020. Existing shareholders will benefit from a 0.5% loyalty discount to the Offer charges.

I am also pleased to confirm that the terms of the investment management agreements (including the management fees payable to Mercia going forward) have not changed as a result of the transfer, and in fact there are some improvements for shareholders negotiated by the VCT boards - including the fact that the time limited arrangement under which NVM has agreed to a 1% fee on liquidity in excess of £20 million, has now been made a permanent change to the management agreements.

This brings me now to introducing new people. Passing on the management of the business that you have grown practically from scratch is a testing moment and when it comes down to deciding whether it is right or wrong to move on, culture is at the heart of it. In working with the team at Mercia, I have become confident that the VCT team we have recruited and grown will flourish within Mercia. While I will still be involved for some time to come, it will be Charlie Winward and the Mercia senior team who will take this forward in the longer term and I would like to introduce the two people who will be important to you in the future.

Mark Payton is the CEO and founded Mercia in 2010. Originally an Oxford scientist, he has evolved through technology transfer into being a leading technology investor and it is his vision and drive that has got Mercia to where it is.

Julian Viggars is the CIO and the person with whom Charlie Winward and I will work most closely. He has a long and successful venture investment track record and has crossed paths with Charlie often in the past.

I look forward to seeing many of you at the VCT seminar on 20 March and introducing Mark and Julian in person.

**Tim Levett**  
Chairman, NVM Private Equity

# Your New Manager.



Dear Northern VCT shareholder,

I am delighted to be writing to welcome you to Mercia, your new Northern VCTs' fund manager. Mercia is a regionally-based and regionally-focused fund management operation providing capital and support to enable promising companies and management teams to grow their businesses without having to depend on London-based investors to fund them.

It made perfect sense for us to want to acquire the Northern VCTs' fund management contracts, because venture investing is in Mercia's DNA. Since our buyout in 2010, followed by an IPO on AIM in 2014, we have continued to scale to become a leading UK-only regional investor. The Northern VCTs mirror our ambitions and our unique capabilities in venture investing, "to see the best deals, to buy well and to exit well."

We have a determined focus on the UK regions and nearly 96% of our investments are outside of London. From humble beginnings of one office in Birmingham, with not quite £23 million in third-party Funds under Management (FuM), to today, together with the three Northern VCT contracts, Mercia is a group that benefits from c.£0.8 billion in Assets under Management (AuM) (comprising c.£630 million FuM and a net asset value of cash on hand and balance sheet investments of over c.£130 million).

Our deeply embedded local relationships and regional footprint, consisting of eight offices and 19 university partnerships, have created an extensive and extremely valuable network that underpins our Complete Connected Capital Solution. Through a series of complementary funds, we are able to support young regional businesses through growth, to profitability and most importantly to exit.

The integration of the full NVM venture team will boost Mercia to 100 employees, comprising 60 in our capital deployment team. Combined with a sophisticated system of deal origination and tracking, and our strong network, we believe Mercia sees most of the UK deals, and therefore sees the best deals. Charlie Winward's long-term record of investment at IP Group and NVM speaks for itself and the portfolio that has been put together in the Northern VCTs is already starting to show promise. Tim Levett's energy and experience stands him head and shoulders above his peer group. I will be working closely with both Charlie and Tim to continue to grow the VCT business. We feel that the ambitious NVM venture team, coming across to Mercia, shares our culture our values and we are excited at the prospect of working with them.

With decades of investment experience, in-house training and shared learning through the Mercia Academy, augmented by our sector expertise and operational capabilities, we believe we also do the best deals. This is further supported by Mercia's central Platform, which offers both our investment teams and portfolio businesses the opportunity to access value-added services, that include research, in-house executive search, legal support and corporate advisory capabilities, to manage complex investments and build syndication. Through this competency alone, we have leveraged over £1.0 billion syndicated investment into our portfolios from over 90 co-investors.

However, ultimately, it is about delivering returns against clients' expectations. Our oldest venture fund was fully unwound this year and has returned c.5.3 times, investor capital, proving to be one of the best performing European venture funds on cash multiple returned. Our track record has also benefitted from a large number of trade sales and IPOs; including Blue Prism (c. 95x), Allinea (c.26x) and OptiBiotix (c.15x), which collectively speaks to our ability to "exit well" too.

Going forward, there is no doubt in my mind that Mercia, complemented by the expertise and indefatigable capacity for growth offered by Tim, Charlie and the VCT team, will continue to develop our capabilities to ensure that we continue to deliver returns to our clients, which we look forward to sharing with you.

