Baronsmead Second Venture Trust plc

Tax-Advantaged Investments

VCT Review

OCTOBER 2019

Contents

Overview

Gresham House plc ("Gresham House" or "the Manager") is seeking to raise up to £40 million with an over-allotment facility to raise up to a further £10 million in aggregate (before any costs associated with the raise) for Baronsmead Venture Trust plc ("BVT") and Baronsmead Second Venture Trust plc ("BSVT"). BVT and BSVT (collectively the "VCTs"), will invest using the same strategy, and will typically invest alongside each other into both quoted and unquoted investee companies. This review will focus on the Baronsmead Second Venture Trust plc.

The Offer will open to existing and new shareholders on 4th October 2019, and shares will be issued over three allotments. Subscriptions for the first allotment will close on 15th November 2019, the second on 3rd January 2020, and the final allotment on the 21st February 2020, or earlier in either instance if fully subscribed.

Investment Details:

Score:	85
Offer Type	Evergreen
VCT Strategy	Generalist
Share Class AUM (Pre-Offer)	£187 Million
Manager AUM	£2.45 Billion
VCT Risk Level	XXXX

Investment:

Minimum subscription	£3,000
Maximum qualifying subscription per tax year	£200,000
Early bird discount	None
Loyalty Discount	None

Closing Date:

Evergreen – Subscriptions for the first allotment will close on 15 November 2019, the second on 3rd January 2020, and the final allotment on the 21st February 2020, or earlier in either instance if fully subscribed.

MJ Hudson Cornerstone Trustmark

This document verifies that *Baronsmead Second Venture Trust* has successfully completed our independent due diligence process, having passed through all stages of the governance process in the run-up to the report's publication on the date listed below. It has therefore been awarded the MJ Hudson Cornerstone Trustmark.

Risk Warning for VCT Schemes

Individuals should always read and bear in mind the risk warning notices that are included within providers' investment offer literature / documentation, including prospectuses, information memorandums, securities notes, brochures and other related marketing literature. Whilst the following list is not exhaustive, some of the main risks to be aware of include:

- Investments are in small, unquoted companies and should be considered as high risk;
- An investment in a VCTs should be viewed as a long-term investment and should only be considered if you can afford to tie up capital for long periods;
- Legislation, along with the nature and level of tax reliefs is subject to change. There can be no certainty that investments will be eligible or remain eligible for VCT Relief;
- Historic investment performance may not be a guide to future performance, and any given investment may fail completely causing you to lose the full amount invested;
- Managers of VCTs will have inherent conflicts of interest as a result of, *inter alia*, existence of legacy holdings, investments in other funds managed by the same manager, the potential to earn performance related fees and the existence of different schemes with identical or very similar mandates;
- VCT investments should only be undertaken by sophisticated investors who understand, and have given careful consideration to, the underlying investment strategy and associated risks. For help in determining potential investment suitability, professional advice should be sought;
- There can be no certainty that VCTs will continue to pay out their current level of income or indeed any income;
- Investors will usually not be eligible for compensation if things go wrong;
- Although VCTs are listed there is generally little or no secondary market for the shares and investors are likely to be reliant on share buybacks to get their money back; and
- In order to retain the tax benefits shares, need to be held for a minimum of five years. Investors who are not able to commit to a five-year investment could consider investing through the secondary market which generally trades at a discount.

Executive Summary

MANAGER:

Gresham House plc ("Gresham House" or the "Manager") was originally incorporated in 1857 and listed on the LSE in July 1950 as a property investment firm. Following a management restructure in December 2014, the firm altered its focus to become a specialist alternative investment asset manager. Since then, the firm has undertaken several acquisitions within the alternative investment space and has sought to grow the company both through organic growth of its existing funds, and through acquisitions in order to increase its footprint and brand as an alternative asset investment manager. Gresham House currently manages assets under two banners: Strategic Equity (comprising Public Equity and Private Assets) and Real Assets (comprising Forestry, New Energy and Housing & Infrastructure). The firm currently manages £2.45 billion in assets, spread across both tax-advantaged (VCT and BR products) and non-tax-advantaged products.

In line with its organic and acquisitive growth model, it acquired the fund management investment business of Livingbridge VC LLP ("Livingbridge") in November 2018, comprising the two Baronsmead VCTs, as well as the two managed equity funds, the LF Livingbridge UK Micro Cap Fund and LF Livingbridge UK Multi Cap Income Fund (renamed as LF Gresham House UK Micro Cap Fund and LF Gresham House UK Multi Cap Income Fund), taking over the role as FCA-authorised manager for both.

PRODUCT:

Baronsmead Second Venture Trust plc is a growth-orientated VCT. It which was initially formed as a result of the merger of the Baronsmead VCT 3 plc and Baronsmead VCT 4 plc in March 2016 (and renamed) before merging with Baronsmead VCT 5 plc in November 2016 and aims to provide investors with exposure to a portfolio of both quoted and unquoted VCT-qualifying companies. The VCT will follow the same strategy and invest alongside the Baronsmead Venture Trust plc which was similarly formed through the merger of several Baronsmead VCTs. Although classified as a Generalist VCT, it has a bias toward four core sectors, namely Consumer goods, TMT (technology, media and communications), Healthcare and Education, and companies operating in the Business and Financial Services sectors. Investee companies will be classified according to one of three criteria: "Emerging companies" which are expected to be less proven, but with the prospects for growth; "Developing companies" which have met key developmental milestones; and "Core companies" which have a proven business model and are performing well. Previously, the VCT had an annual absolute target value of 6.5p per share; however, the Board has recently revised this policy. Going forward, will seek to pay dividends representing 7% of the opening NAV in that financial year.

