

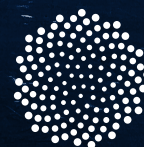
December 2021

# Newsletter.

## This issue:

Welcome  
Managers' letter  
Investments  
Realisations  
Share Offers

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# Welcome.

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Dear VCT shareholder

## **Welcome to this edition of the VCT shareholder newsletter. My name is Peter Dines, and it is my pleasure to take the helm as MD of Mercia's National Venture business with responsibility for VCT and EIS investment.**

For the past two years, I have been working with Tim Levett to develop the VCT team, recruiting additional investment professionals and progressing the integration with Mercia in order to leverage the additional resources available for the VCT team as being part of the wider Group. Ensuring this smooth transition and the growth of the business has been of paramount importance especially in the context that we currently have £349.0million of funds under management (FuM).

In terms of getting to know a little more about me, it is fair to say that I am an entrepreneur turned venture fund manager. In 2006, I founded Surgi C, a spinal implant medical device company that I built up over six years before successfully selling my shareholding. Following this, I also co-founded a diagnostic service provider now known as C7 Health. When first meeting Mercia's CEO Dr Mark Payton in 2007, it was apparent that he and I shared the same belief that there were promising regional companies nationwide that required funding and by providing this investment, a strong venture investment business could be built. I joined Mercia shortly after its IPO in February 2015 and working with Mark as part of the Executive team and our colleagues, we have

grown Mercia's assets under management from c.£100.0million to c.£940.0million. I am also non-executive director for several companies in our portfolio including Medovate and Locate Bio.

When Tim came across from NVM, the aim was always to help with the integration and to develop the senior members of the team so that when the right time came, they would be ready to succeed him.

Aaron Lawson-Clark, Ishaan Chilkoti and Jason Warren were recruited by Tim at NVM, and with the experience of investing in pre-, during, and post-pandemic markets, have developed rapidly and are now ready to take on greater responsibility. We have decided now is the right time for them to be made partners and, in future, they will build the portfolio and manage our enlarged investment team under my guidance. Tim has decided now is the right time to retire from venture fund management and will leave Mercia in March 2022, once the handover is completed. I am sure all shareholders will join me in thanking Tim for all of his hard work and stewardship of the Northern VCT Funds, from his days as a founder to the current day, where total shareholder returns are now between 200p and 256p. We wish him every success for the future.

When we wrote to you in January 2020, Mercia had just taken over the management of the Northern VCTs, we had just launched a prospectus to raise £40.0million and invited you to a VCT seminar in London. No one knew what was about to happen in that moment in time and how it would affect all our lives. As far as we were concerned, in the first lockdown it was all about helping our portfolio companies survive rather than new investment, but as we moved into the autumn of 2020 it became apparent new opportunities were arising in the post-pandemic world and merger and acquisition activity was booming. This has led to an unprecedented level of both new investment and successful realisations.

I am pleased to report that, during the last 13 months, we have realised £130.0million in cash proceeds and also retained an equity investment in two portfolio companies with a value of £29.0million at the time of completion. £80.0million proceeds have been received from five successful exits in the pre-2015 portfolio (management buyouts) and £50.0million proceeds from seven successful exits in the post-2015 portfolio (earlier-stage growth capital investments). A significant proportion of the return has come from businesses trading and providing software to the E-commerce sector, reflecting the overall economic shift to digitisation. These realisations underpinned good performance in all three Northern VCTs and during 2021 £21.0million was paid in special dividends.



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**It is fair to say that I am an entrepreneur turned venture fund manager.**

Peter Dines, MD of Mercia National Venture

After a quiet year in 2020, in which only £21.0million was invested, by the end of 2021, we expect to have invested £45.0million of which £27.0million will be in nine new companies and £18.0million to support the growth of the existing companies in the portfolio. The market is buoyant and our deal flow is also benefiting from the strength of the wider Mercia network and we expect to maintain the level of investment activity for the foreseeable future.

Based on our confidence about new investment levels and profitable realisations, the Northern VCT boards have approved the launch of a prospectus to raise £40.0million.

The offer will be launched on or around 10 January 2022 in which existing shareholders will be entitled to a 0.5% discount on the issue costs. The offer is for the 2021/22 tax year only and shares will be allotted on or around 4 April 2022. The Share Offers' brochure will be made available on the Northern VCTs' website page [www.mercia.co.uk/vcts](http://www.mercia.co.uk/vcts).

