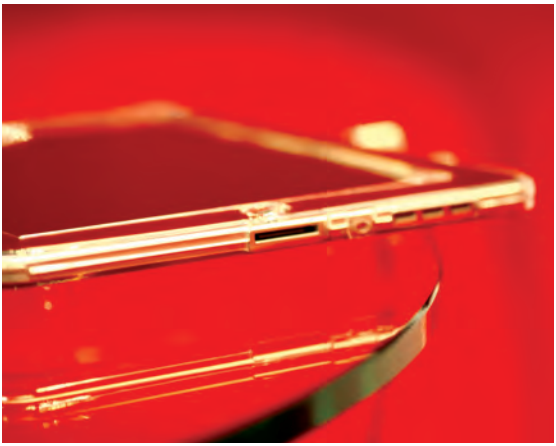
Northern Venture Trust PLC

Half-yearly financial report

31 March 2018



nvm
private equity

Northern Venture Trust is a Venture Capital Trust (VCT) whose investment adviser is NVM Private Equity.

The trust was one of the first VCTs launched on the London Stock Exchange in 1995. 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.

Contents

Financial summary

	Six months ended 31 March 2018	Six months ended 31 March 2017	Year ended 30 September 2017
Net assets	**£93.7m**	£76.9m	£76.3m
Net asset value per share	**70.7p**	79.1p	72.6p
Return per share			
Revenue	**0.4p**	0.9p	1.8p
Capital	**0.7p**	1.2p	1.9p
Total	**1.1p**	2.1p	3.7p
Dividend per share declared in respect of the period			
First interim dividend	**2.0p**	3.0p	3.0p
Second interim (special) dividend	**–**	5.0p	5.0p
Final dividend	**–**	–	3.0p
Total	**2.0p**	8.0p	11.0p
Cumulative return to shareholders since launch			
Net asset value per share	**70.7p**	79.1p	72.6p
Dividends paid per share*	**162.5p**	151.5p	159.5p
Net asset value plus dividends paid per share	**233.2p**	230.6p	232.1p
Mid-market share price at end of period	**66.25p**	75.50p	71.00p
Tax-free dividend yield (based on mid-market share price)**			
Excluding special dividend	**7.5%**	7.9%	8.5%
Including special dividend	**N/A**	14.6%	15.5%

*Excluding interim dividends not yet paid.

**The annualised dividend yield is calculated by reference to the dividends in respect of the 12 month period ended on each reference date.

Key dates

Half-yearly results announced
17 May 2018

Shares quoted ex dividend
7 June 2018

Interim dividend paid (to shareholders on register on 8 June 2018)
29 June 2018

Half-yearly management report

for the six months ended 31 March 2018

The rate of investment over the last six months has been encouraging as we have continued to adapt our investment approach in response to the updated VCT regulations

The past six months have been another busy period for the company, with six new investments completed following the successful £20 million public share offer last Autumn. Whilst our unquoted venture capital portfolio has made good progress and increased in value over the period, quoted markets have fared less well and this has led overall to only a modest increase in the capital value of our investments. We expect that the profile of the unquoted portfolio will gradually change over time in response to recent developments in the VCT legislation, leading to lower levels of income from our investments and greater fluctuation in capital returns in the future. As previously indicated, this will inevitably have a bearing on the board's dividend policy and pending a further review at the financial year end, we have decided at this stage to declare an interim dividend of 2.0p per share in respect of the period to 31 March 2018.

Results and dividend

The unaudited net asset value (NAV) per share at 31 March 2018 was 70.7p, compared with the audited figure of 72.6p at 30 September 2017. The total return per share before dividends for the six months ended 31 March 2018 as shown in the income statement was 1.1p (six months ended 31 March 2017: 2.1p), equivalent to 1.5% of the NAV at the start of the period. Investment income was lower than in the corresponding period last year at £1.1 million (six months to 31 March 2017: £1.4 million); however the comparative included the benefit of a one-off receipt of interest arrears, following an investment disposal. Adjusting for this non-repeating revenue, investment income was broadly consistent. As required by the current VCT rules, the portfolio is gradually shifting towards earlier stage investments, which tend to be structured with a view to capital growth rather than income yield, and this is likely to cause a continuing reduction in the company's investment income going forward. As stated above, the profile of capital returns from earlier stage investments is also expected to lead to a greater fluctuation in annual results than in the past.

