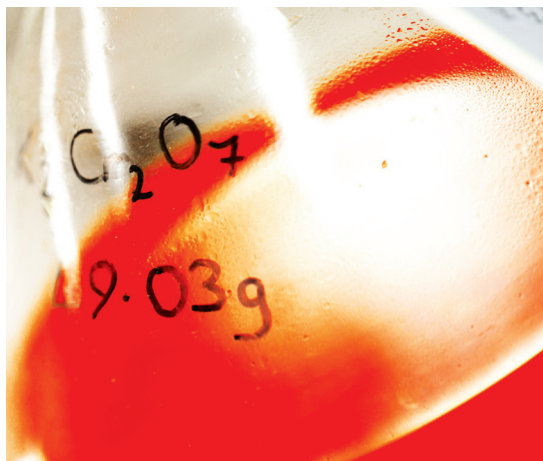


Northern 3 VCT PLC

Half-yearly financial report
30 September 2020



Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by Mercia Fund Management.

It invests mainly in unquoted venture capital holdings and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

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Financial summary

	Six months ended 30 September 2020	Six months ended 30 September 2019	Year ended 31 March 2020
Net assets	£103.3m	£86.6m	£72.5m
Net asset value per share	93.6p	92.1p	78.1p
Return per share			
Revenue	0.6p	0.3p	0.3p
Capital	17.9p	(0.1)p	(12.1)p
Total	18.5p	0.2p	(11.8)p
Dividend declared in respect of the period	2.0p	2.0p	4.0p
Cumulative return to shareholders since launch			
Net asset value per share	93.6p	92.1p	78.1p
Dividends paid per share*	97.4p	93.4p	95.4p
Net asset value plus dividends paid per share	191.0p	185.5p	173.5p
Mid-market share price at end of period	75.5p	86.5p	70.0p
Share price discount to net asset value	19.3%	6.1%	10.4%
Tax-free dividend yield (based on the net asset value per share)**	4.3%	4.2%	4.2%

*Excluding interim dividend not yet paid

**The annualised dividend yield is calculated by dividing the dividends in respect of the 12 month period ended on each reference date by the net asset value per share at the start of the period.

Key dates

Half-yearly results announced

1 December 2020

Shares quoted ex dividend

7 January 2021

Interim dividend paid (to shareholders on register on 8 January 2021)

29 January 2021

Half-yearly management report

for the six months ended 30 September 2020

Many businesses are facing significant challenges, but we remain generally optimistic about the prospects for the companies in our portfolio.

The period under review has been dominated by the coronavirus (COVID-19) pandemic. The management teams of the companies in our portfolio have demonstrated resilience in their response to the evolving situation and our investment manager continues to work closely with them to provide support. A successful public share offer raising gross proceeds of £13 million was allotted during the period and means that we are well placed to continue to provide additional financing if we consider that it is sensible.

Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2020 was 93.6 pence (31 March 2020 (audited) 78.1 pence). The September figure is stated after deducting the final dividend totalling 2.0 pence per share in respect of the year ended 31 March 2020, which was paid on 4 September 2020 and therefore recognised in the current half-yearly accounts.

The return per share for the half year as shown in the income statement, before deducting the dividend, was 18.5 pence, compared with a return of 0.2 pence in the six month period ended 30 September 2019. The total return for the period was primarily caused by an increase in the directors' valuations of unquoted investments, reflecting significant progress in the performance of some portfolio companies.

The directors have declared an unchanged interim dividend of 2.0 pence per share for the year ending 31 March 2021, which will be paid on 29 January 2021 to shareholders on the register at the close of business on 8 January 2021.

Venture capital investment activity

The primary focus over the last six months has been to support existing investments and preserve value for shareholders, however, further progress was made on the development of the portfolio with one new investment completed: £0.7 million was invested in Enate, a human and digital workforce management software solution. Following a significant volume of fund-raising activity across the sector in recent years, there is currently a significant level of funding available for venture capital and private equity investing. This inevitably increases competition for attractive investment opportunities; however, our manager continues to apply high standards in its appraisal of potential investment opportunities.