We are intending to hold a VCT seminar early next year when I look forward to introducing Aaron, Ishaan, and Jason. Further details will be forthcoming.

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Very best wishes

Peter Dines

MD of Mercia National Venture

# Managers' letter.

**By way of an introduction, we have been working with Tim Levett for the last four years, first at NVM and then more recently at Mercia.**

**During this time, we have played a prominent role in delivering the transition to an early-stage investment strategy, both in the form of direct investment activity to build the portfolio of venture investments and also in the recruitment and development of the investment team, which has grown from seven at the beginning of 2020 to thirteen today.**

As a trio, supported by both Peter Dines and Mercia's CIO, Julian Viggars, we will combine our range of investment, management and operational skills to maintain our current investment rate across a diverse range of sectors and, in turn, deliver the target returns for the Northern VCTs' through successful realisations in due course. Key to achieving this are our colleagues in the VCT investment team: in total we are 13 investment executives spread across the UK with a mixture of operational and financial services backgrounds. Each member of the team maintains a local network to help source exciting investment opportunities across the different regions and is responsible for working with our portfolio post-investment.

In 2021, we will have completed nine new investments in the team across Software, Life Sciences and other sectors, including several co-investments with other Mercia funds. As well as providing a source of qualified investment opportunities, the other Mercia funds are able to supplement the Northern VCTs' to provide a more complete funding solution; the Northern VCTs' recent investment into Forensic Analytics, a leading digital forensics software business, was supported by replacement capital from Mercia's balance sheet. We are also supported in our efforts by the broader Mercia team, in particular, a centralised talent function which helps us identify Chairs and operating partners to support the Northern VCTs' portfolio.

The experience of managing a portfolio through two lockdowns in 2020, followed by a period of portfolio building in 2021, has been invaluable. As we entered the first lockdown in March 2020, our focus was on helping our portfolio companies survive in an environment that was rife with uncertainty and where it was very difficult to bring on board new investors. We did this not only by providing further funding, but also by increasing our level of interaction with management teams as we navigated a difficult commercial landscape together. As 2020 progressed, it became apparent that companies in our portfolio that were trading online and providing software to the E-commerce sector were accelerating rapidly, with consumers shifting in droves to online purchasing through lockdown.

This ultimately led to an unprecedented level of realisations from November 2020 onwards; overall the Northern VCTs have realised £130.0million cash proceeds and retained an equity investment of £29.0million in the period regarding two of these exits. Most recently, we sold 45% of our holding in Oddbox, an online grocery delivery business, to Burda Principal Investments for an enterprise value of £100.0million and also realised two-thirds of our holding in Currentbody, an e-commerce beauty products business to E-Complete, at an enterprise value of £50.0million. As is to be expected with a venture portfolio, not all investments have been successful; we have also exited three businesses at a loss. The experience of dealing with success and failure, often at the same time, should position us well for the future as we continue to build out and develop an exciting venture portfolio.



Ishaan Cholkoti - Partner - VCT Funds

I joined the VCT team in September 2018 from Nesta, an early-stage impact investor in the UK. More generally, I have over ten years' investment experience across a combination of venture, mid-market private equity and investment banking, with a particular interest in the EdTech and Consumer sectors, as well as businesses that combine social impact with financial return. In the future, I will be responsible for the people development within the VCT team. I am a non-executive director for several companies in our portfolio including Tutorful, Knowledgeemotion and Duke & Dexter.



Jason Warren - Partner - VCT Funds

I joined the VCT team in February 2017 as one of the first recruits following the rule change. I had a previous career as a software engineer in financial services, including roles at Morgan Stanley and an algorithmic hedge fund, which has stood me in good stead when it comes to making and supporting our software investments. I have a team of three people working with me based in London and the Midlands and, going forward, I will take on additional responsibility for our portfolio strategy and analysis alongside my investment duties. My non-executive director roles within the portfolio include Evoxix, Clarilis and Enate.



Aaron Lawson-Clark - Partner - VCT Funds

I joined the VCT team in September 2017, following 10 years in banking and institutional finance, which included building a venture debt portfolio for Barclays in the North of England. I am responsible for sourcing and making investments in the North and have three Manchester-based colleagues that work alongside me. Going forward, I will be responsible for setting the deal origination strategy and targets for the whole VCT group, as well our marketing efforts. I am a non-executive director at several of our portfolio companies including Pure Pet Food, Administrate and Ridge Pharma.