In the light of this, we have declared an interim dividend of 2.0p per share (2017: 3.0p), which will be paid on 29 June 2018 to shareholders on the register on 8 June 2018. Our medium-term aim is to set a sustainable level of base annual dividend, having regard to the changing investment environment, which we hope will be augmented from time to time by additional payments where investment gains permit. We remain conscious of the importance which shareholders attach to a reliable flow of tax-free income.

Unquoted investments

Six new VCT-qualifying holdings were acquired during the period, for total consideration of £6.5 million. Following a significant volume of fund-raising activity across the sector in recent years, there is currently a heightened level of funding available for venture capital and private equity investing. This inevitably increases competition for attractive investment opportunities; however your board continues to apply the usual high standards in its appraisal of potential new investments. As expected, we have also started to experience an encouraging level of follow-on investment activity across the earlier stage portfolio.

Positive underlying trading trends were observed in a number of portfolio companies; however, the period under review was relatively quiet for investment realisations. Whilst a number of portfolio companies made scheduled loan stock repayments, there was only one full exit from an investment. The remaining holding of **S&P Coil Products**, which had been written down to nil, was sold for nominal proceeds, having already returned approximately 1.8 times the original investment during previous periods. Additionally, £0.4 million was received and recognised during the period in respect of deferred consideration from the sales of **Alaric Systems**, **Kitwave One** and **Optilan Group** in previous periods.

Shareholder issues

Having reviewed the forecast cash requirements for 2018 and beyond, we launched a full prospectus offer of new ordinary shares in September 2017, to raise up to £20 million. Strong demand was experienced and the offer was fully subscribed approximately three weeks after opening. Your directors are aware of the potential drag on overall returns caused by holding significant levels of liquidity. Before proposing the share offer, we considered this downside and weighed it against the benefit of securing sufficient funding both to support our existing early stage investee companies with follow-on capital and to pursue attractive new investment opportunities. Given the low interest rates currently prevailing in the UK, we continue to hold a portion of our liquid funds in readily realisable quoted investments, with a view to generating a higher yield than by holding all liquid funds in cash deposits alone. Whilst this may give rise to some short-term volatility in the capital valuation of the funds, we expect the capital value will at least be protected in the longer term.

Our dividend investment scheme, which enables shareholders to re-invest their dividends in new ordinary shares free of dealing costs and with the benefit of the tax reliefs available on new VCT share subscriptions, continues to operate.

We have maintained our policy of being willing to buy back the company's shares in the market, when necessary in order to maintain liquidity, at a 5% discount to NAV. During the six months ended 31 March 2018 a total of 475,000 shares were repurchased by the company for cancellation, at an average price of 66.4p.

VCT legislation and regulation

In November 2017, the Chancellor of the Exchequer delivered his Autumn Budget statement, including the results of the Government's Patient Capital Review. We welcome the sentiment of support for the VCT regime within the consultation response and the acknowledgement of the important role that the VCT sector plays in supporting entrepreneurial businesses. As expected however, there were some less positive aspects of the announcement and the opportunity has again been taken to introduce further rule changes concerning the range of permitted VCT-qualifying investments and the conditions required to be observed in order to maintain approved VCT status. Most of the proposed changes are being introduced on a phased basis, therefore the immediate impact on the company is expected to be relatively limited. The main change in the medium term is that the minimum proportion of investments required to be held in VCT-qualifying holdings will increase from 70% to 80%.

We will continue to work closely with our investment adviser in order to maintain compliance with the relevant legislation at all times.

