

Performance data



Northern Investors Company PLC

Launch date	1984 (listed since 1990)
Share price	200.0p
Latest NAV per share	294.0p (31 December 2007)
No of shares in issue	19,523,440
Market capitalisation	£39 million
Dividend yield	3.4%

		1 yr	3 yrs	5 yrs
NAV total return	- %	+12.7%	+25.3%	+54.9%
	- ranking	10/14	13/14	12/14
Share price total return	- %	-2.7%	-5.8%	+29.9%
	- ranking	9/14	13/14	14/14



Northern 2 VCT PLC

Launch date	1999
Share price	80.5p
Latest NAV per share	91.1p (31 October 2007)
No of shares in issue	50,154,740
Market capitalisation	£40 million
Dividend yield	6.8%

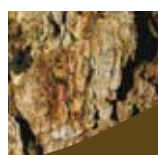
		1 yr	3 yrs	5 yrs
NAV total return	- %	+13.0%	+16.1%	+25.8%
	- ranking	6/65	15/29	14/22
Share price total return	- %	+16.6%	+21.0%	+41.8%
	- ranking	6/65	13/29	10/22



Northern Venture Trust PLC (ordinary shares)

Launch date	1995
Share price	62.0p
Latest NAV per share	81.1p (31 December 2007)
No of shares in issue	38,744,714
Market capitalisation	£24 million
Dividend yield	14.5%

		1 yr	3 yrs	5 yrs
NAV total return	- %	+18.0%	+27.6%	+78.6%
	- ranking	3/65	8/29	5/22
Share price total return	- %	-1.6%	+13.8%	+69.6%
	- ranking	36/65	16/29	7/22



Northern 3 VCT PLC

Launch date	2001
Share price	86.5p
Latest NAV per share	98.9p (31 December 2007)
No of shares in issue	29,926,318
Market capitalisation	£26 million
Dividend yield	4.6%

		1 yr	3 yrs	5 yrs
NAV total return	- %	+8.5%	+14.0%	+19.2%
	- ranking	10/65	18/29	15/22
Share price total return	- %	+5.4%	+12.2%	+9.4%
	- ranking	19/65	17/29	16/22



Northern Venture Trust PLC (C shares)

Launch date	2006
Share price	82.5p
Latest NAV per share	93.6p (31 December 2007)
No of shares in issue	20,629,048
Market capitalisation	£17 million
Dividend yield	2.4%

		1 yr	3 yrs	5 yrs
NAV total return	- %	+0.7%	N/A	N/A
	- ranking	40/65		
Share price total return	- %	-	N/A	N/A
	- ranking	24/65		



Northern AIM VCT PLC

Launch date	2000
Share price	43.5p
Latest NAV per share	58.4p (31 January 2008)
No of shares in issue	21,746,189
Market capitalisation	£9.5 million
Dividend yield	6.9%

		1 yr	3 yrs	5 yrs
NAV total return	- %	-6.6%	-6.6%	+30.0%
	- ranking	11/38	11/27	2/19
Share price total return	- %	-17.9%	-20.8%	-2.3%
	- ranking	26/38	20/27	9/19

Total return statistics are for periods to 31 January 2008. Source: Trustnet, mid to mid, net income re-invested. "Share price" is mid-market price as at 31 January 2008. "Dividend yield" is based on cash dividend paid in respect of latest full financial year expressed as a percentage of share price. "Ranking" shows position of fund compared with total funds in peer group for relevant period as reported by Trustnet.

Any other business...

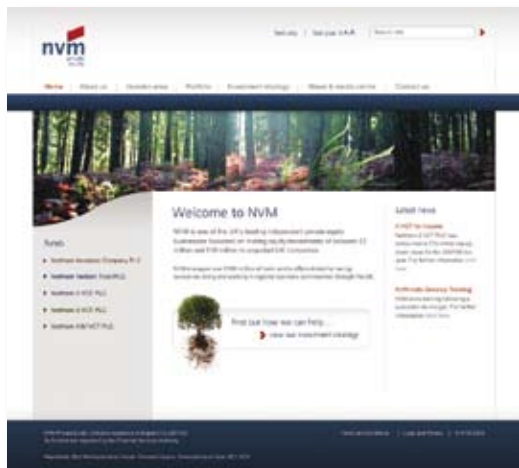
Shareholder case studies

NVM receives numerous requests from the national media for investor case studies. The Money sections of the broadsheets, such as the Sunday Times and Daily Telegraph, profile individuals, couples or families who have agreed to talk briefly about their experience of investing into a particular fund or portfolio of funds. The investors are normally invited by their fund provider to take part. Participants are interviewed over the phone and photographed by the publication at their convenience (e.g. at home) and there is no obligation to mention specific investment amounts or other personal financial information.