We continue to allocate a significant proportion of our investment activity to providing additional growth capital to our existing portfolio companies. A total of £1.8 million was invested in six existing portfolio businesses during the period to support their continued development.

It was a relatively quiet period for investment realisations, however the investment in AIM listed **Cello Health plc** was sold in full following an agreed takeover bid. The proceeds generated for the company of £0.9 million represent a multiple of over 2.5x the original cost of the investment. Positive underlying trading trends were observed in a number of portfolio companies including **Agilitas IT Holdings** which was sold subsequent to the balance sheet date generating a return of eight times the original cost of the investment over its lifetime. The valuation as at 30 September 2020 reflects the sale proceeds received.

Venture capital portfolio update

Following the first reports of COVID-19 in the prior financial year, the initial effects in the UK principally impacted businesses with complex supply chains or overseas customers in certain territories. As the spread of the virus led to a global pandemic, the effect on the economy has become much more pronounced and measures taken to tackle COVID-19 have had a material impact on almost every business in the UK.

The short-term impact on individual portfolio companies varies significantly depending on the sector in which they operate and the ability of their employees to work effectively from home. Your company benefits from holding a diversified portfolio of investments and the areas of the economy which continue to be the most affected, namely travel, leisure and hospitality, represent less than 10% by cost of the venture capital portfolio. Technology and software sub-sectors have been more resilient during 2020 and investments in these areas represent around 40% by cost of the venture capital portfolio. We are also invested in a number of businesses which employ a purely e-commerce business model. Trading in several of these holdings has been extremely strong both during the initial lockdown and subsequently, leading to the relevant valuations being marked up accordingly as at 30 September 2020.

Share offers and liquidity

As a result of the share offer launched in January 2020, gross proceeds of £13 million were received and new shares were allotted during the period. Having considered the current level of liquid resources available to the company, including those received after the period end from the sale of **Agilitas IT Holdings**, the board does not intend to raise further funds in the current tax year. The company's dividend investment scheme remains open, enabling shareholders to invest some or all of their dividends in new shares attracting income tax relief.

Share buy-backs

We have maintained our policy of buying back our shares in the market, where necessary to maintain market liquidity, at a discount of 5% to NAV. During the period 487,973 shares, were purchased for cancellation at a total cost of £367,000.

VCT qualifying status and legislation

Amendments to the VCT scheme rules announced in 2017 are still being implemented on a phased basis and as previously reported, from 1 April 2020 your company has been required to hold at least 80% of its relevant investments in VCT qualifying assets (previously 70%). The company has continued to comply with the conditions laid down by HM Revenue & Customs for the maintenance of approved venture capital trust status. Our manager monitors the position closely and the board also receives regular reports from our specialist taxation advisers.

Independent auditor

The audit committee regularly reviews the requirements and deadlines for mandatory audit tendering and rotation; under current regulations the last period for which KPMG LLP would be permitted to act as auditor of the company would be the year ending 31 March 2023. In the interest of good governance, the audit committee conducted a tender process in November 2020. Having considered the results of the tender, the board approved the audit committee's recommendation that Mazars LLP, an international firm of chartered accountants, be appointed as independent auditor of the company for the year ending 31 March 2021.

Prospects

COVID-19 has caused a great deal of volatility in financial markets and whilst most quoted indices have staged a significant recovery since the lows experienced in March 2020, it is difficult to predict the future trajectory of the economic recovery. Many businesses are facing significant challenges, but we remain generally optimistic about the prospects for the companies in our portfolio.