The other main development in the company's regulatory environment during the period was the introduction of the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, which came into force on 1 January 2018. The aim of the regulation is to increase transparency across the investment management sector by providing investment information to retail investors in a consistent format, known as a Key Information Document (KID). We have complied with the regulations by publishing a KID for Northern Venture Trust, prepared in accordance with the strictly prescribed format. Whilst we welcome any initiatives to improve the flow of information to investors, readers of the KID should note that the potential performance scenarios included therein have been developed predominantly by reference to past performance, as stipulated by the regulations, and should therefore be treated with an appropriate degree of caution.

VCT qualifying status

The company has continued to meet the stringent qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. Our investment adviser, NVM, monitors the position closely and reports regularly to the board. Philip Hare & Associates LLP has continued to act as independent adviser to the company on VCT taxation matters.

Outlook

The rate of investment over the last six months has been encouraging as we have continued to adapt our investment approach in response to the updated VCT regulations. The political and economic landscape in the UK looks set to remain in a state of flux for some time, which makes it extremely difficult to predict the future with much certainty. We do however remain confident in the resilience developed over many years to deal with change and will continue to apply our high standards and rigorous procedures to the management of the portfolio with a view to continuing to deliver good returns to shareholders.

On behalf of the Board

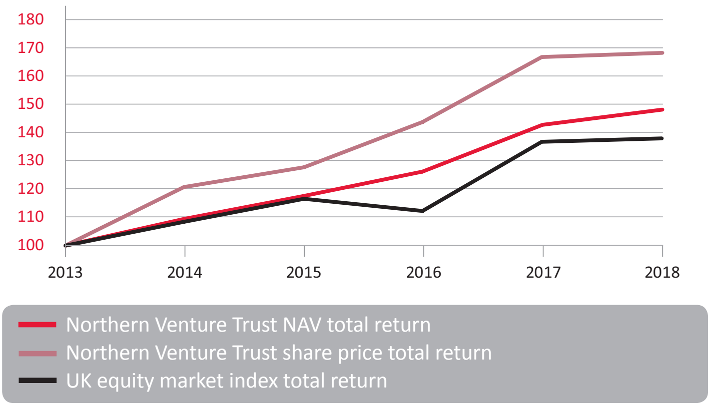
Simon Constantine
Chairman

17 May 2018

Five year performance

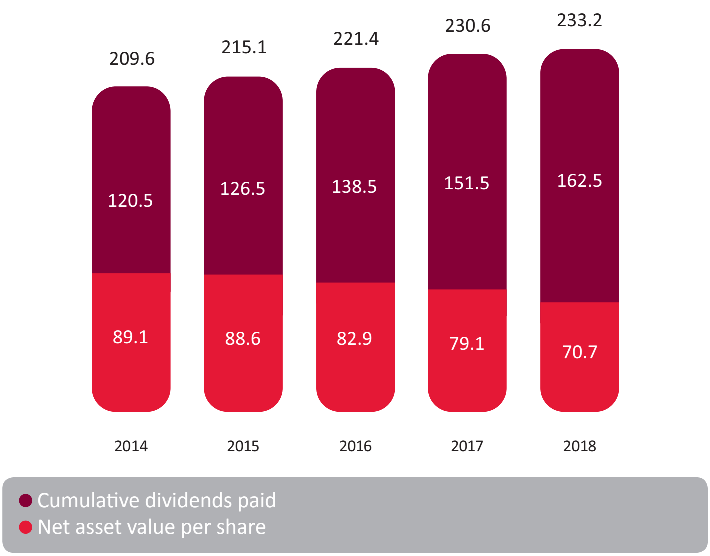
Comparative return to shareholders (assuming dividends re-invested)

Five years to 31 March 2018 (31 March 2013 = 100)



Net asset value and cumulative dividends per share

As at 31 March (pence per share)



