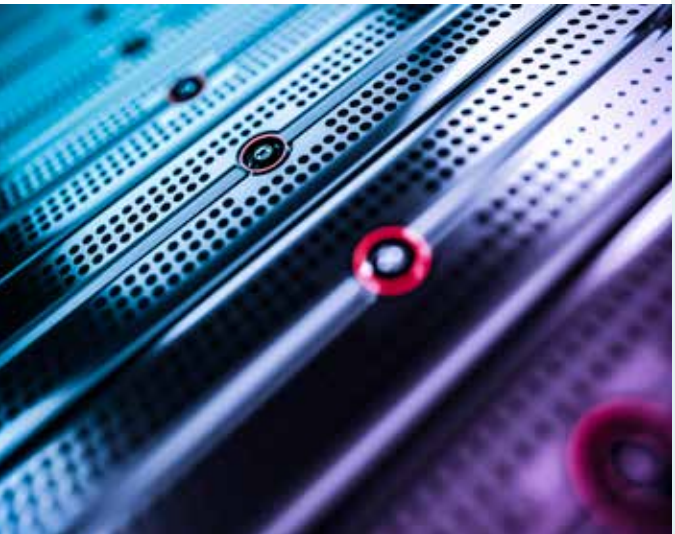
Northern Venture Trust PLC

Half-yearly Financial Report
31 March 2021



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asset management

Welcome

Northern Venture Trust is a Venture Capital Trust (VCT) whose investment adviser is Mercia Fund Management Limited.

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

For additional information visit our investor area online **www.mercia.co.uk/vcts/**

Financial summary

	Six months ended 31 March 2021	Six months ended 31 March 2020	Year ended 30 September 2020
Net assets	**£126.7m**	**£80.2m**	**£112.8m**
Net asset value per share	**79.8p**	**58.2p**	**70.7p**
Return per share			
Revenue	0.0p	(0.1)p	0.3p
Capital	11.6p	(8.6)p	7.0p
Total	**11.6p**	**(8.7)p**	**7.3p**
Dividend per share declared in respect of the period			
Interim dividend	2.0p	1.5p	1.5p
Second interim (special) dividend	6.0p	–	–
Proposed final dividend	–	–	2.5p
Total	**8.0p**	**1.5p**	**4.0p**
Cumulative return to shareholders since launch			
Net asset value per share	79.8p	58.2p	70.7p
Dividends paid per share*	174.5p	170.5p	172.0p
Net asset value plus dividends paid per share	254.3p	228.7p	242.7p
Mid-market share price at end of period	**66.5p**	**53.0p**	**56.5p**
Tax-free dividend yield (based on the net asset value per share)**			
Excluding special dividend	7.7%	5.0%	5.8%
Including special dividend	18.0%	N/A	N/A

* Excluding first and second interim dividends 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 during 2021

23 June

Half-yearly results announced

29 July

Shares quoted ex dividend

20 August

First and second interim dividends paid (to shareholders on register on 30 July 2021)

Half-yearly management report

for the six months ended 31 March 2021

I am pleased to report on a strong performance by your company over the past six months, despite the challenging environment created by the coronavirus outbreak. One investment in particular has made a major contribution to the result for the period, but it is reassuring to note that a high proportion of our investee companies have demonstrated resilience in response to the evolving situation. Mercia Fund Management, our investment adviser continues to provide close support to the portfolio where required, whilst working within the various restrictions introduced by the Government since March 2020.

Results and dividend

The unaudited net asset value (NAV) per share at 31 March 2021 was 79.8 pence, compared with the audited figure of 70.7 pence at 30 September 2020. The total return per share before dividends for the six months ended 31 March 2021, as shown in the income statement, was 11.6 pence (six months ended 31 March 2020: minus 8.7 pence), equivalent to 16.4% of the NAV at the start of the period. The return was driven by an unrealised appreciation of £18.4 million in the valuation of the investment portfolio. This uplift has been substantially underpinned by the successful partial exit from the investment in Entertainment Magpie Group shortly after the period-end. There were two further significant profitable realisations from the unquoted portfolio during the period contributing to a realised surplus of £0.9 million over the carrying values at 30 September 2020 and £12.5 million over cost.

Three years ago, we introduced a target dividend yield of 5% of opening NAV, which has been exceeded in each of the years since then. After careful consideration, we have decided to declare an interim dividend of 2.0 pence per share in respect of the period to 31 March 2021. In light of the excellent realisations both during and after the period, the directors have also decided to declare a special dividend of 6.0 pence which will be paid as a second interim dividend for the year ending 30 September 2021. The first and second (special) interim dividends, totalling 8.0 pence, will be paid on 20 August 2021 to shareholders on the register on 30 July 2021.