SUMMARY OPINION:

Gresham House has a long operating history, listing on the LSE in 1950; more recently however, in December 2014 it altered direction, changing from a listed property investment trust into a specialist alternative investment firm. In just over four years since then, it has actively grown its business through a combination of organic growth of existing funds, as well as strategic acquisitions of more established firms operating within this space. As a result, it has significantly increased its assets under management, and it can now boast diverse sources of revenues. Although it has yet to generate a full year of operating profit it has generated £15.3m of revenues and an adjusted operating profit of £4.4m in the first half of 2019. Investors can also be reassured by Gresham House's strong balance sheet position as well as the listing which facilitates acquisitions through the issue of additional shares.

As part of its strategic objective for growth, the firm acquired Livingbridge VC LLP, and has taken over the management of the Baronsmead Venture Trust plc and the Baronsmead Second Venture Trust plc. As part of this move, all eight investment personnel, along with eight support staff, have moved across to Gresham House. Moves such as these would, in many instances, result in changes to the investment personnel and/or the investment strategy, however MJ Hudson Allenbridge met the senior Baronsmead team at Gresham House and it would appear, that the move has progressed well thus far. Further, Gresham House management has signalled their ambition to provide additional resources to the VCT team, and along these lines, there have been several new additions to the investment team of late. Further to this, the existing VCT investment team have been working together for several years, and have demonstrated a well thought out investment process, perhaps best illustrated by its recent exit history, with realisations of £34.9m at an average of 2.0x cost over the last 12 months.

Incoming investors will gain access to a well-diversified portfolio consisting of 80 separate investments, spread across a mixture of unquoted and AIM-listed companies (along with an allocation to non-qualifying OEICS and liquidity funds). In line with current VCT rules, the VCT will invest in earlier stage, inherently high-risk companies seeking growth capital. Many of these companies will reinvest profits in order to support growth, and it could therefore take several years before these companies can be realised at a profit. However, investors in the VCT will gain access to a portfolio of legacy investments made under the previous rules. These investments will have a much more mature profile, with approximately 66% of the current investments (across both VCTs) having been held for more than five years.

The VCT has generated an IRR of 3.7% over the past five years (according to MJ Hudson's performance data), which places it below the average VCT, however performance is more impressive over the longer term, with the VCT ranked in the top quartile of performance since inception. As part of the VCT's non-qualifying strategy, it will allocate a portion of its funds into OEICs and other liquid funds. These OEICS include two funds managed in-house by Gresham House, namely the LF Gresham House Micro Cap Fund and LF Gresham House Multi Cap Income Fund, with a current allocation of 17% into the former. While investment into these funds will help to minimise cash drag, they similarly provide a risk of heightened volatility, and we note that while LF Gresham House Micro Cap Fund has registered a loss of over 6%, in the past 12 months, albeit during somewhat turbulent market conditions[1].

Overall, the VCT should appeal to investors seeking a growth-orientated portfolio with a track record of paying consistent strong dividends, with access to a mature portfolio which should enable it to continue to do so. In addition to this, the VCT offers an attractive liquidity mechanism with a buyback policy of no more than a 5% discount to NAV. Encouragingly, unlike a number of other managers within this space, notwithstanding the slight adjustment to the target company profile post the November 2015 rule change, the increased focus on early-stage equity investment for its VCTs is familiar to the investment team.

Positives

AT THE MANAGER LEVEL:

- Gresham House has managed to significantly grow its assets under management and, following its most recent acquisitions, as at 30 June 2019 it had £2.45 billion under management compared to £650 million in December 2017;
- Gresham House can boast diverse and uncorrelated revenue streams, including public and private equity, forestry, renewable energy, and infrastructure;
- As Gresham House is quoted on the AIM, it is subject to a higher level of compliance and oversight than that which smaller firms are subject to and investors will be privy to more information about their Manager;

[1] Gresham House would like to point out that the LF Gresham House UK Micro Cap Fund has achieved growth in excess of 300% since inception in 2009

- In our meeting, Gresham House demonstrated enthusiasm about the Livingbridge acquisition, noting that it was keen to allocate additional resources to the VCT investment team, resource which it may not necessarily have received under the previous manager;
- Although the VCTs have now come under new management, the investment team is well regarded and has a strong track record of achieving its target raise and will now benefit from the additional resource offered by Gresham House;
- Investor communications are thorough, supported by a well-resourced support team, with regular updates offered to investors;
- Gresham House has been transparent with our due diligence data requests generally although because of its AIM listing was unable to provide any information that it considered to be price sensitive.

AT THE PRODUCT LEVEL:

- Overall, the VCT benefits from an experienced investment team who have worked together for a number of years and have extensive experience of investment into both quoted and unquoted companies;
- The investment team has benefitted from the resources provided by Gresham House and has recently employed, Hazel Cameron as Head of Portfolio Talent, who will work with investee companies to hire non-executive Chairs and senior personnel, thus supporting investee companies in meeting strategic objectives;
- The VCT will generally undertake share buybacks at a discount to NAV of no more than 5% which is positioned favourably relative to other offers within the market, whilst the holdings in OEICs should ensure buybacks are possible in most circumstances;
- Incoming investors will gain access to an existing portfolio of 80 investee companies, many of which are more mature investee companies with a lower risk profile, and will similarly provide capital to pay dividends as these investments are realised;
- The investment process is comprehensive and robust with a strong committee-based approval process, and the committee includes experienced venture capital investors who typically meet prospective management teams at an early stage in the investment process;
- The existing portfolio is well diversified with the top ten holdings (excluding funds) making up just 31% of the overall NAV.
- A dedicated portfolio manager means that there is a key member of the investment team whose full-time jobs involves monitoring the progress of investee companies making this a priority for the investment team. Further, we understand that there are plans in place to add further resource to this function;
- Co-investing with established venture capital firms often adds another layer of due diligence, risk management, and guidance for investee companies, although the manager is clear that all members of the syndicate must be aligned in terms of mutually agreed outcomes with an emphasis on a wide range of diverse expertise;
- Performance fees are subject to a hurdle rate (8%) and charged at 10% of NAV increases which is competitive compared to many of its peers; although we would prefer such fees are based on dividends paid rather than NAVs which are highly subjective and creates conflicts of interest when valuing the portfolio;

- The target dividend yield is one of the highest available amongst VCTs which makes the offering both to those wanting a yield (albeit it should be recognised that dividends are not guaranteed) and to those seeking to maximise tax reliefs from reinvesting VCT dividends.

