

December 2022

Newsletter.

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Welcome.

Dear VCT shareholder

Welcome to this edition of the VCT shareholder newsletter. It is my pleasure writing to you as Managing Director of Mercia's National Venture business with responsibility for both VCT and EIS investments.

It is now three years since Mercia acquired the VCT management contracts and I am delighted to report that the integration is complete. Since the acquisition, we have continued to scale the VCT team by recruiting additional talented investment professionals and we are now a combined team of 98 investment professional and support staff across the Mercia group.

This investment in people is already starting to bear fruit shown by the record amount of funds invested over the last two years totalling £78.7million. £51.3million was invested into sixteen new companies and £27.4million was invested to support the growth of existing portfolio companies.

It is also pleasing to see that over the same period we have directly benefitted from the wider Mercia Group's dealflow, with eight companies joining the VCT portfolio through the co-investment route from other Group Funds, demonstrating our Complete Connected Capital model.

With the well-documented economic and political headwinds causing instability in the markets, our senior leadership teams are able to draw on their experience of investing through previous economic cycles, which places us in a strong position to deliver shareholder value.

I continue to work very closely with our VCT Partners Ishaan Chilkoti and Jason Warren to further develop the portfolio and manage our enlarged investment team, also benefitting from the experience of our Group CIO, Julian Viggars.

We believe that the coming period will provide a significant opportunity for both new investment opportunities and our portfolio as shown by the many great businesses emerging from the previous 2000 and 2008 downturns. We will ensure that our portfolio companies have the appropriate cash runway and resources to take advantage of these opportunities as they unfold, as well as continuing to invest in new opportunities, which are presented by our national networks.

Whilst the market is a little more challenging than this time last year, we see this as a positive, with entry level valuations softening, which combined with our deal flow continuing to benefit from the strength of the wider Mercia network, means we expect to maintain the level of investment activity for the foreseeable future.



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Peter Dines, MD of Mercia
National Venture

Based on our confidence about new investment levels and profitable realisations, the Northern VCT Boards have approved the launch of a top up round in January of £18million, followed by a further fundraising in the 2023/24 tax year.

The top-up offer will be launched on or around 12 January 2023 in which existing shareholders will be entitled to a 0.5% discount on the issue costs. The offer is for the 2022/23 tax year only and shares will be allotted no later than 4 April 2023.

The Share Offers' brochure will be made available on the Northern VCTs' website page www.mercia.co.uk/vcts.

We intend to hold our 2023 VCT seminar as an in person event when we look forward to providing further updates on our progress.

Very best wishes

Peter Dines
MD of Mercia National Venture

Partner's letter.

When we last wrote to you, we had just completed an intense period of recruitment, taking the team from seven at the beginning of 2020 to thirteen at the end of 2021.

We have spent time over the past twelve months onboarding our new colleagues and developing the extended team and we are pleased to see that they have already played an active role in originating and leading new investments during 2022. We have also continued our recruitment, with the addition of two investment team members and an experienced Portfolio Director to help manage our growing portfolio.

Whilst we welcome the new faces, we also say farewell to our fellow VCT Partner Aaron Lawson-Clark, who has joined LDC to pursue a career in mid-market investment.

Looking outside of Mercia, it is fair to say 2022 has been an eventful year for the investment world, with the buoyancy in the funding markets from 2021 correcting sharply in Q1 2022, as tensions between Russia and Ukraine escalated. Public markets fell accordingly and the impact is now being felt across the private markets too, as the cost-of-living crisis begins to bite.

Nevertheless, we have had an active year, as Peter has already highlighted in his welcome note, reaching record levels of investment output over the last two years. Within these deals we have backed several companies at the intersection of Life Sciences and Software, such as Turbine, which is developing a cell simulation platform to predict the effectiveness of cancer treatments, and Optellum, which is leveraging AI to improve early detection and management of lung cancer.

We have also backed some exciting new pureplay software businesses, including Log My Care, which provides a software platform to digitise and improve care management, and Send Technologies, which is transforming commercial insurance with their composable SaaS platform.

In making these investments, we have built stronger relationships with other funds, co-investing alongside Accel, Merck Ventures, Breega and IQ Capital. This reflects our conscious decision to invest more broadly across the risk spectrum, including investments with the potential for larger outcomes.

Looking to 2023 and beyond, we believe there will be a healthy environment for new investment opportunities for funds such as the Northern VCTs that have capital to invest. History has shown that many successful venture-backed companies have been borne out of past recessions and that innovation still thrives when funds are able to take a long-term view. Alongside this, it is important that we have the resources to support the stronger businesses in our existing portfolio, as external funding may become harder to come by. It is for these reasons we are excited to announce our fundraising intentions over the next 12 months.

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Ishaan Chalkoti - Partner - Northern VCT Funds



Jason Warren - Partner - Northern VCT Funds

Investments.

New investments from the Northern VCTs for the years 2021 and 2022 have been completed across a multitude of businesses, notably in fast-growing sectors such as Biotech and Software.