On behalf of the Board

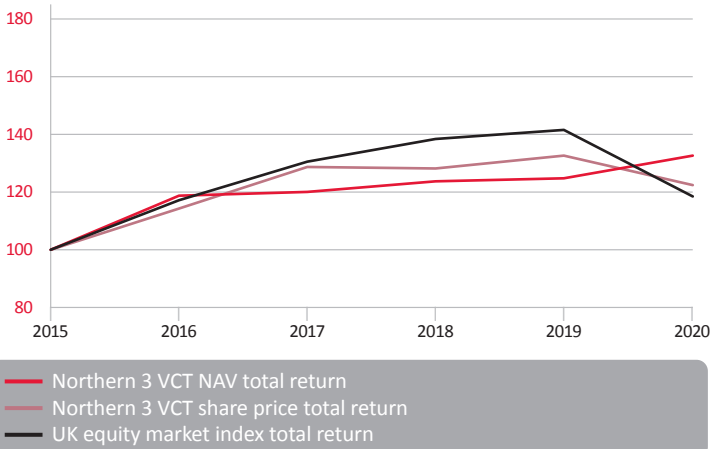
James Ferguson
Chairman

1 December 2020

Five year performance

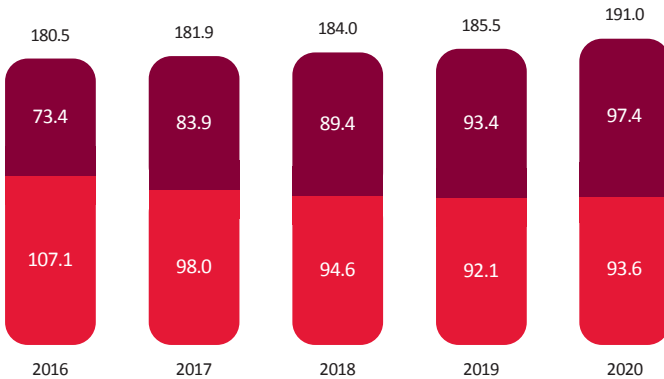
Comparative return to shareholders (assuming dividends re-invested)

Five years to 30 September 2020 (30 September 2015 = 100)



Net asset value and cumulative dividends per share

As at 30 September (pence per share)



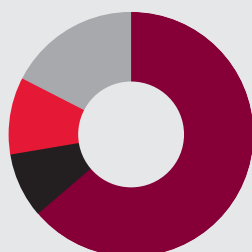
● Cumulative dividends paid since launch
● Net asset value per share

Investment portfolio

as at 30 September 2020

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
Agilitas IT Holdings	822	10,507	10.2
Entertainment Magpie Group	1,360	8,795	8.5
Lineup Systems	974	5,095	4.9
Currentbody.com	1,843	4,191	4.1
SHE Software Group	2,168	2,829	2.7
Sorted Holdings	2,542	2,757	2.7
It's All Good	1,131	2,366	2.3
Clarilis	1,772	2,305	2.2
Ideagen*	406	2,162	2.1
Intelling Group	1,118	2,020	2.0
Volumatic Holdings	733	2,005	1.9
Idox*	530	1,989	1.9
Biological Preparations Group	1,915	1,787	1.7
Knowledgemotion	1,740	1,515	1.5
GRIP-UK t.a. The Climbing Hangar	1,904	1,505	1.5
Fifteen largest venture capital investments	20,958	51,828	50.2
Other venture capital investments	36,227	23,807	23.0
Total venture capital investments	57,185	75,635	73.2
Listed equity investments	10,301	10,054	9.7
Total fixed asset investments	67,486	85,689	82.9
Net current assets		17,643	17.1
Net assets		103,332	100.0

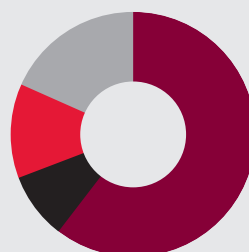
*Quoted on AIM



30 September 2020

Asset allocation

66.2%	● Venture capital – unquoted	60.1%
7.3%	● Venture capital – quoted	9.5%
9.8%	● Listed equity	12.7%
16.7%	● Cash and short-term deposits	17.7%



