Interim Management Statement and Fundraising Update

Introduction

This interim management statement covers the third quarter of the 2019/20 financial year, 1 April 2020 to 30 June 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

Having gone to great lengths to reduce CV-19 infection rates, most Governments have now taken steps to re-open their economies through the relaxation of lockdown measures and very substantial fiscal and monetary stimulus.

Although the shape of the recovery remains the subject of much debate, these interventions catalysed a strong rebound in equity markets through April and May, providing positive support to the (unaudited) NAV. The momentum fell away in late May as the more optimistic predictions came under pressure from continuing reports of large outbreaks in the Americas, second waves in SE Asia and economic releases confirming the devastating impact of CV19 on the global economy.

Performance

In the three months to 30 June 2020 the unaudited Net Asset Value (NAV) increased from 56.7p to 66.59p, equivalent to a gain of 17.4%. During the same period, the FTSE AIM All-Share Total Return index gained 29.7%, whilst the FTSE All Share Total Return index gained 10.2%. The qualifying investments made a net contribution of 7.9 pence per share whilst the non-qualifying investments gained 2.3 pence per share. The adjusting balance was the net of running costs and investment income.

Qualifying Investments

Creo was the top performing qualifying investment (+89.1%, +1.12 pence per share) following the publication of NHS Health economics data that showed their Speedboat device could save NHS hospitals c.£5,000 per procedure when compared to traditional surgical procedures and the European certification of five new devices which jointly form a suite of gastro-intestinal advance energy devices. Creo is the third largest investment within the VCT, representing 3.6% of net assets. Other positive contributors included My1stYears (+96.5%, +0.78 pence per share), which has benefitted from CV19 tail winds, Blackbird (+95.2%, +0.70 pence per share) and Ilika (+68.8%, +0.48 pence per share), which successfully raised £14m in March to fit out a new manufacturing plant in Scotland in response to commercial interest. Several other companies raised funds, including Learning Technologies Group (£81m), Diaceutics (£21m), Escape Hunt (£4m), Everyman (£18m), Faron Pharma (EUR 12m) and Surface Transforms (£2m).

The were no significant losses within the period. The biggest detractors were Learning Technologies Group (-7.9%, -0.24 pence per share), Portr (-100%, -0.13 pence per share) and Faron Pharma (-25.6%, -0.11 pence per share).

Portfolio structure

The VCT is comfortably through the HMRC defined investment test and ended the period at 99.0% invested as measured by the HMRC investment test. By market value, the weighting to qualifying investments increased from 64.3% to 71.4%.

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 £6.4m into ten qualifying companies. As a result, we have lifted our expectations for new qualifying investment within the current financial year.

The new qualifying investments include 7 follow-on investments into existing portfolio (including one private) companies, 2 secondary placings into new portfolio companies, and the second tranche of our investment into Kidly. With investment activity ahead of plan, we took the opportunity to exit 12 legacy qualifying investments with low market values. We further reduced the investment in the Marlborough Special Situations Fund from 4.1% to 1.7% and our allocation to non-qualifying equities from 19.2% to 16.4%, in both cases to fund investment into qualifying companies. Cash decreased from 12.8% to 11.0% of net assets.

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 and Discount Management

In total, 1,574,977 shares (nominal value £15,749.77) were purchased during the period at a cost of £0.93m and an average price of 58.96 pence per share. The Board continues to target a share price discount of approximately 5% to the NAV per share (as measured against the mid-price). 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.

As at 30 June 20, the shares traded at a discount of 7.3% to the last published NAV.

Post period end update

The unaudited NAV increased from 66.59 pence to 67.10 pence in the month to 31 July 2020, equivalent to a gain of 2.3% after adjusting for the dividend of 1 pence per share paid to shareholders on 24 July 2020.

We continued to deploy capital into qualifying companies, investing a further £1.4m into two companies, including the final tranche of the investment into Kidly. We sold the remaining units in the Marlborough Special Situations Fund and reduced the investment into non-qualifying equities from 16.4% to 14.9%. Cash increased to 11.1% of net assets.

As of 14 August 2020, the share price of 65.0p pence represented a discount of 5.0% to the last published NAV.

Fundraising update

The Board is pleased to announce that, further to the announcement made on 22 June 2020, preparations to launch a new offer for subscription (the "Offer") are progressing well. Subject to receiving shareholder approval for the issue of new shares under the Offer, the Company is seeking to raise up to £20 million together with an over-allotment facility to raise up to a further £10 million.

Full details of the Offer will be contained in a prospectus that is expected to be published on or around 27 August 2020. A further announcement will be made when the prospectus is made available.

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