**As a trio, we will combine our range of investment, management and operational skills to invest c.£50.0million per annum across a diverse range of sectors and, in turn, deliver the target returns for the Northern VCTs' through successful realisations in due course.**

# Investments.

**New investments from the Northern VCTs for the years 2020 and 2021 have been completed across a multitude of businesses, notably in fast-growing sectors such as E-learning, Deep Tech and Biotech.**

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.

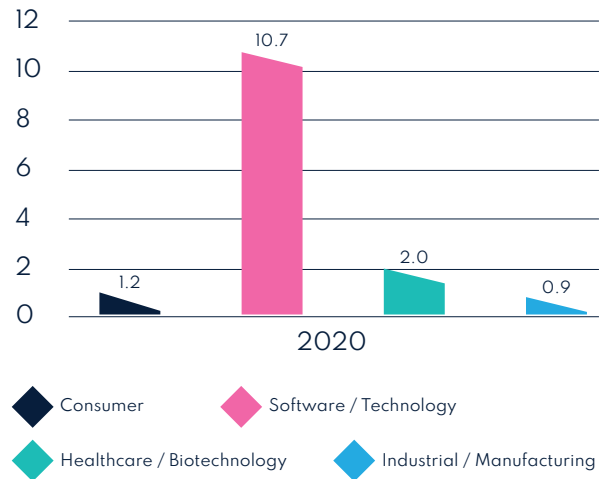
### Highlights this year:

Strengthening investment into the Cyber Security sector, the Northern VCTs invested £2.8million into Forensic Analytics in a joint investment with Mercia's own balance sheet. The investment will allow the business to further develop its innovative cloud-based software platform and expand its sales internationally.

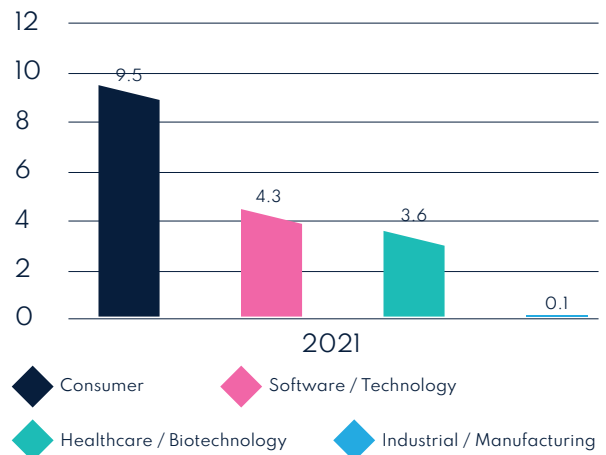
In another joint investment, Manchester-based SaaS business Pimberly received investment of £2.8million from the Northern VCTs whilst Mercia invested a further £1.4million from its own balance sheet. These significant joint investments demonstrate how Mercia's Complete Connected Capital can help leverage deals whilst at the same time offer accelerated growth to thriving regional businesses.

Opportunities in the Software and Technology sectors can also be seen in follow-on investments for 2020/21, with businesses in these sectors receiving £15.0million.

### Follow-on investment 2020: £14.8million



### Follow-on investment 2021: £17.5million



### Follow-on investment 2020-2021 total £32.3million



# New investments

**Total £23.1million**

Software and Technology	£million
 <b>ATLAS CLOUD</b>	<b>1.0</b> IT managed services provider
 <b>Nutshell</b>	<b>1.0</b> Zero code enterprise application platform
 <b>enate</b>	<b>2.2</b> Human and digital workforce management software
 <b>Adludio</b>	<b>4.0</b> Tech-enabled creative and media buying agency
 <b>Forensic Analytics</b>	<b>2.8</b> Call-data communications analytics software for police forces
 <b>pimberly</b>	<b>2.8</b> Product information management software
Healthcare and Biotechnology	£million
 <b>NATIVE</b>	<b>2.3</b> AI image scanning for Osteoporosis
 <b>locate<sup>bio</sup></b>	<b>2.5</b> Medical products for bone and cartilage repair
Consumer	£million
 <b>ODDBOX</b>	<b>2.0</b> Supply and delivery of fruit and vegetable boxes
Services	£million
 <b>moonshot</b>	<b>2.5</b> Counter extremism consultancy

# Realisations.

## musicMagpie

### The Northern VCTs invested £4.5million development capital in September 2015.

Stockport-based musicMagpie specialises in re-commerce in the UK and USA focusing on the circular economy of consumer technology (smartphones, tablets, consoles, personal computers), books and disc media (CDs, DVDs and video games). Under the leadership of Steve Oliver (CEO and co-founder), the company has evolved significantly. In April 2021, the company launched its shares on AIM at a valuation of £208.0million. The Northern VCTs partially exited on flotation but retained an 11.5% shareholding, making an 11.8x return at the IPO price.