These growing sectors all have the potential to bring significant economic and social benefits to our regions and have seen significant backing from Mercia in recent months.

Highlights this year:

Since the last newsletter, we have deployed £44.2 million, including £9.8 million in follow-on investments. The new deals have been split evenly across Software & Technology and Healthcare & Biotech.

We firmly believe that these sectors have the greatest potential to drive shareholder returns as well as delivering the biggest social impact which underpins the Group's wider ESG strategy.

Our follow-on funding has been distributed amongst 10 existing portfolio companies.

Total £44.2million deployed:

Healthcare and Biotechnology

£million



3.7 Lung cancer detection and tracking via CT scans



3.0 Developer of specialist spinal implants



4.5 Software simulation used in drug discovery

with £2.0m follow on investment

Total £13.2million

Software and Technology

£million



4.1 Platform connecting insurers and brokers



5.0 Technology consultancy, cyber security and website management



1.5 Data product enterprise software



2.5 Software for managing care homes for the elderly and mentally disabled



2.0 Space video streaming media



3.1 Insurance underwriting workbench software

with £5.8m follow on investment

Total £24.0million

Services

£million



5.0 Retailer for home-use beauty devices

with £2.0m follow on investment

Total £7.0million

Realisations.

boclips

The Northern VCTs provided £5.4million of funding between two rounds in 2017 and 2019.

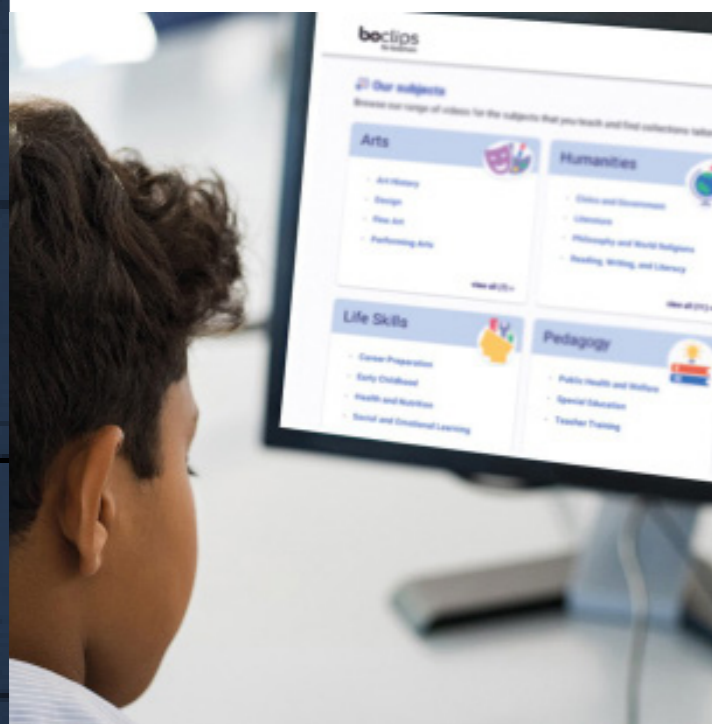
Greater Manchester-based Knowledgeemotion Ltd (trading as Boclips) is an online educational video and podcast platform. After investment, the company continued to expand its library of video and audio content used by publishers, schools, universities and Ministries of Education around the world.

In June 2022, the Northern VCTs realised their investment for an initial cash proceeds of £9.3 million, representing a 1.7x return.



As the education sector digitises it has come to understand how crucial the role video will play in making learning more engaging and effective. This investment will help us realise our goal of becoming the global marketplace for educational video – whether 3D, VR or AR.

David Bainbridge
CEO, Knowledgeemotion



Ideagen

The Northern VCTs provided £0.4million of funding in January 2015.

Nottinghamshire-based Ideagen plc specialises in quality, audit, safety and risk management software solutions. The AIM-listed business experienced considerable growth over the investment lifetime.

More than 11,200 organisations use Ideagen products, including seven of the top ten UK accounting firms, all of the top aerospace and defence companies and 75% of the world's leading pharmaceutical firms.

In July 2022, the company was acquired by private equity firm HG Pooled Management, providing a 9.8x return for the Northern VCTs.



Share Offers.

The Share Offers, to be launched on or around 12 January 2023, will seek to raise up to £6million in each of Northern Venture Trust, Northern 2 and Northern 3 VCTs (with a total fundraise of up to £18million).

The proceeds will be used not only to add new holdings to the portfolio but also, crucially, to provide the necessary rounds of follow-on investment for the fast-growing existing companies in the portfolio. It is expected that new shares will be allotted no later than 4 April 2023.

Further details of the Offers will be contained in the Offer Document, which will be published in January 2023.

In recognition of the loyal shareholder following that the Northern VCTs enjoy, existing shareholders on the register of any of the Northern VCTs at 22 November 2022, and their spouse or partner, 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.