Issues to consider

AT THE MANAGER LEVEL:

- Gresham House has not generated a full year financial profit in the past four years (comprehensive net income, after the deduction of amortisation and depreciation); however, losses have narrowed, and the company has generated an adjusted operating profit on an underlying basis for 2018 of £3.0m and £4.4m at the most recent half-year accounts, and it also has a strong balance sheet position;
- Gresham House has only recently (within the past five years) changed focus from a listed property investment firm to a specialised alternative asset investment manager, and therefore has only a limited track record of operating within this space; however, senior management including Tony Dalwood (CEO) and Graham Bird (Head of Strategic Equity) each have 20 years of relevant experience and the investment teams that have been acquired also have considerable experience in their respective fields;
- There were a number of acquisitions in 2018, although Gresham House has been able to realise accretive synergies across systems, people, and processes saving over £1m on an annualised basis;
- Although experienced, a number of senior management members have only recently joined the team in the past three years, and therefore have only a limited history of working together; however, this team is backed up by a robust governance structure and we understand that some team members have worked together in the past;
- A very significant part of the Manager's revenues is generated from products benefiting from BR, which means the Manager is vulnerable to changes in legislation, although this is spread across a number of different trades, which mitigates the risk that any one trade no longer qualifies;
- It should be considered that in moves such as Gresham House's acquisition of Livingbridge, senior members at Livingbridge would usually be entitled to a pay-out; however Gresham House have noted that as part of the deal, senior partners at Livingbridge have become shareholders in Gresham House, and in addition to this we understand that there are long term incentives in place for the investment team;
- Whilst the AIM listing of the Manager should ensure good standards of governance it could give rise to situations where the level of transparency required of the Manager conflicts with the interests of the VCT;

AT THE PRODUCT LEVEL:

- As part of the move across to Gresham House, Andrew Garside and Sheenagh Egan, who had previously been involved in the management of the VCTs, will take less of an active role going forward; they both currently sit on the board with Andrew Garside also sitting on the Investment Committee;

- Following a change in strategy, several years ago the VCT will be investing primarily in early-stage companies, which generally have a higher risk profile with a significant chance of failure, and which may need considerable time to reach sufficient size to achieve an exit;
- In order to leverage the sector knowledge and expertise which it has gained, the investment team will focus on four key market areas or investment themes, which may limit sector diversification;
- Gresham House will not seek a seat on the board of investee companies in every instance, which is preferable; however, it will appoint a non-executive director or seek observer rights wherever possible;
- There is a key man risk around the key role that Bevan Duncan plays in terms of managing the overall portfolio, although we are pleased to learn that there are plans to add a second resource to assist him with portfolio monitoring, which would mitigate this risk to some degree;
- The portfolio has a relatively large allocation into equity funds (16%) as part of its non-qualifying investment strategy and we note that one of these funds, LF Gresham House Micro Cap Fund which has lost almost 6% in the twelve months 26 September 2019, demonstrating the level of volatility which these investments may present;
- Having two VCTs with identical investment strategies duplicates costs and potential conflicts of interest. Accordingly, it would be good to see some commitment from Gresham House to merge the two funds and pool resources together. However, Gresham House have argued that there are valid regulatory drivers to maintain the separate VCT vehicles.

Manager Quality

Manager Profile

Gresham House can trace its roots as far back as 1857, initially operating as a property investment company and listed on the main market of the London Stock Exchange in July 1950 (although is currently quoted on the AIM). In December 2014, a new management team took over the business, led by current CEO Tony Dalwood, and set out to transform the company into a specialist alternative investment firm. In order to meet this objective Gresham House has made a number of strategic acquisitions in this space, including Aitchesse Limited, a UK forestry manager in November 2015, Hazel Capital LLP, a renewable energy investment specialist, in October 2017, FIM Services Limited ("FIM"), a specialist forestry and renewable energy investment firm in May 2018, and most recently the investment management business of Livingbridge VC LLP ("Livingbridge") in November 2018.[2] As the company integrates these companies into the business, we understand that it has no immediate intentions for further acquisitions, although it does intend to continue to grow the business through individual strategic hires where necessary.

As a listed company on AIM, Gresham House is owned by a number of separate individuals and institutions. The table below lists all interests representing 2% or more of total company voting rights as at 30 June 2019, and collectively account for 58.1%. In addition to this, Gresham House Board members, Directors and Investment Committee & Advisory Group members collectively own an additional 9% of the business.