30 September 2019

Income statement

(unaudited) for the six months ended 30 September 2020

	Six months ended 30 September 2020		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	466	466
Movements in fair value of investments	–	19,903	19,903
	–	20,369	20,369
Income	1,014	–	1,014
Investment management fee	(206)	(617)	(823)
Other expenses	(168)	–	(168)
Return on ordinary activities before tax	640	19,752	20,392
Tax on return on ordinary activities	–	–	–
Return on ordinary activities after tax	640	19,752	20,392
Return per share	0.6p	17.9p	18.5p

- The total column of the income statement is the statement of total comprehensive income of the company prepared in accordance with FRS 102 *“The Financial Reporting Standard applicable in the UK and Republic of Ireland”*. The supplemental revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice *“Financial Statements of Investment Trust Companies and Venture Capital Trusts”* issued in October 2019 by the Association of Investment Companies (*“AIC SORP”*).
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the income statement derive from continuing operations.
- The accompanying notes are an integral part of this statement.

Six months ended 30 September 2019			Year ended 31 March 2020		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	45	45	–	(168)	(168)
–	448	448	–	(9,943)	(9,943)
–	493	493	–	(10,111)	(10,111)
680	–	680	1,126	–	1,126
(208)	(623)	(831)	(435)	(1,304)	(1,739)
(195)	–	(195)	(363)	–	(363)
277	(130)	147	328	(11,415)	(11,087)
–	–	–	–	–	–
277	(130)	147	328	(11,415)	(11,087)
0.3p	(0.1)p	0.2p	0.3p	(12.1)p	(11.8)p

Balance sheet

(unaudited) as at 30 September 2020

	30 September 2020 £000	30 September 2019 £000	31 March 2020 £000
Fixed assets			
Investments	85,689	70,730	63,776
Current assets			
Debtors	583	1,067	28
Cash and cash equivalents	17,158	15,177	8,876
	17,741	16,244	8,904
Creditors (amounts falling due within one year)	(98)	(330)	(137)
Net current assets	17,643	15,914	8,767
Net assets	103,332	86,644	72,543
Capital and reserves			
Called-up equity share capital	5,522	4,705	4,647
Share premium	19,500	7,198	7,428
Capital redemption reserve	457	360	432
Capital reserve	58,106	64,931	60,786
Revaluation reserve	18,204	8,224	(1,653)
Revenue reserve	1,543	1,226	903
Total equity shareholders' funds	103,332	86,644	72,543
Net asset value per share	93.6p	92.1p	78.1p

Statement of changes in equity

(unaudited) for the six months ended 30 September 2020

	Non-distributable reserves				Distributable reserves		Total £000
	Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve* £000	Capital reserve £000	Revenue reserve £000	
At 1 April 2020	4,647	7,428	432	(1,653)	60,786	903	72,543
Return on ordinary activities after tax	–	–	–	19,857	(105)	640	20,392
Dividends paid	–	–	–	–	(2,208)	–	(2,208)
Net proceeds of share issues	900	12,072	–	–	–	–	12,972
Shares purchased for cancellation	(25)	–	25	–	(367)	–	(367)
At 30 September 2020	5,522	19,500	457	18,204	58,106	1,543	103,332
Six months ended 30 September 2019							
At 1 April 2019	4,393	840	299	9,166	65,665	2,368	82,731
Return on ordinary activities after tax	–	–	–	(942)	812	277	147
Dividends paid	–	–	–	–	(473)	(1,419)	(1,892)
Net proceeds of share issues	373	6,358	–	–	–	–	6,731
Shares purchased for cancellation	(61)	–	61	–	(1,073)	–	(1,073)
At 30 September 2019	4,705	7,198	360	8,224	64,931	1,226	86,644
Year ended 31 March 2020							
At 1 April 2019	4,393	840	299	9,166	65,665	2,368	82,731
Return on ordinary activities after tax	–	–	–	(10,819)	(596)	328	(11,087)
Dividends paid	–	–	–	–	(1,967)	(1,793)	(3,760)
Net proceeds of share issues	387	6,588	–	–	–	–	6,975
Shares purchased for cancellation	(133)	–	133	–	(2,316)	–	(2,316)
At 31 March 2020	4,647	7,428	432	(1,653)	60,786	903	72,543

*The revaluation reserve is generally non-distributable other than that part of the reserve relating to gains/losses on readily realisable quoted investments, which is distributable.