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**Mercia shared our passion and our enthusiasm, the trust that we had in each other as people and as organisations was key to the relationship we have. Joining forces with Mercia really catalysed the big changes that were ready to happen in the business.**

Steve Oliver,  
CEO & Co-Founder, musicMagpie





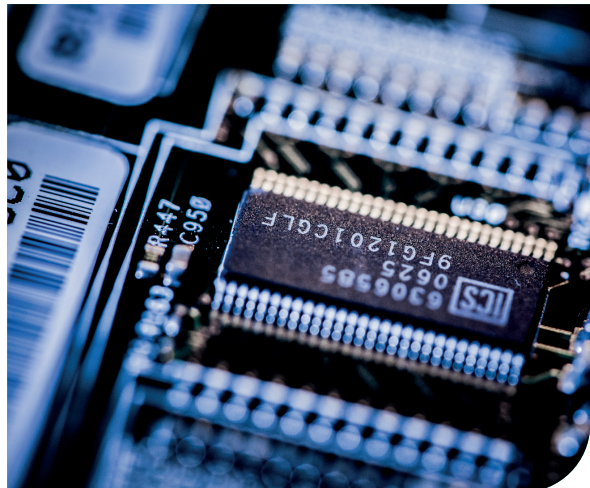
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**Agilitas delivered year-on-year double digit growth over the Northern VCTs' tenure through continued innovation and expansion of its channel service propositions and geographic footprint.**



## **In June 2014, the Northern VCTs invested £4.8million in Agilitas IT Holdings as part of a management buyout**

Nottingham-based Agilitas is one of the UK's leading channel services providers, delivering managed inventory solutions as well as technical, lifecycle and training services to businesses in over 60 countries. This funding facilitated the automation of systems which fuelled growth both nationally and internationally. Over the next six years the company delivered year-on-year double digit growth through the expansion of its channel service propositions and geographic footprint. In November 2020, the Northern VCTs sold their stake in Agilitas to private equity firm Perwyn, providing an 8.1x return for the Northern VCTs.



# Realisations.

## ODDBOX

### The Northern VCTs provided £2.0million funding in March 2020.

London-based Oddbox is a leading purpose-led supplier of fruit and vegetables that aims to reduce food waste by selling mis-shapen and excess produce. The investment was used to launch the concept in new UK regions.

The business experienced significant growth, notably during the COVID-19 pandemic. A portion of the Northern VCTs' stake in the company was sold to Burda Principal Investments in July 2021, with the remaining portion of the investment retained, providing a 10.9x return for the Northern VCTs.



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**This investment and support from Mercia will help us expand nationwide, leverage technology to drive behaviour change and support our rapid scale-up.**

Emilie Vanpoperinghe  
Co-Founder & CEO, Oddbox



**CURRENTBODY**  
THE BEAUTY DEVICE EXPERTS

**The Northern  
VCTs provided  
£5.8million  
funding over  
two funding  
rounds in  
March 2018 and  
December 2019.**

Cheadle-based Currentbody.com is an online retailer for home-use beauty products. The company's sales have grown significantly, increasing by 100% in 2020 alone. In November 2021, the Northern VCTs realised part of their investment for cash proceeds of £17.1million and retained an investment of £5.0million in the new owner's holding vehicle. This represented a 2.9x return for the Northern VCTs.

# Share Offers.

The Share Offers to be launched on or around 10 January 2022 will seek to raise up to £6.0million for Northern Venture Trust and £17.0million for each of Northern 2 VCT and Northern 3 VCT (with a total fundraise of up to £40.0million). The proceeds will be used not only to add new holdings to the growth company portfolio, but also, crucially, to provide the necessary rounds of follow-on investment for the fast-growing existing companies in the portfolio.

**It is expected that new shares will be allotted on or around 4 April 2022. The Share Offers' brochure will be made available on the Northern VCTs' website page [www.mercia.co.uk/vcts](http://www.mercia.co.uk/vcts).**

Further details of the Offers will be contained in the Offer Document and Prospectus which are expected to be published in early January 2022.

In recognition of the loyal shareholder following which the Northern VCTs enjoy, existing shareholders on the register of any of the Northern VCTs at 29 November 2021, 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.