TABLE 1: GRESHAM HOUSE OWNERSHIP

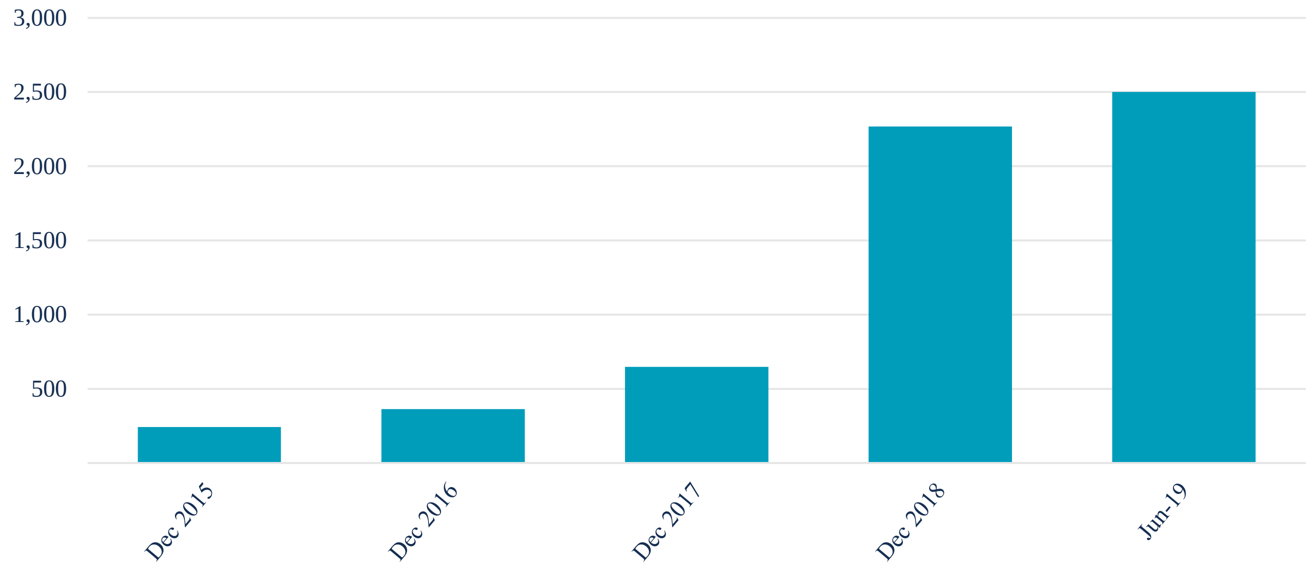
SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE %
The Royal County of Berkshire Pension Fund	4,427,544	16.3
Lion Trust Asset Management	2,142,053	7.9
Majedie Asset Management	2,117,067	7.8
Mr Richard C Dawson	1,469,837	5.4
Aberdeen Standard Investments	1,361,881	5.0
Schroder Investment Management	987,000	3.6
LMS Capital	984,329	3.6
River & Mercantile Asset Management	811,531	3.0
Sterling Family	784,007	2.9
Canaccord Genuity Wealth Management	707,073	2.6

Source: Gresham House

As Gresham House has acquired these assets, it has been able to significantly increase its AUM, as illustrated by the graph below. In particular, the most recent acquisitions of FIM and Livingbridge through 2018, collectively added approximately £1.5 billion in assets. As Gresham have indicated that there are no immediate plans to make any further additions to the business, growth in AUM is likely to stabilise, as can be seen in the chart below, levels have only gradually increased in the first six months of 2019.

[2] It also behoves us to note that the review team were informed at the time of review that Gresham House are a small investor in MJ Hudson, a conflict which we think it appropriate to formally acknowledge here.

CHART 1: FIRM AUM AS AT SEPTEMBER 2019(£MILLIONS)



Source: Gresham House; AdvantageIQ

Gresham House separates its funds into two separate and broad classes: Strategic Equity and Real Assets. A full list of the funds currently managed by Gresham house can be seen below.

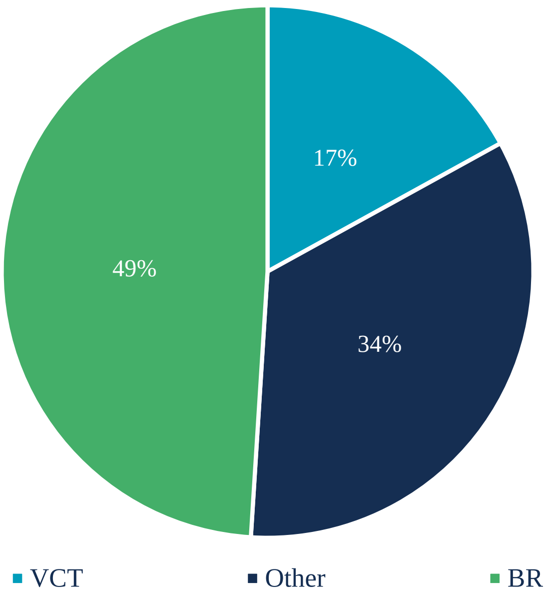
CHART 2: ASSETS UNDER MANAGEMENT BREAKDOWN AS AT 30 JUNE 2019

STRATEGIC EQUITY		REAL ASSETS		
PUBLIC EQUITY	PRIVATE EQUITY	FORESTRY	NEW ENERGY	HOUSING AND INFRASTRUCTURE
• Gresham House Strategic plc • Gresham House Strategic Public Equity Fund LP • LF Gresham House UK Micro Cap Fund • LF Gresham House UK Multi Cap Income Fund	• Baronsmead Venture Trust plc • Baronsmead Second Venture Trust plc • LMS Capital plc	• Gresham House Forestry Fund LP • Forestry Partnership LLP • Managed Accounts • FIM Sustainable Timber & Energy LP (STELP) • FIM Forest Fund I LP • FIM Timberland LP	• Gresham House Renewable Energy VCT 1 & 2 plc • FIM Solar Distribution LLP • FIM Windfarms 2 LP • Gresham House Energy Storage Fund (GRID) plc • Wind Energy LP • Managed Accounts	• Gresham House British Strategic Investment Fund
c. £0.6bn		c. £1.9bn		
c. £2.5bn				

Source: Gresham House.

While the vast majority of these are classified as real assets there is a level of diversification within each of these, with exposure to public equity, forestry, housing and infrastructure, as well as renewable energy including wind and solar.

CHART 3: ASSETS UNDER MANAGEMENT BREAKDOWN AS AT 30 JUNE 2019



Source: Gresham House.

Business Relief in the chart above includes all of the Forestry and Renewable Energy funds and managed accounts

As noted in the chart above, the majority of the assets managed by Gresham House are eligible for tax reliefs, and in particular Business Relief. The bulk of these are made up of forestry funds (predominantly those funds previously manage by FIM Services Limited), while 17% of the total AUM comprise the four VCTs which Gresham currently manages: Gresham House Renewable Energy VCT 1 plc, Gresham House Renewable Energy VCT 2 plc, and the two VCTs currently raising, BVT and BSVT.