Statement of cash flows

(unaudited) for the six months ended 30 September 2020

	Six months ended 30 September 2020 £000	Six months ended 30 September 2019 £000	Year ended 31 March 2020 £000
Cash flows from operating activities			
Return on ordinary activities before tax	20,392	147	(11,087)
Adjustments for:			
Gain on disposal of investments	(466)	(45)	168
Movements in fair value of investments	(19,903)	(448)	9,943
(Increase)/decrease in debtors	(556)	(856)	183
(Decrease)/increase in creditors	(38)	126	(65)
Net cash outflow from operating activities	(571)	(1,076)	(858)
Cash flows from investing activities			
Purchase of investments	(3,431)	(6,789)	(12,772)
Sale/repayment of investments	1,886	6,363	8,696
Net cash outflow from investing activities	(1,545)	(426)	(4,076)
Cash flows from financing activities			
Issue of ordinary shares	13,300	6,852	7,109
Share issue expenses	(327)	(120)	(135)
Share subscriptions held pending allotment	–	(6,493)	(6,493)
Purchase of ordinary shares for cancellation	(367)	(1,073)	(2,316)
Equity dividends paid	(2,208)	(1,892)	(3,760)
Net cash inflow/(outflow) from financing activities	10,398	(2,726)	(5,595)
Net increase/(decrease) in cash and cash equivalents	8,282	(4,228)	(10,529)
Cash and cash equivalents at beginning of period	8,876	19,405	19,405
Cash and cash equivalents at end of period	17,158	15,177	8,876

Notes to the financial statements

(unaudited) for the six months ended 30 September 2020

- 1 The financial statements have been prepared under FRS 102 *“The Financial Reporting Standard applicable in the UK and Republic of Ireland”* and in accordance with the Statement of Recommended Practice *“Financial Statements of Investment Trust Companies and Venture Capital Trusts”*, issued in October 2019 by the Association of Investment Companies (*“AIC SORP”*).
- 2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2020 and on 110,279,045 (2019: 94,579,721) ordinary shares, being the weighted average number of shares in issue during the period.
- 3 The calculation of net asset value per share is based on the net assets at 30 September 2020 divided by the 110,445,090 (2019: 94,101,352) ordinary shares in issue at that date.
- 4 The interim dividend of 2.0 pence per share for the year ending 31 March 2021 will be paid on 29 January 2021 to shareholders on the register at the close of business on 8 January 2021.
- 5 The unaudited half-yearly financial statements for the six months ended 30 September 2020 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been reviewed or audited by the company’s independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 31 March 2020 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditor’s report on those financial statements (i) was unqualified, (ii) did not include any reference to matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 31 March 2020.
- 6 Each of the directors confirms that to the best of their knowledge the half-yearly financial statements have been prepared in accordance with the Statement *“Half-yearly financial reports”* issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.
- 7 Copies of this half-yearly report have been mailed to shareholders and are available to the public at the company’s registered office, and on the company’s website.