NVM would like to invite you to join our list of shareholders willing to be approached by the media. By registering your interest you are not obliged to take part in an interview but simply agreeing to be contacted to request your participation. For each case study published we will donate £100 to a charity of the interviewee's choice.

To register your interest please contact Wendy Arkle on 0191 244 6024 or e-mail wendy.arkle@nvm.co.uk.

www.nvm.co.uk launches new investor area



We are delighted to announce that from the beginning of April 2008 it will be possible to access daily share prices, dividend history, performance, financial reports, top 15 investments and other relevant information relating to our funds from our website at www.nvm.co.uk. We hope that you find this information useful and we welcome your feedback. Contact our Newcastle office on 0191 244 6000 or e-mail info@nvm.co.uk.

Mauro joins the investment team

NVM is pleased to announce that Mauro Biagioni has joined our investment team as Investment Manager. Since 2004 Mauro has been NVM's Financial Controller responsible for all aspects of finance in respect of NVM and its funds. Over the past year he has been involved with portfolio management and assisting with transactions and realisations. Mauro will work closely with NVM's team to generate investment leads across the UK.



Shareholder meeting dates

Northern 2 VCT PLC

AGM

Thursday 22 May 2008, 12.00 noon
Thistle Hotel, Neville Street
Newcastle upon Tyne NE1 5DF

Northern Investors Company PLC

AGM

Wednesday 25 June 2008, 12.30pm
Thistle Hotel, Neville Street
Newcastle upon Tyne NE1 5DF

Northern 3 VCT PLC

AGM

Thursday 3 July 2008, 11.30am
The Balmoral, 1 Princes Street
Edinburgh EH2 2EQ

Contact us

NVM Private Equity Limited

Northumberland House, Princess Square
Newcastle upon Tyne NE1 8ER

Tel: 0191 244 6000 Fax: 0191 244 6001 info@nvm.co.uk

Forbury Court, 12 Forbury Road
Reading RG1 1SB

Tel: 0118 951 7000 Fax: 0118 951 7001 rdg@nvm.co.uk

Past performance is not a guide to the future and you should be aware that share values and income from them may go down as well as up and that you may not get back the amount you originally invested. Potential investors are strongly urged to seek independent professional advice before considering investment in a VCT. Investments made in smaller companies or specialist sectors such as technology related stocks can be more volatile than investments in developed markets and more established companies and above average price movements can be expected. Exposure to a single country market also increases potential volatility. Investments should be viewed as for the medium to long term. Existing tax levels, bases and reliefs may change and the value of reliefs depends on personal circumstances. Investments made by VCTs will normally be in companies whose securities are not publicly traded or fully marketable and may therefore be difficult to realise, as may the shares in the VCT. In the event of a VCT losing its HM Revenue & Customs approval, it is likely that its shares will become illiquid. Government Stamp Duty of 0.5% is payable on all investment trust shares purchased. The value of investment trust shares purchased will immediately be reduced by the difference between buying and selling prices (market maker's spread). Performance figures do not include market maker's spread which can be substantial in these trusts. NVM Private Equity Limited is authorised and regulated by the Financial Services Authority.

Contents

Second time around	2
Northern 2 VCT	2
Training their aim	3
Fast Track 100	3
Barony's six appeal	3
A closer look at... Ithaca Business Media	4
Performance data	5
Shareholder case studies	6
www.nvm.co.uk launches new investor area	6
Mauro joins the investment team	6
Shareholder meeting dates	6
Contact us	6

KCS clocks off



NVM has sold its stake in **KCS Global Holdings** to software giant Sage two-and-a-half years after backing its management buy-out/buy-in. The firm sells time

and attendance, HR and payroll software – plus related services – to mid-sized and blue-chip clients, including Specsavers, Paul Smith and car dealership Reg Vardy.