Investment portfolio

as at 31 March 2018

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
No 1 Lounges	2,006	3,406	3.6
Entertainment Magpie Group	1,611	3,092	3.3
CGI Group Holdings	3,818	3,078	3.3
Lineup Systems	975	2,910	3.1
Sorted Holdings	1,808	2,820	3.0
Agilitas IT Holdings	1,662	2,604	2.8
MSQ Partners Group	1,695	2,558	2.7
Love Saving Group	1,204	2,473	2.6
Buoyant Upholstery	1,173	2,418	2.6
Closerstill Group	1,747	2,283	2.4
Biological Preparations Group	2,366	1,959	2.1
Wear Inns	1,640	1,854	2.0
Weldex (International) Offshore Holdings	3,262	1,670	1.8
Medovate	1,593	1,593	1.7
Graza	1,581	1,581	1.7
	28,141	**36,299**	**38.7**
Other venture capital investments	27,732	25,125	26.8
Total venture capital investments	**55,873**	**61,424**	**65.5**
Listed equity investments	5,181	6,664	7.2
Listed interest-bearing investments	4,898	4,900	5.2
Total fixed asset investments	**65,952**	**72,988**	**77.9**
Cash and cash equivalents		20,539	21.9
Debtors less creditors		192	0.2
Net assets		**93,719**	**100.0**

Income statement

(unaudited) for the six months ended 31 March 2018

	Six months ended 31 March 2018 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	415	415
Movements in fair value of investments	–	1,018	1,018
	–	1,433	1,433
Income	1,088	–	1,088
Investment management fee	(216)	(648)	(864)
Other expenses	(241)	(11)	(252)
Return on ordinary activities before tax	631	774	1,405
Tax on return on ordinary activities	(96)	96	–
Return on ordinary activities after tax	535	870	1,405
Return per share	0.4p	0.7p	1.1p

- 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 supplementary 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 November 2014 and updated in February 2018 with consequential amendments by the Association of Investment Companies (AIC SORP).
- There are no recognised gains or losses other than those included in the income statement.
- All items in the income statement derive from continuing operations.

Six months ended 31 March 2017			Year ended 30 September 2017		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	759	759	–	1,651	1,651
–	800	800	–	1,072	1,072
–	1,559	1,559	–	2,723	2,723
1,431	–	1,431	2,989	–	2,989
(199)	(596)	(795)	(407)	(1,222)	(1,629)
(204)	–	(204)	(408)	–	(408)
1,028	963	1,991	2,174	1,501	3,675
(176)	176	–	(373)	373	–
852	1,139	1,991	1,801	1,874	3,675
0.9p	1.2p	2.1p	1.8p	1.9p	3.7p

Balance sheet

(unaudited) as at 31 March 2018

	31 March 2018 £000	31 March 2017 £000	30 September 2017 £000
Fixed assets			
Investments	72,988	66,858	65,699
Current assets			
Debtors	312	597	661
Cash and cash equivalents	20,539	13,807	9,981
	20,851	14,404	10,642
Creditors (amounts falling due within one year)	(120)	(4,388)	(81)
Net current assets	20,731	10,016	10,561
Net assets	93,719	76,874	76,260
Capital and reserves			
Called-up equity share capital	33,159	24,302	26,256
Share premium	481	2,984	6,941
Capital redemption reserve	663	544	544
Capital reserve	50,767	40,805	34,150
Revaluation reserve	7,036	6,278	5,972
Revenue reserve	1,613	1,961	2,397
Total equity shareholders' funds	93,719	76,874	76,260
Net asset value per share	70.7p	79.1p	72.6p