Risk management

The board carries out a regular and robust assessment of the risk environment in which the company operates and seeks to identify new risks as they emerge. The principal risks and uncertainties identified by the board which might affect the company's business model and future performance, and the steps taken with a view to their mitigation, are as follows:

Investment and liquidity risk: investment in smaller and unquoted companies, such as those in which the company invests, involves a higher degree of risk than investment in larger listed companies because they generally have limited product lines, markets and financial resources and may be more dependent on key individuals. The securities of smaller companies in which the company invests are typically unlisted, making them illiquid, and this may cause difficulties in valuing and disposing of the securities. The company may invest in businesses whose shares are quoted on AIM – the fact that a share is quoted on AIM does not mean that it can be readily traded and the spread between the buying and selling prices of such shares may be wide. **Mitigation:** the directors aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring and timely realisation of investments, by carrying out rigorous due diligence procedures and maintaining a wide spread of holdings in terms of financing stage and industry sector, within the rules of the VCT scheme. The board reviews the investment portfolio with the manager on a regular basis.

Financial risk: most of the company's investments involve a medium to long-term commitment and many are relatively illiquid. **Mitigation:** the directors consider that it is inappropriate to finance the company's activities through borrowing except on an occasional short-term basis. Accordingly they seek to maintain a proportion of the company's assets in cash or cash equivalents in order to be in a position to pursue new unquoted investment opportunities and to make follow-on investments in existing portfolio companies. The company has very little direct exposure to foreign currency risk and does not enter into derivative transactions.

Economic risk: events such as economic recession or general fluctuation in stock markets, exchange rates and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value. The level of economic risk has been elevated by the COVID-19 pandemic which has caused a global recession during 2020. **Mitigation:** the company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies where it is appropriate and in the interests of the company to do so. The manager typically provides an investment executive to actively support the board of each unquoted investee company. At all times, and particularly during periods of heightened economic uncertainty, the investment executives share best practice from across the portfolio with investee management teams in order to mitigate economic risk.

Brexit risk: the implementation of the decision for the UK to withdraw from the European Union (EU) is a process which involves significant uncertainty. The impact on the future business environment in the UK is therefore difficult to predict. **Mitigation:** whilst we do not expect that Brexit will have a significant impact on the operations of Northern 3 VCT itself, the board and the manager follow Brexit developments closely with a view to identifying changes which might affect the company's investment portfolio. The manager works closely with investee companies in order to plan for a range of possible outcomes.

Stock market risk: some of the company's investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity or global health crises, such as the COVID-19 pandemic, can negatively impact stock markets worldwide. In times of adverse sentiment there may be very little, if any, market demand for shares in smaller companies quoted on AIM. **Mitigation:** the company's quoted investments are actively managed by specialist managers, including Mercia in the case of the AIM-quoted investments, and the board keeps the portfolio and the actions taken under ongoing review.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. **Mitigation:** the directors review the creditworthiness of the counterparties to these instruments and cash deposits and seek to ensure there is no undue concentration of credit risk with any one party.

Legislative and regulatory risk: in order to maintain its approval as a VCT, the company is required to comply with current VCT legislation in the UK, which reflects the European Commission's State-aid rules. Changes to the UK legislation or the State-aid rules in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval. **Mitigation:** the board and the investment manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies.

Internal control risk: the company's assets could be at risk in the absence of an appropriate internal control regime which is able to operate effectively even during times of disruption, such as that caused by COVID-19. **Mitigation:** the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the investment manager. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

VCT qualifying status risk: while it is the intention of the directors that the company will be managed so as to continue to qualify as a VCT, there can be no guarantee that this status will be maintained. A failure to continue meeting the qualifying requirements could result in the loss of VCT tax relief, the company losing its exemption from corporation tax on capital gains, to shareholders being liable to pay income tax on dividends received from the company and, in certain circumstances, to shareholders being required to repay the initial income tax relief on their investment. **Mitigation:** the investment manager keeps the company's VCT qualifying status under continual review and its reports are reviewed by the board on a quarterly basis. The board has also retained Philip Hare & Associates LLP to undertake an independent VCT status monitoring role.

Company information

Directors

James Ferguson (Chairman)
Chris Fleetwood
Tim Levett
John Waddell
Anna Brown

Secretary

James Bryce LLB

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