The £20m deal returned almost three times the original NVM investment, with an IRR of over 50% a year, thanks to strong growth over NVM's period of ownership. "KCS has an

impressive reputation for both its software and its outsourcing services," says NVM's Martin Green, who managed the exit. "We worked hard with the management team to make the company an attractive acquisition target."



Crucially, NVM introduced a new chairman to the business and supported a highly effective buy-and-build strategy.

With around 80 employees and a 35-year track record, KCS has been voted *Pay Magazine's* "Payroll Software Provider of the Year" six times. Little wonder, then, that Sage wanted to clock on with the business. "We are particularly excited to be entering

this new phase in the company's development," says KCS MD Alan Snell.

Private equity in the UK



The British Private Equity and Venture Capital Association (BVCA) has published an updated version of its report *The Economic Impact of Private Equity in the UK*, showing how important private equity funding has become to the development of the UK economy.

NVM chairman Michael Denny, himself a former chairman of the BVCA, says: "There has been a lot of critical media comment over recent months about the activities of large private equity firms, much of it ill-informed. What is clear from the BVCA review is that private equity has been hugely beneficial to the UK economy. Almost invariably the businesses we at NVM invest in are relatively small private companies, which need a supportive investor with a long-term outlook to work with them to achieve their objectives."

The BVCA's research shows that in the five year period to 2006/7, UK companies which had received venture capital investment backing increased their employee numbers at the rate of 6% per annum, compared with only 1% for UK companies as a whole. During the past year, it is estimated that venture-backed firms have contributed some £35 billion in tax revenues to the UK exchequer.

Michael Denny accepts that the current slowdown in the UK economy will have an impact on business confidence, but he is optimistic about the future prospects for NVM and the private equity sector generally. "You have to remember that our approach to investment is long-term – when we get involved with a company, we do so knowing that our relationship is likely to continue for four to seven years or longer. The key to success is laying the right long-term foundations – and when a company we invest in is successful, all the stakeholders should benefit and the national economy will benefit too."

■ The BVCA report can be viewed on the BVCA website, www.bvca.co.uk

Fund Focus
page 5

VCT market update

Second time around: NVM investment director Tim Levett takes a look at the developing secondary market in VCT shares



Venture capital trusts (VCTs) represent one of the few opportunities for private individuals to invest in unquoted companies via a collective investment vehicle. For many

investors, VCTs are the best route into the private equity field.

But the VCT model has other attractions for the private investor. If you invest in a new VCT share issue, you're entitled to 30% up-front income tax relief on the capital you're investing – and on a continuing basis, dividends paid by VCTs are tax-free.

Of course, there's a reason why investors get those tax breaks. VCTs are considered to be relatively high-risk, investing as they do in smaller, growing private businesses which offer potentially high returns but also carry a possibility of under-performance or even failure. Nevertheless VCTs have raised well over £2 billion since 1995, which suggests that both the Treasury and the investing public continue to see good value in the scheme.

Understandably, most of the published comment and analysis on the VCT market is aimed at investors in new VCT issues. But with the longer-established VCTs holding increasingly mature investment portfolios, the attention of sophisticated investors is turning to some of these older funds, which may no longer be issuing new shares but

may regularly have existing shares becoming available for purchase through the stock market. It's true that there is no 30% initial tax relief on such purchases, but the yield generated by a maturing fund can often make up for this.

A good example is Northern Venture Trust, NVM's oldest VCT, whose ordinary shares can currently be acquired in the market for around 64p yet have paid investors a dividend of at least 9p in each of the last four financial years. When you take into account the fact that the dividends are tax-free, that's quite a tempting yield – especially for a higher-rate tax payer.

Putting together the high potential yield and the tax-free status, it's understandable that many advisers see VCTs as an ideal vehicle for making retirement provision alongside a conventional pension scheme. If a SIPP has reached – or is nearing – its maximum funding level, VCTs can be a good way of building up another tax-sheltered portfolio – in a form which can have greater long-term flexibility than a pension plan.