I look forward to meeting many of you at the Northern VCT seminar on 20 March.

**Dr Mark Payton**

Chief Executive Officer at Mercia Asset Management



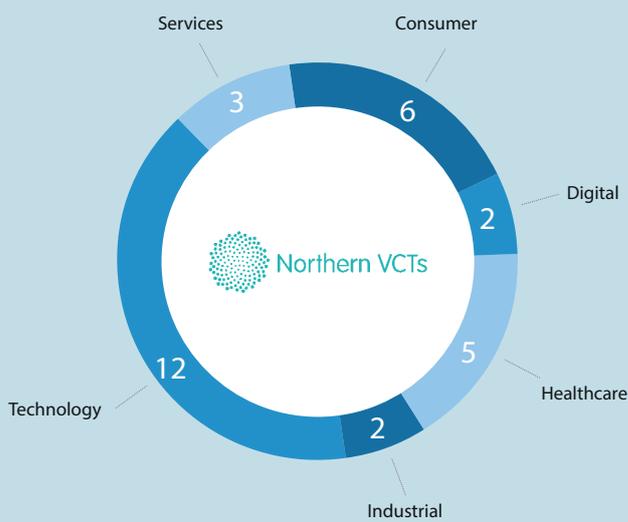
# Venture Portfolio.

## Companies

30



## Sectors



## Locations

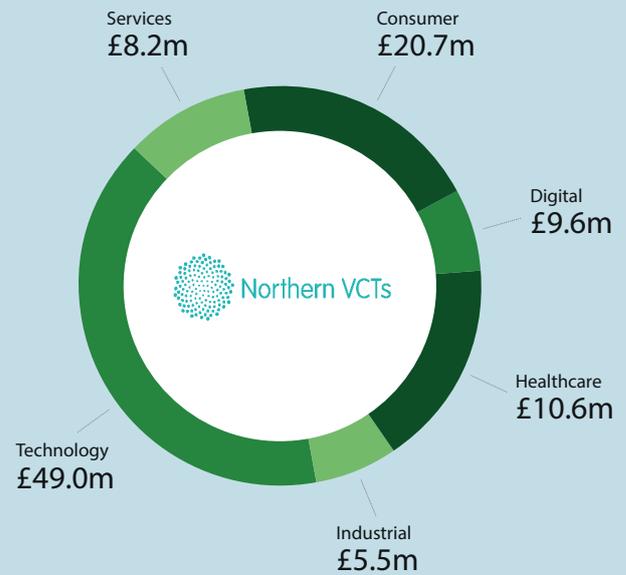


## Value



£103.6m

## Sectors by value



## Employees

1,407



 = 100 employees

# New Investments.



Sheffield-based provider of private tutors in which the Northern VCTs have invested £3.2 million.



### The Team

Mark Hughes leads a team of 30 people with experience of being able to build a reliable database of tutors in a short period of time.

### The Growth Plan

To further develop the suite of tools and curriculum-aligned content that helps tutors deliver quality lessons.



Birmingham-based leading video feedback and analytics company in which the Northern VCTs have invested £2.7 million.



### The Team

Dave Carruthers leads a team of 63 providing market research and customer experience software to enterprise customers globally.

### The Growth Plan

The company intends to use the capital to meet the growing enterprise demand for real-time video feedback and to fund further investment in the platform.



**DUKE + DEXTER**

London-based award-winning footwear label in which the Northern VCTs have committed £2.0 million.



### The Team

Archie Hewlett leads a team of 7 with a track record of developing a recognisable brand with a clear appeal to the younger consumer.

### The Growth Plan

To build the team and continue disrupting the mens' footwear market and build its global community of fans.



**Quotevine**

London-based SaaS provider in which the Northern VCTs have invested £2.2 million.



### The Team

Daniel Layne leads a team of 10 delivering software to small and medium sized companies.