Gresham House currently operate out of three offices and has a total of 89 staff, as outlined below.

TABLE 2: GRESHAM HOUSE OFFICE LOCATIONS

LOCATION	INVESTMENT PERSONNEL	SUPPORT STAFF	BUSINESS DEVELOPMENT
London	24	16	7
Oxford	17	14	1
Scotland	8	2	-

Source: Gresham, AdvantageIQ

The majority of Gresham House's staff are located in London (47) followed by Oxford (32) and a smaller office in Scotland (10). There are 49 investment personnel, many of which have been brought in-house as a result of recent acquisitions. The list above includes the 14 staff which were previously involved in the management of the VCTs at Livingbridge, but does not include Sheenagh Egan and Andrew Garside, both Partners previously involved in the management of the VCTs at Livingbridge. However, we understand that both will continue to work for Gresham on a consulting basis over the next three years in order to ensure a smooth transition.

With regard to client servicing, for most of its unlisted funds Gresham will provide investors access to an online investor portal and has 32 support staff to assist in client servicing. However, due to compliance restrictions, investors in the BVT and BSVT will be unable to access their investment portfolios on the existing Gresham house client portal (although we understand that they will still be able to access other information relating to the Gresham House funds). VCT investors will however, receive the same level of service which they had previously received when under the management of Livingbridge, prior to the move across to Gresham House. This will include quarterly reports on the performance of the VCT, available on the dedicated website for each VCT. An examination of one of these reports provides a good level of detail on the performance and holdings in each VCT, including both recent investments and recent realisations.

As required by the FCA Rules, Gresham House has a formal procedure to handle written complaints. We have reviewed this procedure which outlines the necessary steps and procedures which the firm must take in order to adequately address each complaint, including referral to the Financial Ombudsmen Service "FOS" where necessary. We understand that the firm has not had any complaints in the past 12 months.

Although requested, Gresham House would not provide details on its fundraising record, citing confidentiality. However, we understand that it has managed to achieve its target VCT raise in every year.

Financial & Business Stability

As noted previously, Gresham House underwent a reorganisation and introduced a redevelopment plan in December 2014. It is therefore instructive to examine the financial progress following these changes which took effect during the 2015 financial period. As part of this strategy Gresham House disposed of its legacy property assets and has used the proceeds in order to organically grow the business through acquisitions and refocus the business on alternative investment management.

TABLE 3: KEY FINANCIAL METRICS SUMMARY

(£'000)	2015	2016	2017	2018	HY 2019
Revenues	1,358	3,496	6,457	14,498	15,302
Operating profit/loss (reported)	-2,602	-3,408	-2,422	-875	-801
Net income	-3,831	-3,036	-3,526	-646	-659
Net assets	25,826	24,624	28,849	79,740	89,083
Net cash flow from operating activities	-2,201	-3,767	-1,818	1,116	1,969

Source: Gresham House plc reports for the years ending 31 December, 2015-2018, and six months to 30 June 2019

The company managed to consistently increase its revenues between 2015 and June 2019, increasing at a CAGR of over 80% to £14.5 million for the 2018 financial period. Further to this, with revenues of over £15 million for the half year to 30 June 2019, the business is poised to attain revenues of over £20 million for 2019. The company has yet to generate a profit (on a reported basis) over the period examined, however this is arguably to be expected as the business transitions towards its revised focus on alternative investment asset management. In addition to this, losses have narrowed significantly on a reported basis for the financial period to 30 June 2019, and the company did manage to post an adjusted operating profit of £4.4 million (excluding depreciation and exceptional items relating to acquisition and restructuring costs) over the same period. Gresham House informed MJ Hudson Allenbridge that it uses the adjusted operating profit metric as a measure of asset management business performance and excludes non-cash items such as amortisation of management contracts.

Net Assets have marginally increased, amounting nearly £100 million. The significant increase in the 2018 financial year was largely as a result of two acquisitions through the year, which were paid for by a share allotment and private placements which took place at the same time.

Overall, Gresham House appears to have a stable financial position. Despite a period of recent losses, the business continues to increase its revenue, and has turned a profit (on an underlying basis). It has a strong balance sheet position, with a positive net cash flow position and accordingly it subsequently paid its first dividend of 3p per share for the 2018 financial period; further, as the company continues to grow in scale, it expects to pay separate interim and final dividends going forward.

Quality of Governance and Management Team

As noted previously, as a listed entity, Gresham House is owned by multiple individuals and, therefore, no individual has significant control. Gresham House is listed on AIM and complies with the Quoted Companies Alliance (QCA) Code. As a result, it benefits from a level of corporate governance and oversight which may not necessarily be the case for some other managers within this space.

The corporate governance structure is overseen by the Board, which has established three separate committees in order to address specific aspects of the group's compliance framework, as outlined below:

TABLE 4: BOARD AND OVERSIGHT COMMITTEES

COMMITTEE	DETAILS
Board	Mandate: The ultimate decision-making entity that has responsibility for the strategy, and management of the group Members: Chairman, CEO, CFO, and three non-executive directors Frequency: As required.
Investment Committee	Mandate: Promote and maintain a prudent and effective allocation of capital across the company's balance sheet. All investments which account for more than 5% of the firm's NAV, must obtain unanimous approval from the committee Members: CEO, Managing Director of Gresham House Asset Management and one independent member Frequency: As and when required
Advisory Group	Mandate: Provide industry insights and support to the investment committee, acting as advisers and deal introducers Members: Sir Roy Gardner, Alan Mackay and Gareth Davis, all independent of the firm Frequency: As and when required
Audit Committee	Mandate: To review the group's annual and half yearly results, a review of internal and financial controls applicable to the group Members: Chairman of the Board and three Non-Executive Directors Frequency: At least semi-annually

Remuneration Committee	Mandate: Responsible for reviewing the performance of the executive directors and to set the scale and structure of their remuneration and the basis of their service agreements Members: Chairman of the Board and three Non-Executive Directors. Frequency: At least annually

Source: Gresham House; AdvantageIQ

As at 30 June 2017, Gresham House had 36 employees however, it should be noted that following the aforementioned acquisitions of FIM and the Baronsmead VCT team at Livingbridge, Gresham House's staff count has grown to 89 individuals, many of which have significant investment experience, albeit not directly with Gresham House. While this is encouraging, the company will need carefully manage the integration of these teams and individuals into the existing structure and ensure a cohesive company culture.