As with all investments, making the right choice of VCT to invest in is absolutely critical. There are some notably poor performers in the market – and while there's now a big population of VCT managers in the industry, only a handful have the kind of track record that should really excite investors.

So if you're looking at investing in a VCT, you really have to ask three questions:

- **What's in the portfolio? You need to feel comfortable with the key investments the VCT has made.**
- **What's the dividend history? Has there been a consistent stream of payments or is the track record "lumpy"? Some VCTs have paid large one-off dividends but the secondary market investor may well be looking for a steadier pattern.**
- **Who is managing the fund? You must be satisfied that there's an established team in place.**

Good hunting!

Northern 2 VCT PLC: the income VCT

Northern 2 VCT's top-up offer of new ordinary shares for the 2007/08 tax year has got off to a good start, with almost £2.5 million subscribed by the end of January. NVM managing director Alastair Conn says: "We have had an encouraging response to the share issue, especially given the current economic background. With the prospect of falling interest rates, investors are picking up on the fact that a mature fund like Northern 2 can offer an attractive dividend yield, which under the VCT rules is completely tax-free."

Well-known VCT analyst Ben Yearsley of Hargreaves Lansdown has made Northern 2 VCT one of his two preferred generalist VCTs for this year, commenting that

the offer "represents an attractive income prospect. The NVM team is now one of the strongest and their geographic coverage increases the size of their pond. Investors get exposure to the growth potential of the underlying portfolio which should bring the benefit of earlier tax free distributions."

For more information visit NVM's website at www.nvm.co.uk, contact us at info@nvm.co.uk, telephone **0191 244 6000** or call Downing Corporate Finance direct on **0207 416 7780**. Alternatively, contact your usual financial adviser.



Training their aim

In 2002 NVM invested in Longhirst Group, a national provider of training and conference facilities, upping its stake in 2004 with a second round of funding. Then in May last year, as part of NVM and the management team's growth strategy, Longhirst's training division – **Develop Training** – was demerged from the group.

It quickly became apparent that the stand-alone business was aiming high – and that its ambition and success (partly thanks to a gilt-edged client list) created a deal opportunity. *"We decided to take advantage of the strong corporate and institutional interest in the training sector,"* says Mauro Biagioni, who managed NVM's £15m exit from Develop through a secondary management buy-out. The firm's new investors are Barclays Ventures and HSBC.

"We have ambitious plans to grow the business, including opening new training centres, expanding into other sectors and making further acquisitions to build market presence," says Develop chief executive Cheryl Foreman. *"We really enjoyed working with NVM and are delighted with the value of the business we've created with its backing."*



Astbury Marsden and Paladin Group listed in Fast Track 100 companies

Two NVM portfolio companies were featured in the eleventh Sunday Times Fast Track 100, published in December. Fast Track, sponsored by Virgin, ranks Britain's hundred private companies with the fastest growing sales over the past three years.

NVM backed the £17.5m MBO of financial services recruitment firm **Astbury Marsden** last year, and the company appears at number 41 on the list (up from 49 in 2006) with a 92% annual increase in revenues.

Paladin Group, a property services business, did even better. Its £11.4m in sales for the year represented an annual gain over the three period of 131%, placing it at 18 on the list. NVM's development capital deal with the firm helped it make key acquisitions last year, boosting its long-term growth.

Congratulations to both companies – and their management teams.



Barony's six appeal

NVM and the management team at **Barony Universal Products**, manufacturer of aerosol products such as air fresheners and deodorants, were savouring the sweet smell of success after selling the business to Questbridge in November. The deal realised a return of just under six times NVM's original investment, with an IRR of over 29% per year over eight years.

NVM backed managing director Stewart Shaw's management buyout in 1999, supporting his team as Barony grew organically through contracts with multiples such as Tesco and Boots. *"We were attracted to Stewart's entrepreneurial spirit and have enjoyed working with his team to deliver an excellent return for shareholders,"* says NVM's Norman Yarrow.

Shaw's drive and the experience and guidance of chairman Hugh Jack helped turnover grow by more than 300%; pre-tax profits are forecast to be over £1m by the end of 2007. *"NVM's investment has been instrumental in this growth and we are now looking forward to working with the new owners to expand the business further,"* says Shaw. Questbridge owns JSE Arnest, the largest aerosol manufacturer in Russia – whose output is now one million aerosols a week higher thanks to Barony.