### The Growth Plan

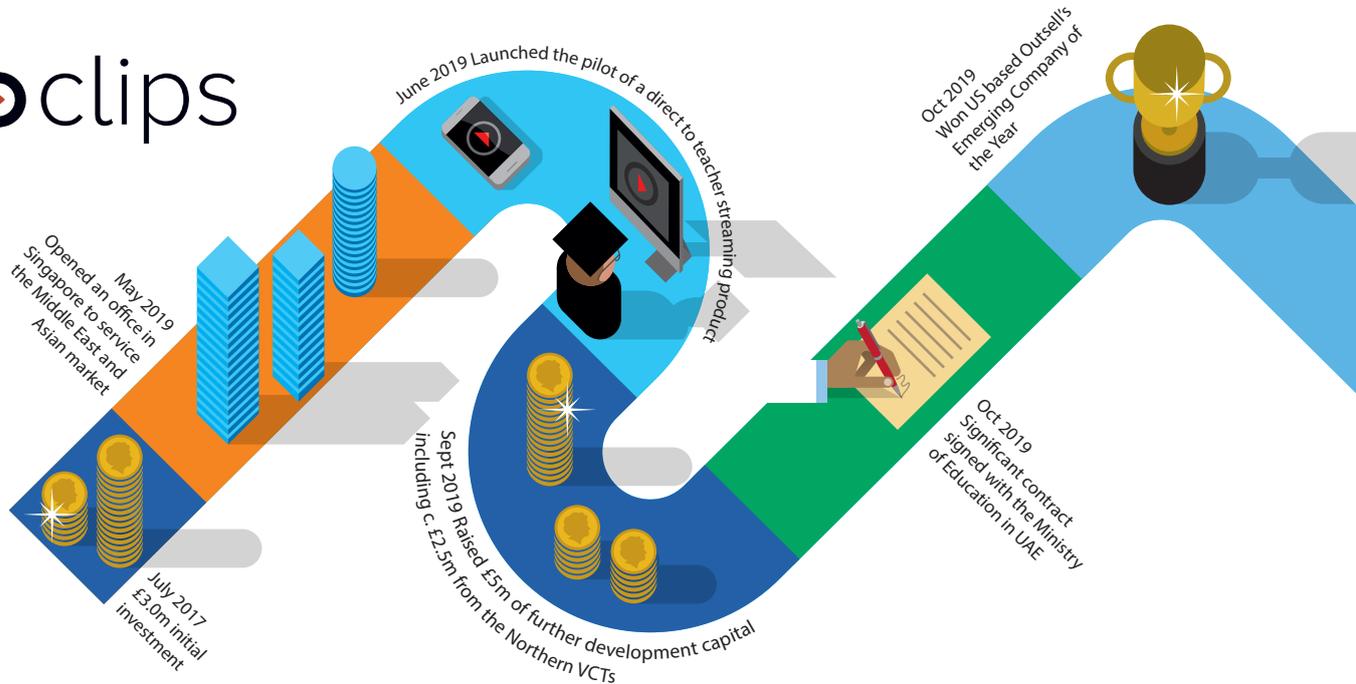
To invest in growing its workforce so that it can fuel revenue growth alongside further development of its suite of products to meet client demands.