Our dividend investment scheme, which enables shareholders to 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. Details on how to join the scheme are included within the dividend section of our website, which can be found here: **www.mercia.co.uk/vcts/nvt/**.

Venture capital investment activity

Notwithstanding the difficult conditions experienced since the onset of the pandemic, further progress has been made on the development of the portfolio with one new venture capital investment acquired for £0.9 million during the period and a total of £3.7 million invested in nine existing portfolio companies. Whilst the number of new investments has been lower than usual during a period when we have been focused on supporting the existing portfolio, this is expected to pick up in the second half and Mercia is working through a strong pipeline of investment opportunities on our behalf.

It was a busy period for realisation activity, with a number of notable transactions either completed or in progress as at the balance sheet date. The highlights were the sale of Agilitas IT Holdings, generating a return of 8.1 times the original cost of the investment, and the sale of It's All Good which delivered a return of 3.2 times. In April 2021, subsequent to the period-end, Entertainment Magpie Group was admitted to trading on AIM under its new name musicMagpie plc. Our original 2015 investment of £1.6 million has produced cash proceeds to date of £10.0 million and we have retained ordinary shares in musicMagpie valued at £8.6 million based on the flotation price; this represents a return of 11.6 times the original cost. The resulting uplift in the period contributed significantly to the increase in the overall portfolio valuation at 31 March 2021.

During the period, four additional executives were recruited into the VCT Team at Mercia to bring the total number working directly on our portfolio to 12. They represent a most welcome additional resource as we expect activity to pick up across the board.

Venture capital portfolio update

The last twelve months have been dominated by the evolving COVID-19 pandemic which has presented numerous challenges to our portfolio companies. The priority for our investment adviser over this period has been to work with our portfolio management teams to navigate what has at times been a fast evolving landscape. The vast majority of companies in the portfolio have been able to adapt to new working conditions in order to continue to operate safely via a home-working model and / or by following updated protocols at communal places of work. Our businesses which operate in the technology and software sector have been relatively unaffected and retail businesses which have an exposure to e-commerce have generally fared well due to increased demand for home deliveries. The small number of leisure sector companies in the portfolio have encountered the most challenging conditions due to prolonged periods without any income.

Share offer and liquidity

Whilst liquidity increased during the period due to the realisation activity described above, the VCT scheme rules allow a grace period of only twelve months before the proceeds are included within the core 80% qualifying assets test. The dividends declared above will require a cash outflow of £12.7 million before any receipts from the dividend investment scheme and will reduce liquidity accordingly.

In conjunction with Mercia we have considered the progress achieved by the portfolio to date and the likely further capital required, both to enable our investee companies to flourish as well as to fund our pipeline of new opportunities. Consequently, we intend to launch a share offer in the 2021-22 tax year. Further details will be announced in due course.

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 2021 a total of 1,750,797 shares were purchased by the company for cancellation, representing around 1.1% of the opening ordinary share capital.

VCT legislation and qualifying status

The company has continued to meet the stringent and complex qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. Mercia 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.

No further amendments to the VCT legislation were announced by the Chancellor in his 2021 Spring Budget statement, however it is possible that further changes will be made in the future. We will continue to work closely with Mercia to maintain compliance with the scheme rules at all times.

Board succession

In our last annual report, I said that we will be seeking a new non-executive director with either operational or investment experience in earlier-stage, technology driven businesses. I am pleased to report that the search process is underway and I am hopeful that a new director will be appointed before the end of this calendar year.

Outlook

Whilst all businesses continue to adapt to a changing environment caused by the COVID-19 pandemic, your directors are encouraged by the progress made within the portfolio as a whole. We remain committed to supporting the development and prosperity of entrepreneurial early-stage businesses in the UK and believe that your company remains well placed to do so.

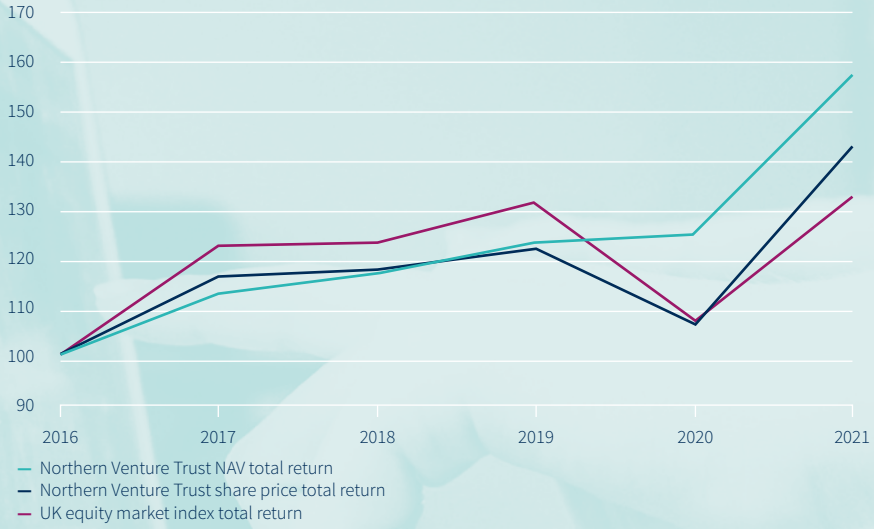
On behalf of the board:

—
Simon Constantine
Chairman

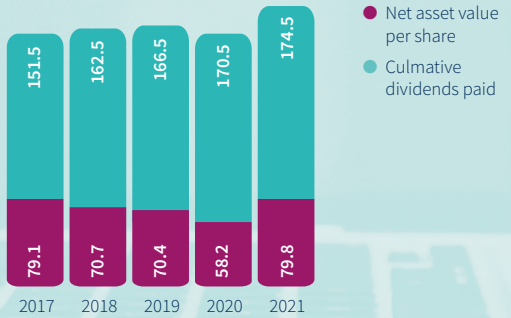
23 June 2021

Five year performance

Comparative return to shareholders (assuming dividends reinvested)
Five years to 31 March 2021 (31 March 2016 = 100)



Net asset value and cumulative dividends per share
As at 31 March (pence per share)



Investment portfolio

as at 31 March 2021

Fifteen largest venture capital investments	Cost £000	Valuation £000	% of net assets by value
Entertainment Magpie Group	1,611	18,336	14.5%
Lineup Systems	975	5,442	4.3%
Currentbody.com	2,050	4,576	3.6%
SHE Software Group	2,412	3,987	3.1%
Intelling Group	1,222	3,654	2.9%
Oddbox	704	3,433	2.7%
Sorted Holdings	3,022	3,389	2.7%
Buoyant Upholstery	1,173	2,775	2.2%
Clarilis	1,972	2,561	2.0%
Volumatic Holdings	216	2,228	1.8%
Biological Preparations Group	2,366	2,139	1.7%
Newcells Biotech	1,771	2,106	1.7%
Weldex (International) Offshore Holdings	3,262	2,072	1.6%
Idox*	238	1,957	1.5%
Rockar	1,782	1,947	1.5%
	24,776	**60,602**	**47.8%**
Other venture capital investments	**40,617**	**27,052**	**21.3%**
Total venture capital investments	**65,393**	**87,654**	**69.1%**
Listed equity investments	8,991	11,377	9.0%
Total fixed asset investments	**74,384**	**99,031**	**78.1%**
Cash and cash equivalents		25,959	20.5%
Debtors less creditors		1,747	1.4%
Net assets		**126,737**	**100.0%**

* Quoted on AIM.

Income statement

(unaudited) for the six months ended 31 March 2021

	Six months ended 31 March 2021		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	**–**	**941**	**941**
Movements in fair value of investments	**–**	**18,369**	**18,369**
	–	**19,310**	**19,310**
Income	**505**	**–**	**505**
Investment management fee	**(276)**	**(827)**	**(1,103)**
Other expenses	**(254)**	**–**	**(254)**
Return before tax	**(25)**	**18,483**	**18,458**
Tax on return	**–**	**–**	**–**
Return after tax	**(25)**	**18,483**	**18,458**
Return per share	**0.0p**	**11.6p**	**11.6p**

- 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 above statement derive from continuing operations.

Six months ended 31 March 2020			Year ended 30 September 2020		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	209	209	–	(3)	(3)
–	(11,541)	(11,541)	–	12,043	12,043
–	(11,332)	(11,332)	–	12,040	12,040
419	–	419	1,509	–	1,509
(244)	(731)	(975)	(462)	(1,672)	(2,134)
(247)	–	(247)	(475)	–	(475)
(72)	(12,063)	(12,135)	572	10,368	10,940
–	–	–	(55)	55	–
(72)	(12,063)	(12,135)	517	10,423	10,940
(0.1)p	(8.6)p	(8.7)p	0.3p	7.0p	7.3p

Balance sheet

(unaudited) as at 31 March 2021

	31 March 2021 £000	31 March 2020 £000	30 September 2020 £000
Fixed assets			
Investments	**99,031**	65,837	91,852
Current assets			
Debtors	**1,866**	23	674
Cash and cash equivalents	**25,959**	14,478	20,693
	27,825	14,501	21,367
Creditors (amounts falling due within one year)	**(119)**	(110)	(428)
Net current assets	**27,706**	14,391	20,939
Net assets	**126,737**	80,228	112,791
Capital and reserves			
Called-up equity share capital	**39,715**	34,466	39,905
Share premium	**13,141**	5,904	12,745
Capital redemption reserve	**3,290**	2,532	2,853
Capital reserve	**45,109**	42,046	37,872
Revaluation reserve	**24,653**	(5,461)	18,086
Revenue reserve	**829**	741	1,330
Total equity shareholders' funds	**126,737**	80,228	112,791
Net asset value per share	**79.8p**	58.2p	70.7p