NVM was delighted with a 60% IRR on its two and a half year investment in events business Ithaca Business Media when CMPi (a subsidiary of United Business Media) bought it last year. But what was the experience like for Ithaca managing director Andy Center? Richard Young finds out.

A marketing director at just 26, Andy Center has always been driven. *"Independent Exhibitions wanted a marketing chief, and I was lucky enough to be headhunted – with equity, I'm happy to say – to fill the role in 1988."*

The following decade saw uninterrupted growth at the business and in 1998 it was acquired by Penton Media, a US-based group looking for international expansion. But Penton's strategy – aggressively acquisitive and positioning itself as a "new media" stock – backfired spectacularly in the dotcom crash. The group's shares plummeted from over \$30 to less than 20 cents.

But Center remained convinced of the intrinsic value of the UK business and frustrated by the lack of funding. *"We needed investment, strong brands and great ideas for growing the business, but obviously we had one hand tied behind our backs while we were part of Penton,"* says Center.

The solution seemed obvious: buy the business. Reluctant to give up their international aspirations, Penton rebuffed Center three times. Only when a new CEO, David Nussbaum, took over the reins in September 2004 and decided to focus on the core US business was the MBO agreed. The deal was finally done in April 2005 with NVM's backing.

"In my opinion private, smaller companies can be more strategic than larger quoted businesses and take a longer view," says Center. *"We wanted to run our own business with a very specific dynamic – to give all the staff an opportunity to become owners rather than just employees – and hit that sweet spot of quick decision taking, flat management and the motivation to act which can be a real competitive advantage in fast-moving media businesses."*

So how did the relationship with NVM come about? *"We got some advice from friends in the Morris family (who bought Earl's Court & Olympia in 1999) and they introduced us to Livingstone Guarantee, a firm of advisers,"* says Center. *"The banks didn't seem ballsy enough to see the opportunity, so LG organised a beauty parade of private equity firms and we got a really good feeling about the guys from NVM."*

NVM's secret to winning over Center and his team was their direct, no-nonsense approach – asking the difficult questions up-front, challenging management's assumptions



and then being smart in interpreting the answers.

NVM's Peter Hodson clearly recognised the value in Ithaca – not least because Center was convinced the value of the individual assets within the firm (the different shows it put on and

brands it owned) was higher than the purchase price.

But getting a good value purchase price was never going to be enough for an ambitious managing director such as Center. He wanted growth – and fast. *"In my opinion, the best strategies are simple,"* he says. *"The business had got bloated as part of a big corporate, so we got some early upside by reducing costs. We quickly exited the more tired markets we were in and exploited our new, leaner size and structure to move – fast – into new ones."*

The fleet-footedness was aided by the share option scheme that the team extended to all the employees. *"When people have a sense of ownership over the business, it improves decision-making and means they take much more responsibility for how the company is doing,"* says Center.

NVM played a crucial role, too. The firm appointed media heavyweight Philip Soar as chairman ("he was excellent") and Hodson offered the management team a valuable source of advice on the business's development.

"Peter was great as a source of objective second opinion," says Center. *"He took a real interest in the business, he came to our events and talked to our customers, so his opinion was always well informed. We thought of him as the 'consiglieri' to the team."*

The result? Center and his team increased revenue from Ithaca's four flagship business-to-business events by 50%; attendance at Internet World doubled in 2007 to almost 13,000 business visitors. But growth soared right across the portfolio and the company also developed a profitable online business.

But every investment needs an exit. "Phil Soar has a great nose for moves in the industry, his antennae are tuned for opportunities," says Center. "Last year, it had become obvious that it was a sellers' market – events businesses were at a premium as a complement to burgeoning online media and as an alternative to the decline in traditional advertising."

CMPi, a division of United Business Media, certainly thought so, and paid £14.25m to take Ithaca into its fold (and tripling NVM's investment in the process).

According to Center: *"It's a great feeling to create something brilliant – and for everyone involved to get a result – when you have been written off"*.

■ Richard Young is a freelance journalist