# Portfolio Journeys.

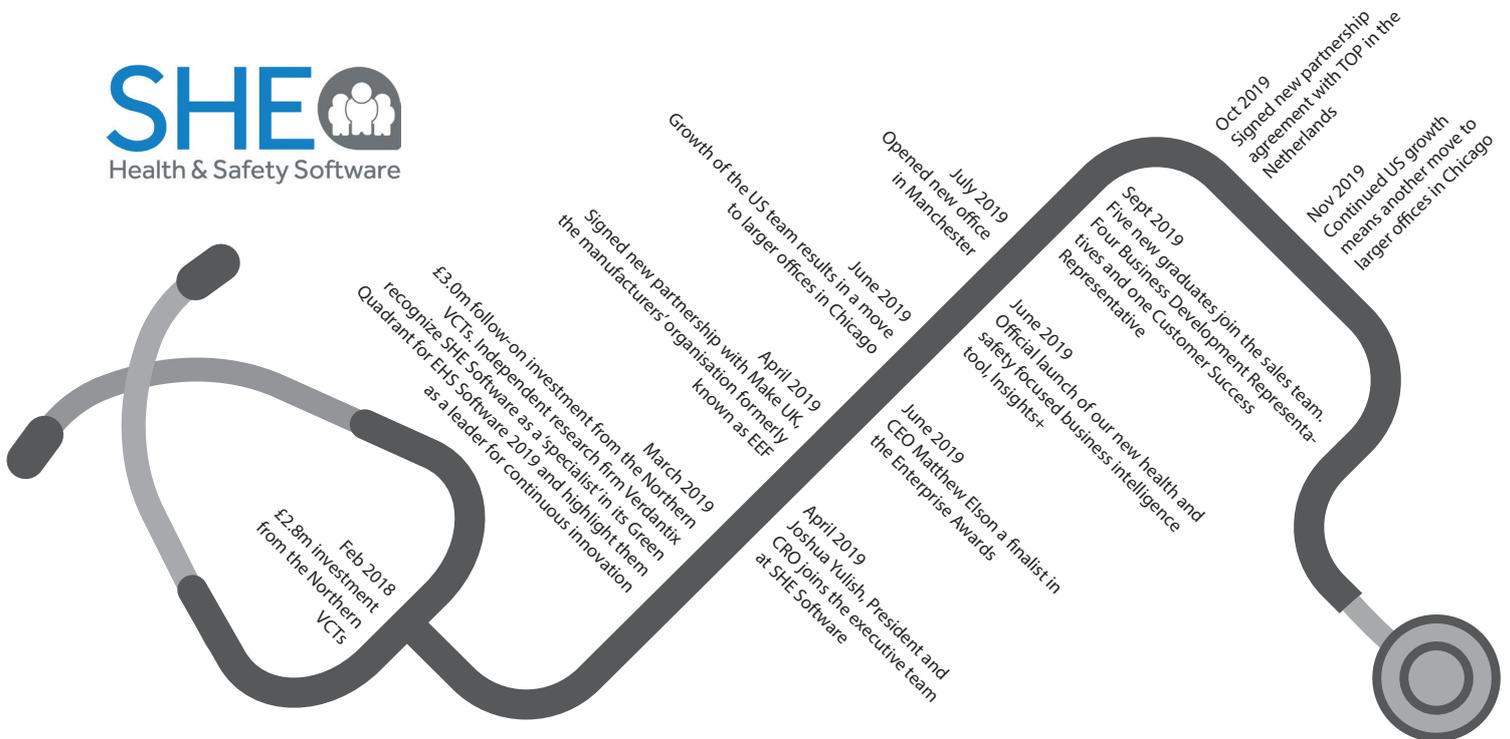
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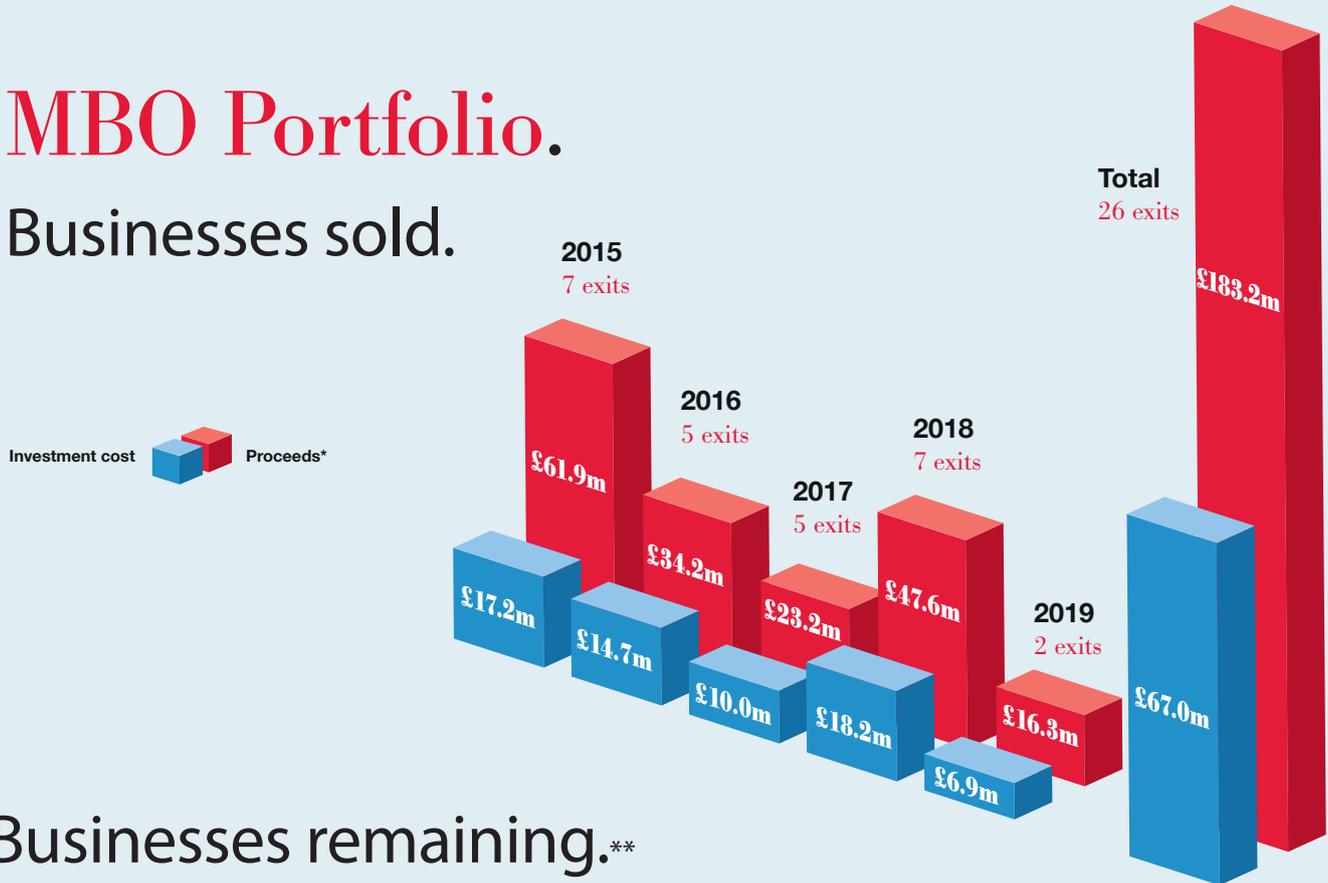