Senior Management is headed up by Anthony Dalwood, who joined the business four years ago and has over 20 years of industry and investment experience. Anthony oversaw the transition of the business from a property investment trust to its current structure of an AIM-listed alternative investment manager and was responsible for the introduction of the new management team. He was previously with JPEL plc (formerly JP Morgan Private Equity Limited plc), where he remains a non-executive director. He is supported by Managing Director, Rupert Robinson, who has over 30 years' experience within asset and wealth management, including 11 years as CEO of Schroders Private Banking in London.

The remaining members of the senior management team, Kevin Action, and Andrew Hampshire are more recent hires. However, all appear to have relevant experience. Kevin Acton who serves as CFO, qualified as a chartered accountant with Deloitte and was previously at Oaktree Capital Management and 3i Group. Andrew Hampshire worked at LDC, where he led operational and technological improvement programmes. Andrew holds an MBA from Warwick University. Jon-Paul Preston, formerly Chief Legal Officer, left the company in June 2019; however, he has been replaced by Samee Khan, who joined the business in April 2019 as General Counsel and Company Secretary. He has over 21 years legal, commercial and financial experience, covering private and public equity, M&A and corporate finance. Samee has a first-class honours degree in law and qualified as a solicitor with Slaughter and May, London. Samee joined Gresham House from the Abu Dhabi Investment Authority (ADIA).

Previously, the compliance function was handled by a third-party consultant; however, this has recently been brought in house, following the hiring of Geoff Lambert (Head of Compliance) in August 2019. We understand that Geoff has over 30 years' experience and is supported in the role by a Legal and Compliance analyst and by external compliance consultants.

It is worth pointing out that, following the restructuring of the business in December 2014, there have been a number of changes and additions to the senior management team, and many of the team have therefore only worked together for a handful of years. Despite this, all members of the team appear to have a good level of relevant experience, and overall, Gresham House appears to have a robust management structure.

Investment Team

The VCT was formerly managed by Livingbridge VC LLP ("Livingbridge"), however Gresham House plc acquired the VCT in 2018 and, has become the appointed Manager. Eight members from the Livingbridge investment team, as well as eight non-investment support personnel, moved across to Gresham House, with no reported impact on the investment process. Within the terms of the acquisition of the Livingbridge VCTs, a succession plan was put in place for Andrew Garside and Sheenagh Egan (both Senior Partners) who are contracted as consultants and are expected to dedicate one to two days a week to the VCTs. We understand that both remain involved with the management of the VCT; however, as has been planned, both are expected to have a diminishing role as they transition out of the business.

Bevan Duncan (having previously been at Livingbridge for over 12 years) will undertake a portfolio oversight role, and determine the appropriate asset allocation and portfolio composition, as well as the timing of, and preparations for, any potential exit. The unquoted investment team is made up of Steve Cordiner, Henry Alty, Tom Makey and Maya Ward, who collectively have in excess of 35 years of investment experience. The quoted investment team comprises Ken Wotton, who also serves as a manager for Gresham House's quoted investment funds, LF Gresham House UK Micro Cap Fund and LF Gresham House UK Multi Cap Income Fund, along with Brendan Gulston and Graeme Bencke, while David Leahy will also assist in research across both quoted and unquoted investments.

It has been almost one year since the team at Livingbridge moved across to Gresham house and, in our meeting with members of the investment team, we were informed that there has been no material impact to its structure, or process; on the contrary, the broader resources afforded by Gresham House has enabled the team to expand. Hazel Cameron was recently hired as Head of Portfolio Talent, and will work with investee companies, assisting them with key strategic hires in areas where the business may be under resourced. Further, it has recently hired an experienced Investment Manager, with a further two investment managers to join in December. Gresham House expects to make additional hires over the course of the next year, including a resource to assist Bevan Duncan with portfolio management function. As the portfolio continues to grow, these additional hires are welcomed.

Prior to the move across to Gresham House, most of the Team had been working together for many years and have therefore developed a level of cohesion. Although there is no specific target sector allocation, the team has built up a level of expertise within the Consumer, TMT (technology, media and communications) sector, Healthcare and Education, and Business and Financial Services sectors. The Team will use existing networks which they have built in order to source potential deals and hope that the employment of the Head of Portfolio Talent will aid this. In addition, it is encouraging to note that Gresham House has invested in a new CRM and a number of data platforms to support the direct origination activity of the new investment team.

Overall, the Team appears to be well resourced, with 17 investment professionals supported by the wider Gresham House business, and has the relevant mix of experience to effectively execute deals according to the stated mandate. The planned departure of Andrew Garside, who has been involved with the Baronsmead VCTs for almost 14 years, will be significant. However, a succession plan has been put in place and the rest of the team has been working together for many years, which will ensure a smooth transition. The acquisition of the VCTs by Gresham House, naturally raised some questions around the continuity of the investment strategy and process; however, almost one year since the transition, it appears business as usual. Additionally, moves such as this can often coincide with personnel leaving; however, this has not been the case, in fact the broader resource of Gresham house has facilitated a welcome expansion of the team, which we view as a positive development.

We present the biographies of key members of the investment team in the appendix to this report.