Statement of changes in equity

(unaudited) for the six months ended 31 March 2018

	Non-distributable reserves				Distributable reserves		Total
	Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	£000
Six months ended 31 March 2018							
At 1 October 2017	26,256	6,941	544	5,972	34,150	2,397	76,260
Return on ordinary activities after tax	–	–	–	1,064	(194)	535	1,405
Dividends paid	–	–	–	–	(2,643)	(1,319)	(3,962)
Net proceeds of share issues	7,022	13,311	–	–	–	–	20,333
Shares purchased for cancellation	(119)	–	119	–	(317)	–	(317)
Cancellation of share premium reserve	–	(19,771)	–	–	19,771	–	–
At 31 March 2018	33,159	481	663	7,036	50,767	1,613	93,719
Six months ended 31 March 2017							
At 1 October 2016	24,110	2,599	544	7,360	40,514	2,073	77,200
Return on ordinary activities after tax	–	–	–	(1,082)	2,221	852	1,991
Dividends paid	–	–	–	–	(1,930)	(964)	(2,894)
Net proceeds of share issues	192	385	–	–	–	–	577
At 31 March 2017	24,302	2,984	544	6,278	40,805	1,961	76,874
Year ended 30 September 2017							
At 1 October 2016	24,110	2,599	544	7,360	40,514	2,073	77,200
Return on ordinary activities after tax	–	–	–	(1,388)	3,262	1,801	3,675
Dividends paid	–	–	–	–	(9,626)	(1,477)	(11,103)
Net proceeds of share issues	2,146	4,342	–	–	–	–	6,488
At 30 September 2017	26,256	6,941	544	5,972	34,150	2,397	76,260

Statement of cash flows

(unaudited) for the six months ended 31 March 2018

	Six months ended 31 March 2018 £000	Six months ended 31 March 2017 £000	Year ended 30 September 2017 £000
Cash flows from operating activities			
Return on ordinary activities before tax	1,405	1,991	3,675
Adjustments for:			
Gain on disposal of investments	(415)	(759)	(1,651)
Movements in fair value of investments	(1,018)	(800)	(1,072)
Decrease/(increase) in debtors	349	(266)	(292)
Increase/(decrease) in creditors	39	(856)	(866)
Net cash inflow/(outflow) from operating activities	360	(690)	(206)
Cash flows from investing activities			
Purchase of investments	(7,033)	(2,496)	(6,458)
Sale/repayment of investments	1,176	10,807	17,054
Net cash (outflow)/inflow from investing activities	(5,857)	8,311	10,596
Cash flows from financing activities			
Issue of ordinary shares	20,769	592	6,592
Share issue expenses	(435)	(15)	(104)
Share subscriptions held pending allotment	–	4,297	–
Purchase of ordinary shares for cancellation	(317)	–	–
Equity dividends paid	(3,962)	(2,894)	(11,103)
Net cash inflow/(outflow) from financing activities	16,055	1,980	(4,615)
Net increase in cash and cash equivalents	10,558	9,601	5,775
Cash and cash equivalents at beginning of period	9,981	4,206	4,206
Cash and cash equivalents at end of period	20,539	13,807	9,981

Notes to the financial statements

(unaudited) for the six months ended 31 March 2018

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 November 2014 and updated in February 2018 with consequential amendments 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 31 March 2018 and on 127,587,005 (2017 96,859,127) 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 31 March 2018 divided by the 132,635,462 (2017 97,209,695) ordinary shares in issue at that date.

4 The interim dividend of 2.0p per share for the year ending 30 September 2018 will be paid on 29 June 2018 to shareholders on the register at the close of business on 8 June 2018.

5 The unaudited half-yearly financial statements for the six months ended 31 March 2018 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 30 September 2017 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 30 September 2017.

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 NVM Private Equity website, www.nvm.co.uk.

Risk management

The board carries out a regular and robust review of the risk environment in which the company operates. 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. The board reviews the investment portfolio with the investment adviser 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 take advantage of 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. ***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 appropriate.

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 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 advisers and the board keeps the portfolio 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 adviser 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. ***Mitigation:*** the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the investment adviser. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

VCT qualifying status risk: whilst 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 adviser 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

Simon Constantine (Chairman)
Nigel Beer
Richard Green
Tim Levett
David Mayes
Hugh Younger

Secretary

James Bryce LLB

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