## SHE Health & Safety Software



# MBO Portfolio.

## Businesses sold.



## Businesses remaining.\*\*

Companies

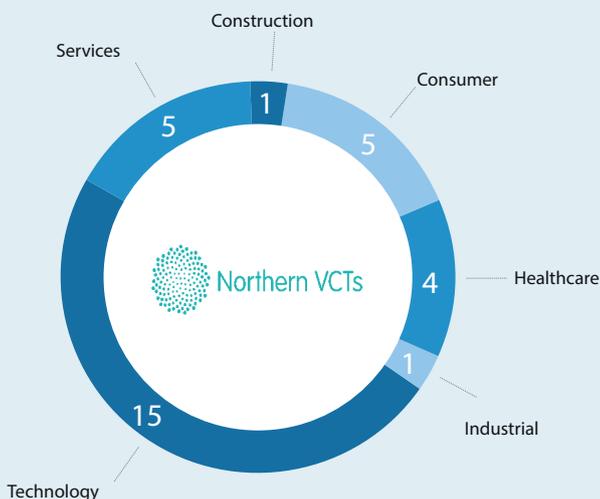
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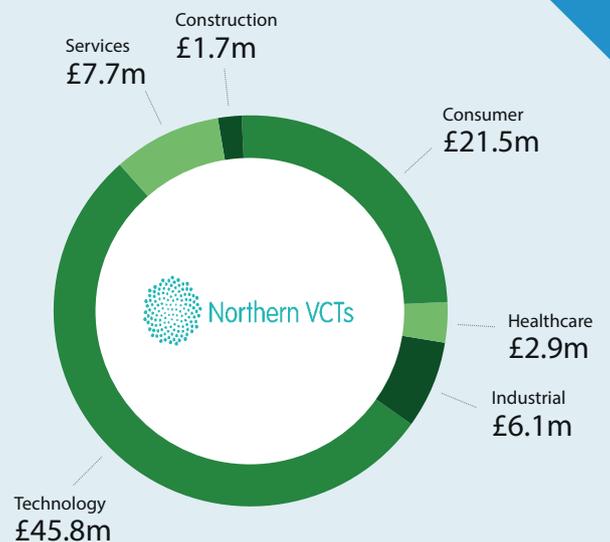
Value



Sectors



Sectors by value



Information and valuations as at 30 September 2019.

\* Total capital and income returns over the investment lifetime for investments exited in each calendar year

\*\* Includes unquoted investments and investments quoted on AIM

# Share Offers.

The Share Offers to be launched on or around 13 January 2020 will seek to raise up to £13.3 million for each of the Northern VCTs, a total fund-raising of up to £40 million. The proceeds will be utilised not only to add new holdings to the growth company portfolio, but also, crucially to provide the necessary rounds of follow-on investment for the fast growing existing companies in the portfolio.

The Offers will open on or around 13 January 2020 and it is expected that new shares will be allotted between 1 April 2020 and 5 April 2020.

Further details of the Offers will be contained in the Offer Document and Prospectus which it is expected will be published in early January 2020.

In recognition of the loyal shareholder following which the Northern VCTs enjoy, existing shareholders on the register of any of the Northern VCTs at 6 December 2019, whose applications for shares in the Company are accepted, will benefit from a reduction of 0.5% in the offer charges compared to the charges for new shareholders.