Investment Strategy & Philosophy

Baronsmead Second Venture Trust plc was formed as a result of the merger of the Baronsmead VCT 3 plc and Baronsmead VCT 4 plc in March 2016 (and renamed) before merging with Baronsmead VCT 5 plc in November 2016. It will co-invest alongside the Baronsmead Venture Trust plc, other VCTs, angel investors and VCs. The investment strategy will remain the same, and when co-investment occurs alongside other mangers operating within this space, the Manager will aim to align investment strategies, while at the same time leverage differing expertise. Under this strategy the VCTs will seek to invest in early stage UK businesses, with the potential for growth over a typical target investment horizon of between four to five years.

Previously, the VCTs focussed on equity investment into more established and, therefore lower-risk, businesses. However, as with many other VCTs, following amendments and legislative changes over the last few years, it has been forced to adjust its focus toward smaller, earlier-stage and therefore, riskier investee companies. In order to mitigate these risks, the Manager will take a holistic view of the portfolio and will initially diversify investment across a number of smaller investments (typically between £1-2 million), with the view to provide follow-on funding as these companies grow and develop. This allows the Manager, to avoid overcommitting too early to an individual company, and it enables the Manager to observe the return on investment from the initial capital invested before deciding on whether follow-on funding should be made available or an exit is required. Larger allocations will be made into more proven businesses which have a demonstrable record of performance. Accordingly, it will categorise investments into one of three categories as outlined below:

- **Emerging Stakes:** companies with an appealing product or service, but are less proven;
- **Developing:** companies which have made progress toward developing and commercialising their product offering; and
- **Core:** companies which have developed sufficiently and are performing in line with (or exceeding) objectives.

All potential investee companies are expected to be revenue generating with profitable unit economics, although net profitability will not necessarily be a prerequisite for investment. These companies will either be private, or quoted on the AIM, and although the strategy is sector agnostic, focus will be placed on areas in the market where there is long-term structural growth, and preferably areas in which the investment team have built up a level of relevant experience. Along these lines, there are currently four main subsectors which the team tend to focus on: Technology, Media & Telecommunications (“TMT”), Consumer Markets, Business Services (including Financial Services), and Healthcare & Education. While these sectors may vary, it was noted that many tend to have a technology focus.

During our meeting the Manager was keen to point out that the Team will seek to take a hands-on approach, working with existing management in order grow the business, and ultimately generate a profitable exit. As part of the investment process, it will carefully consider the existing management team, its willingness to work with the team at Gresham House and, at the same time assess whether it will be able to provide investee companies with relevant expertise. This may include direct involvement with recruitment for necessary talent, including finance directors or in other areas such as sales and marketing, strategy and use of technology. Further, where necessary, the Manager will seek to place individuals with specialised experience on the board, and who will be tasked with assisting investee companies in meeting specific milestones; however, it should be noted that a board position is not taken in all instances,

Unquoted investments can be made through equity investment or a mixture of equity (ordinary shares) and debt (unsecured loans or preference shares), while all investments in AIM quoted companies will be 100% equity. The average initial investment size is expected to be in the region of £1-2 million, although this will depend on the stage of development. As noted above earlier-stage, riskier investments are likely to attract only smaller initial investments, as low as £500,000, before the Manager commits larger amounts. Although investments are expected to have a holding period of between four and six years, the Manager will not rule out an early exit, should it be presented with an attractive offer.

To continue to meet dividend payments, the VCT benefits from its legacy portfolio, with 66% of the current portfolio comprising investments made over five years ago (as at 31 March 2019). As these investments mature, it is hoped that profitable realisations will provide capital to pay dividends. By way of illustration, in the 12 months to 31 August 2019, the VCT fully realised five unquoted investments, totalling £18.1 million.

The VCT has managed to pay an average dividend of 8.95p per annum over the past 10 years (equating to a yield of 8.5%) and, it has met or exceeded its 6.5p dividend target since 2014. The Board has recently reviewed the current dividend policy, and is expected to change the target from a pence per share basis, to a dividend yield with a guide of 7% of NAV. According to the Manager, under the new investment strategy (into growth orientated investments), it expects to see a higher volatility on the NAV; and, combined with additional fundraising and the issuance of additional shares, a dividend yield policy will provide greater flexibility. Should this target be approved, this level of dividend yield will certainly enhance the appeal of the VCT.

In terms of differentiating themselves from other VCTs, or institutional Venture Capital firms, who might be chasing similar opportunities, the team at Baronsmead emphasise their research-led approach to identifying opportunities and the depth of its operating partner network. Taking themes that the team believe will disrupt industries, from automation to the future of work, a member of the team applies a thematic lens to an emerging market which seeks to harness these technological trends. The team member then seeks to build relationships with management teams of interesting businesses in target themes and, use research to demonstrate their sectoral understanding and ability to add value when part of a "beauty parade" with other bidders (who might not know the space as well because they will not have had time to undertake such a deep or wide survey of the sector during the bidding process). Therefore, research has allowed the team to both identify and win opportunities. While some other venture houses do also emphasise a similar research-led investment strategy, MJ Hudson Allenbridge were shown several examples of research undertaken and subsequent investee companies which the research led the team to. Therefore, we do believe that this work is valuable to the overall strategy and more than the simple marketing window dressing that it sometimes can appear to be with some other firms where research plays a less central role in the investment team's market understanding.

In terms of investing the non-qualifying portion of the VCT's portfolio, funds will be allocated to JP Morgan Sterling Liquidity, Blackrock Sterling liquidity (both of which, as their names suggest, is primarily to provide liquidity to the VCT without taking much risk), as well as LF Gresham House UK Micro Cap[3] and LF Gresham House UK Multi Cap Income[4] in order to generate some capital growth for money which is not needed in the shorter-term for other purposes. While both funds are well regarded in the market, a full review of them is beyond the scope of this review, although we give a high-level summary of both of these funds' performance in the Performance section, below.

