Interim Management Statement

Introduction

This interim management statement covers the first half of the 2019/20 financial year, 1 October 2019 to 31 March 2020. Investment performance measures contained in this report are calculated on a pence per share basis and include realised and unrealised gains and losses.

Investment report

The financial year started with global equity markets performing well and US indices hitting new highs. Markets also found support from the more dovish stance adopted by many central banks and, in the case of the UK and elsewhere, talk of fiscal stimulus. The General Election produced some clarity on how and when the UK will exit the EU. We started 2020 with an optimistic outlook for the small domestically orientated companies that we invest in. Since then, all of us have had to adjust to a profoundly different way of life and we now contemplate the most significant reduction in global activity in living memory. How we emerge from this crisis is yet to become clear although, after an initial wave of indiscriminate selling, the market is now starting to apply some filters. Whilst there will be many losers, some companies will emerge in a stronger position than when they entered the crisis. It also seems some emerging or existing trends will accelerate and become more entrenched: deglobalisation, digitisation, remote working/learning and e-commerce are some obvious examples. These will throw up opportunities for those with relevant service propositions and those companies able to adjust quickly to the new world we find ourselves in.

Performance

In the six months to 31 March 2020 the unaudited net asset value (NAV) decreased from 70.60p to 56.70p. A special dividend of 1.75p was paid on 28 November 2019 and a final dividend of 2.25p was paid on 11 February 2020. Adjusting for the total distribution within the period of 4.0 pence per share results in a total return to investors of -9.90 pence per share, which translates to a loss of 14.0%. During the same period, the FTSE AIM All-Share Total Return index lost 21.3%, whilst the FTSE All Share Total Return index lost 22.0%. The qualifying investments made a net contribution of -5.28 pence per share whilst the non-qualifying investments returned -4.11 pence per share. The adjusting balance was the net of running costs and investment income.

Gousto was the top performing qualifying investment (+65.1%, +1.45 pence per share) following continued strong performance and a substantial equity raise to fund further investment in technology, infrastructure and proposition to position itself for delivery of its medium term growth objectives. Gousto is now the largest investment within the VCT, representing 6.5% of net assets. Other positive contributors included Learning Technologies Group (+18.4%, +0.60 pence per share), Faron Pharma (+354.5%, +0.53 pence per share) and Diaceutics (+31.9%, +0.29 pence per share), which enjoyed a strong debut year as a public company. Post period end, Faron Pharma announced that one of its experimental drugs (Traumakine) for the treatment of Acute Respiratory Disease Syndrome had been included in a global trial that would include CV-19 patients. Other parts of our healthcare/life sciences portfolio have also performed well (performance to 30 Apr 20): (1) EKF (+17%) and Yourgene (+61%) are supplying reagents for CV-19 testing programmes; (2) Omega Diagnostics (+387%) is working as part of a UK consortium with Oxford University and others to develop an antibody test; (3) Synairgen

(+71%), a very recent addition to the portfolio, is conducting a UK trial on a potential treatment for CV-19 patients; (4) Lidco (+88%) is supplying haemodynamic monitors and (5) Tristel (+74%) is providing disinfectant products to hospitals globally.

The biggest detractors within the period came from some of our larger investments such as Hardide (-68.9%, -1.42 pence per share) and Zoo Digital (-31.6%, -0.57 pence per share). Escape Hunt (-92.7%, -0.50 pence per share) was hit particularly hard by the winding up of its largest shareholder. Post period end, Zoo Digital's shares have recovered back to pre-crisis levels.

Within the period, we invested £7.6m into 11 qualifying companies, comprising 7 follow on investments into existing portfolio (including one private) companies, 3 secondary placings into new portfolio companies, and one new investment into a private company. Within the qualifying portfolio, we reduced our investments in Faron Pharma, Learning Technologies Group and Blackbird, in all cases as a result of strong share price performance. APC Technology and Synnovia (formerly Plastic Capital) were acquired through private equity backed bids. We also made complete exits from LoopUp and Genedrive.

Portfolio structure

The VCT is comfortably through the HMRC defined investment test and ended the period at 94.5% (subject to confirmation) invested as measured by the HMRC investment test. By market value, the VCT had a 64.3% weighting to qualifying investments. The allocation to non-qualifying equity investments decreased from 20.1% to 19.2%. We continued to reduce the investment in the Marlborough Special Situations Fund to release capital for investment into qualifying companies, taking it down from 7.9% to 4.1% of net assets. The period ended with no non-qualifying fixed income investments and cash reduced from 17.1% to 12.8%.

The HMRC investment tests are set out in Chapter 3 of Part 6 Income Tax Act 2007, which should be read in conjunction with this interim management statement. Funds raised by VCTs are first included in the investment tests from the start of the accounting period containing the third anniversary of the date on which the funds were raised. Therefore, the allocation of qualifying investments as defined by the legislation can be different to the portfolio weighting as measured by market value relative to the net assets of the VCT.

Share Buy Backs

In total, 1,991,947 shares (nominal value 19,919) were purchased during the period at a cost of £1,326,339 and an average price of 66.59 pence per share. The Board continues to target a share price discount of 5% to the NAV per share (as measured against the mid-price) for market purchases. It should be emphasised that this target is non-binding and depends upon a range of factors, including the Company's liquidity, its shareholder permissions and market conditions.

Post period end update

The unaudited NAV increased from 56.70 pence to 62.51 pence in the month to 30 April 2020, equivalent to a gain of 10.3%. We have been able to deploy capital into qualifying companies substantially ahead of budget despite the lack of IPO activity on AIM, investing a further £5.2m into seven qualifying companies in April, a record for a single month. With investment activity ahead of plan, we took the opportunity to exit eleven legacy qualifying investments. We further reduced the investment in the Marlborough Special Situations Fund to 2.4%. Cash fell to 9.9% of net assets.

As of 11 May 2020, the share price of 55.25p pence represented a discount of 11.6% to the last published NAV.

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