Statement of changes in equity

(unaudited) for the six months ended 31 March 2021

	Non-distributable reserves				Distributable reserves		
	Called-up share capital	Share premium	Capital redemption reserve	Revaluation reserve*	Capital reserve	Revenue reserve	Total
At 1 October 2020	**39,905**	**12,745**	**2,853**	**18,086**	**37,872**	**1,330**	**112,791**
Return after tax	**–**	**–**	**–**	**6,567**	**11,916**	**(25)**	**18,458**
Dividends paid	**–**	**–**	**–**	**–**	**(3,497)**	**(476)**	**(3,973)**
Net proceeds of share issues	**247**	**396**	**–**	**–**	**–**	**–**	**643**
Shares purchased for cancellation	**(437)**	**–**	**437**	**–**	**(1,182)**	**–**	**(1,182)**
At 31 March 2021	**39,715**	**13,141**	**3,290**	**24,653**	**45,109**	**829**	**126,737**
Six months ended 31 March 2020							
At 1 October 2019	34,693	5,584	2,106	4,948	46,820	1,507	95,658
Return after tax	–	–	–	(10,409)	(1,654)	(72)	(12,135)
Dividends paid	–	–	–	–	(2,082)	(694)	(2,776)
Net proceeds of share issues	199	320	–	–	–	–	519
Shares purchased for cancellation	(426)	–	426	–	(1,038)	–	(1,038)
At 31 March 2020	34,466	5,904	2,532	(5,461)	42,046	741	80,228
Year ended 30 September 2020							
At 1 October 2019	34,693	5,584	2,106	4,948	46,820	1,507	95,658
Return after tax	–	–	–	13,138	(2,715)	517	10,940
Dividends paid	–	–	–	–	(4,477)	(694)	(5,171)
Net proceeds of share issues	5,959	7,161	–	–	–	–	13,120
Shares purchased for cancellation	(747)	–	747	–	(1,756)	–	(1,756)
At 30 September 2020	39,905	12,745	2,853	18,086	37,872	1,330	112,791

* 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 31 March 2021

	Six months ended 31 March 2021 £000	Six months ended 31 March 2020 £000	Six months ended 30 September 2020 £000
Cash flows from operating activities			
Return before tax	**18,458**	(12,135)	10,940
Adjustments for:			
Gain on disposal of investments	**(941)**	(209)	3
Movements in fair value of investments	**(18,369)**	11,541	(12,043)
Decrease in debtors	**49**	1,159	508
(Decrease)/increase in creditors	**(309)**	16	336
Net cash (outflow)/inflow from operating activities	**(1,112)**	372	(256)
Cash flows from investing activities			
Purchase of investments	**(7,411)**	(6,500)	(10,480)
Sale/repayment of investments	**18,301**	1,741	3,077
Net cash inflow/(outflow) from investing activities	**10,890**	(4,759)	(7,403)
Cash flows from financing activities			
Issue of ordinary shares	**677**	533	13,423
Share issue expenses	**(34)**	(15)	(304)
Purchase of ordinary shares for cancellation	**(1,182)**	(1,038)	(1,756)
Equity dividends paid	**(3,973)**	(2,775)	(5,171)
Net cash (outflow)/inflow from financing activities	**(4,512)**	(3,295)	6,192
Net increase/(decrease) in cash and cash equivalents	**5,266**	(7,682)	(1,467)
Cash and cash equivalents at beginning of period	**20,693**	22,160	22,160
Cash and cash equivalents at end of period	**25,959**	14,478	20,693

Notes to the financial statements

(unaudited) for the six months ended 31 March 2021

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 after tax for the six months ended 31 March 2021 and on 159,392,613 (2020 138,819,494) 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 2021 divided by the 158,861,290 (2020 137,862,512) ordinary shares in issue at that date.

4. The interim dividend of 2.0p per share and second interim (special) dividend of 6.0p per share for the year ending 30 September 2021 will be paid on 20 August 2021 to shareholders on the register at the close of business on 30 July 2021.

5. The unaudited half-yearly financial statements for the six months ended 31 March 2021 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 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 30 September 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 and emerging 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 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 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 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 adviser 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 UK withdrew from the European Union (EU) on 31 January 2020. The process of negotiating longer term trading arrangements between the UK and the EU is ongoing. 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 Venture Trust itself, the board and the investment adviser follow Brexit developments closely with a view to identifying changes which might affect the company's investment portfolio. The investment adviser 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 advisers, 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 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 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 financial and non-financial internal controls, 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: 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 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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