

Product: The Northern VCTs

Investment Advisor / Manager: Mercia Fund Management Limited

Our approach and assessment of compliance with the Consumer Duty: June 2025

Background

Northern Venture Trust PLC ("NVT"), Northern 2 VCT PLC ("N2VCT") and Northern 3 VCT PLC ("N3VCT") (together "the Northern VCTs" or "products" and each "the product") invest mainly in unquoted venture capital holdings and aim to provide long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

Mercia Fund Management Limited ("Mercia") is the investment adviser to Northern Venture Trust PLC and investment manager of Northern 2 VCT PLC and Northern 3 VCT PLC.

The Financial Conduct Authority (FCA) has introduced an over-arching Consumer Duty Principle, with four key outcomes and with underlying rules with which all firms that have a role in the manufacture and distribution of products must comply. This document contains Mercia's assessment of the Northern VCT's compliance with the four key outcomes.

Process of assessment

Mercia's implementation work commenced in 2022, with an assessment of its compliance with the Consumer Duty on a firm-wide level, including its governance and culture, as well on a product-level basis. This update contains further detail and iteration of the methodology employed to assess compliance with the Consumer Duty.

Product Assessment

Mercia has assessed how it will meet the Consumer Duty in respect of the Northern VCTs. Its review of each outcome is set out below.

1. Products and Services Outcome

The firm's products and services should be fit for purpose. The terms match the target consumer needs and products and services work as expected.

Key features of the product

The main benefits of VCT investments

- Income Tax relief of up to 30% on a maximum investment of £200k per tax year, providing shares are held for a minimum of 5 years and issued through a share offer.
- Gains on investments are exempt from Capital Gains Tax on disposal.
- Dividends paid from the VCT are exempt from Income Tax.

Features of the product

- Generalist fund, with portfolio concentrations in Software & AI, Health & Lifesciences, Consumer and Deep Tech.
- Diversified portfolio of 60+ companies.
- Strong investment team of 15+ experienced investors.
- Dividend target of 5% (NVT and N2VCT) and 4.5% (N3VCT).
- Dividend reinvestment scheme available, allowing dividends to be re-invested at the prevailing net asset value, with Income Tax relief of up to 30% subject to the annual investment limit and shares are held for a minimum of 5 years.
- A buy-back facility at a discount of 5% to net asset value, subject to the availability of distributable reserves and at the discretion of each relevant board.
- The Northern VCTs were established between 1995 and 2001 and are among the longest established VCTs in the market.

Key limitations of product

- The product is high risk and it is possible that the full investment would be lost.
- Shares in VCTs are illiquid, typically with a very limited secondary market. Investors are likely to need to rely on the share buyback scheme, in which shares are bought back at a discount to net asset value, which may not always be available.
- To qualify for income tax relief, investors must hold shares in the VCT for a minimum of five years and the shares must be subscribed for through an issue of new shares. Income tax relief is available on a maximum investment in VCT schemes of £200k per tax year.
- Investors must have a sufficient income tax liability to claim the full relief.

Consumers and our Target Market

As set out in its target market analysis, Mercia's consumers, in the context of tax-efficient investing are:

- An advised investor whose regulated financial adviser has deemed the product suitable.
- Sophisticated/high-net-worth investors or restricted investors (as defined by the Conduct of Business Rules).
- Able to understand the risks of venture capital investing.
- Able to utilise the tax advantages that are provided as a counterbalance to the risks that are inherent in early stage investing.

Mercia has considered the design of the products and believes that the products meet the needs, characteristics and objectives of the target market. It has set out the target market for the products and believes that the features meet those needs and objectives, in particular in relation to the tax benefits that are sought by investors in these funds.

2. Price and Value Outcome

Products and services should be sold at a price that reflects their value. There should be no excessively high fees.

Mercia has considered the factors set out below in assessing its products against the Price and Value outcome. The full review can be found in appendix 1 on page 6.

Ongoing assessment

The FCA rules require Mercia to undertake a price and value assessment upon any significant product changes or fundraising activity – the fees for this product will be assessed on an ongoing basis, and this document will be updated, in compliance with these rules.

3. Consumer Understanding Objective

Consumers are equipped to make good decisions. Information is made available at the right time and is understandable.

There are several resources available for Consumers to understand the product including, but not limited to:

- Annual reports and other financial information
- Regulatory News Service (RNS) announcements
- Fund prospectus
- Fundraising brochure
- Shareholder newsletter

Consumers are able to contact either Mercia or The City Partnership (UK) Limited (the Registrar) to obtain further information. Additionally, Consumers are able to attend Annual General Meetings and

are invited to an annual in person shareholder event to meet the manager. Additional online events are also available throughout the year.

4. Consumer Support Objective

Customer service should be responsive and helpful. It should be as easy to complain about or switch and cancel products or services as it was to buy them.

The product is long-term and illiquid. It is stated very clearly in all fund documentation that withdrawing funds, including to switch to a new product or to transfer to a new product, would result in the loss of income tax relief if sold within 5 years of acquisition, and would only be possible subject to a secondary sale or a share buyback at a (typically 5%) discount to NAV. There are therefore significant costs involved in amending / switching / transferring or cancelling the Consumer's investment in the product, as is in the nature of the product.

It is possible to make general enquiries / requests, access the benefits of the product or make a complaint with no unreasonable barriers or additional costs. In assessing this, Mercia has taken into account the response to the products, in terms of ongoing subscriptions, year-on-year adviser feedback and low number of eligible complaints. In any instances where a complaint has been referred to the FOS, it has not been upheld by the FOS. Mercia, as FCA regulated Manager, follows the FCA's rules in relation to complaints handling and monitors compliance with those rules. In addition, Mercia reports to the Boards of the Northern VCTs.

Mercia has a vulnerable customer policy that covers how retail customers with characteristics of vulnerability will be supported.

Testing Summary

Is the product demonstrating a clear set of benefits for its target market including vulnerable customers?	Yes
Is the product meeting the needs and objectives of its target market and vulnerable customers?	Yes
Does the product provide fair value for the target market including vulnerable customers?	Yes
Has a value assessment been completed, and does it demonstrate good value?	See Value Assessment below.
Has the product been distributed in accordance with the value assessment findings?	Yes
Is the product allowing identified groups of customers to pursue their financial objectives?	Yes
Are communications being used as detailed within the product approval?	Yes
Does data demonstrate the communications are effective in allowing the target market to understand the key features and benefits of the product and make effective decisions?	Yes
Have customers been able to use the full benefits of the product?	Yes, as far as we are aware
Does testing demonstrate the communications are clear, fair and not misleading?	Yes
Are customers adequately supported after the point of sale?	Yes
Have testing of the actions of distributors been undertaken?	Yes
Where testing identifies the product is not meeting the needs of some or all of its target market including through identified issues with communications has the following action been taken: • Cease distribution • Mitigate failures • Inform distribution chain	The testing indicates the product meets the needs of the target market.
Is the product design avoiding foreseeable harm as set out in PRIN 2A.2.10 G?	Yes

Appendix 1: Value for Money Assessment

Target market

Retail and professional clients who:

- Are looking to reduce their UK income taxation upon initial investment
- Are able to hold the investment for at least 5 years
- Are seeking to access a diverse group of (mostly unquoted) portfolio companies
- Value regular tax-free income from their investment
- Have large amounts of capital and an ability to accept high risk on the portion to be invested in the product
- Have an income tax liability in excess of the tax relief available from their initial investment
- Has a high tolerance to risk, and able to lose the capital invested
- Understand the risks involved in investing in unquoted, illiquid shares

This target market has been chosen because these customers will be able to derive most value from the product, including its tax reliefs and long-term potential return, whilst being willing and able to accept its limitations and high risks, including its long-term illiquidity and potential for losing the entire investment.

Mercia's approach to vulnerable customers is covered under the response to the Consumer Support objective.

Costs of the product

At the date of assessment, costs of holding / investing into the products leveraged both directly and indirectly on an investor in the fund is categorised as follows:

Cost	Description	Frequency	Payable by	Payable to
Annual management fee	Annualised charge of 2.06%, with a discount of 1.06% on liquid cash balances over £20m per VCT	Quarterly	Product	Mercia
Performance fee	14% of annual total return per share in excess of 1) 5% of opening NAV per share, or 2) difference between 'High Water Mark' and opening NAV per share	Annual assessment	Product	Mercia
Company secretarial and administration fee	Cost of providing company secretary and other administration fees. As of 31 March 2025: NVT £99,200, N2 £81,500 and N3 £74,300	Quarterly	Product	Mercia
Promoter's Fee	2.5% of application amount, discounted to 2.0% for 'existing investors'	Upon subscription	Direct	Mercia
Adviser Charges	Initial fee facilitated on behalf of advisers, as agreed with investor	Upon subscription	Direct	Adviser
Trail Commission	Execution-only brokers will usually be paid an annual trail commission for five years, of which the Companies will pay 0.2% and the balance will be paid by the Manager (minimum of 0.2% per annum)	Upon subscription	50% Product 50% Mercia	Execution-only Broker
Annual Running Costs	Costs of running the VCTs, including director fees, audit fees and other miscellaneous costs	Ongoing	Product	Miscellaneous

The total cost to the product is capped at 2.9% of opening net asset value.

For full details of costs, please refer to the latest annual report of each Northern VCTs, and the latest published prospectus. Mercia is also eligible to charge fees to portfolio companies that it engages with as part of its operations manufacturing the product.

Ability to switch / withdraw from product

VCT shares are illiquid given that the underlying value is comprised of shares that are in primarily unlisted early stage companies and will lose the income tax relief if sold within 5 years. There is a very limited secondary market for VCT shares. The share buyback policy is designed to mitigate these issues and to permit withdrawal of funds where necessary (e.g. to switch to another provider) but it is not guaranteed to be available at any particular time.

Product lifespan

The product is, subject to regular continuation votes held at Annual General Meetings, expected to continue, subject to the relevant VCT legislation being maintained.

Cost of manufacturing the product

The recurring costs of the product enables Mercia to employ the investment team, finance, company secretarial and other administrative resources to invest in and monitor the VCT's portfolio. Fees charged are assessed on at least an annual basis to ensure that they are commensurate with the costs charged.

Market rate for the product

The product is assessed regularly to ensure it is in line with the market rate, and Mercia regularly reviews fees of market participants to ensure that costs are in line with comparable products.

Distribution arrangements

Mercia works with a number of distributors to provide investors access to the product. All relevant information is made available to distributors, including the brochure and access to the Mercia investor relations team. Adviser fees are the responsibility of the adviser to agree with their clients directly. Mercia will facilitate payment of the initial adviser fee on behalf of investors, provided that Mercia has received appropriate authority. Execution only brokers are eligible to receive a commission for introductions, as described above.

Assessment

The product is assessed to offer fair value because in return for the costs, it offers the opportunity for capital gains (tax free), up to 30% income tax relief, tax-free regular dividends and the opportunity for special dividends. Costs are in-line with market average and in some cases are lower. Vulnerable customers are no less able to obtain value from the product providing they are able, with appropriate advice, to meet the conditions of the target market. There are no adverse findings from this assessment.