Overall, we were impressed with the investment strategy outlined by Baronsmead. While it has been forced to adapt, like some other well-known VCTs, into investing at an earlier stage than perhaps they would have done before the most recent rule changes, the team's investment approach seems well tailored to investing in emerging opportunities and subsequently adding value to the identified investee companies. Performance from these earlier-stage opportunities must be gleaned from mostly internal valuations and a small sample size, we do believe that the strategy is well matched to investing at this point of the venture market, and the legacy portfolio and consistent dividend flow should continue to mitigate the inevitable volatility of investing in a higher risk end of the market when it comes to newer opportunities.

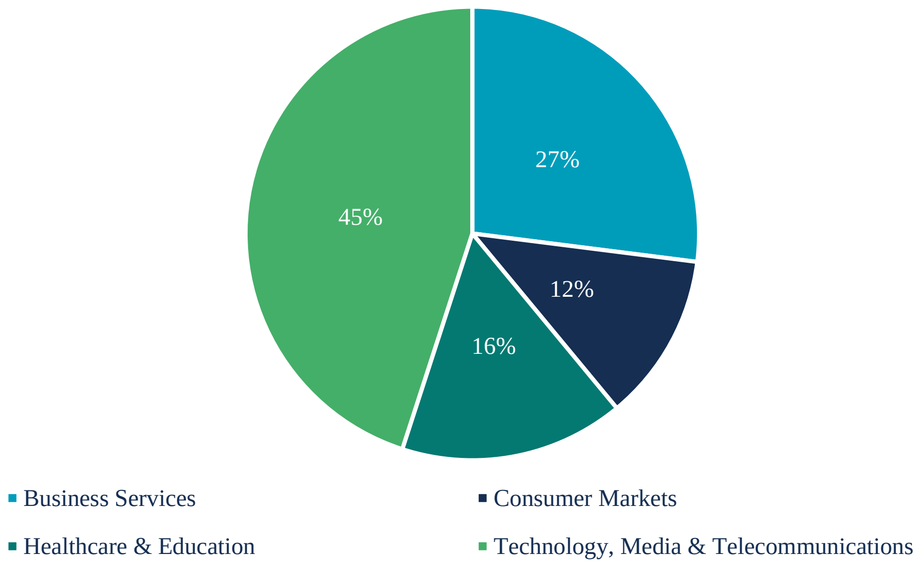
Pipeline/Prospects and Current Portfolio

As at 31 August 2019, the VCT had a total of 80 investments, comprising 26 unquoted and 54 quoted investee companies and, along with investments in non-qualifying investments, had a net asset value of £177 million. As noted previously, the VCT will focus on four major sectors: TMT, Consumer Markets, Business Services (including Financial Services), and

[3] More information for this fund can be found at https://www.trustnet.com/factsheets/o/m5oi/lf-gresham-house-uk-micro-cap
[4] More information from this fund can be found at https://www.trustnet.com/factsheets/o/nr3r/lf-gresham-house-uk-multi-cap-income

Healthcare & Education. The breakdown of this allocation (as a proportion of total NAV, but excluding non-qualifying investments) can be seen in the chart below (note this information is at 30 June 2019).

CHART 4: PORTFOLIO COMPOSITION BY SECTOR AS AT JUNE 2019



Source: Gresham House; AdvantageIQ

Collectively, the TMT and Business Services sectors comprise 71% of the entire portfolio. Although this would appear to present a level of concentration risk, given the wide-ranging nature of the underlying activities within these sectors, concentration risk is arguably mitigated to an extent. However, it should also be noted that while the VCT is advertised as a Generalist strategy, it does have a somewhat limited focus in terms of concentrating on the sectors illustrated above.

In addition to the above, we have performed a high-level review of all the underlying investments that make up the current VCT portfolio and we highlight the following (as at the end of August 2019):

- 66% of the VCT's current portfolio has been held for more than five years, and with less than 20% being held for under 3 years;
- The VCT (alongside BVT) has made 12 new investments in the 12 months to 31 August 2019 totalling £20 million, along with 8 follow-on investment totalling £4.5 million;
- The average deal size of the Fund is approximately £2.5 million, with deal size varying between £0.5 million and £5 million;
- 34 of the current portfolio investee companies have been written down by more than 10% in the 12 months to 31 August 2019, (30 of these investments were quoted and 4 were unquoted) however this has been offset partially by 17 companies increasing in value by the same magnitude

The top ten holdings within the portfolio can be seen in the table below:

TABLE 5: TOP 10 HOLDINGS AS AT 31 AUGUST 2019

INVESTEE COMPANY	INITIAL INVESTMENT	SECTOR	QUOTED/ UNQUOTED	COST (£'000)	VALUATION (£'000)	% OF NAV
Carousel Logistics Limited	02/10/2013	Business Services	Unquoted	2,335	9,882	5.28
Ideagen plc	07/01/2013	Telecommunications	Quoted	1,650	9,317	4.98
Happy Days Consultancy Limited	04/04/2012	Healthcare	Unquoted	4,180	6,068	3.24
Bioventix plc	28/06/2013	Healthcare	Quoted	391	5,666	3.03
Pho Holdings Limited	26/07/2016	Consumer Services	Unquoted	2,421	5,299	2.83
Netcall plc	12/07/2010	Telecommunications	Quoted	2,616	4,881	2.61
Glide Limited	25/10/2013	Telecommunications	Unquoted	2,500	4,740	2.53
Ten10 Group Ltd	26/02/2015	Healthcare	Unquoted	2,331	4,494	2.40
Cerillion plc	09/11/2015	Telecommunications	Unquoted	2,200	4,487	2.40
Inspired Energy	23/11/2011	Business Services	Unquoted	862	4,379	2.34
Total Top 10				**21,486**	**59,213**	**31.64**

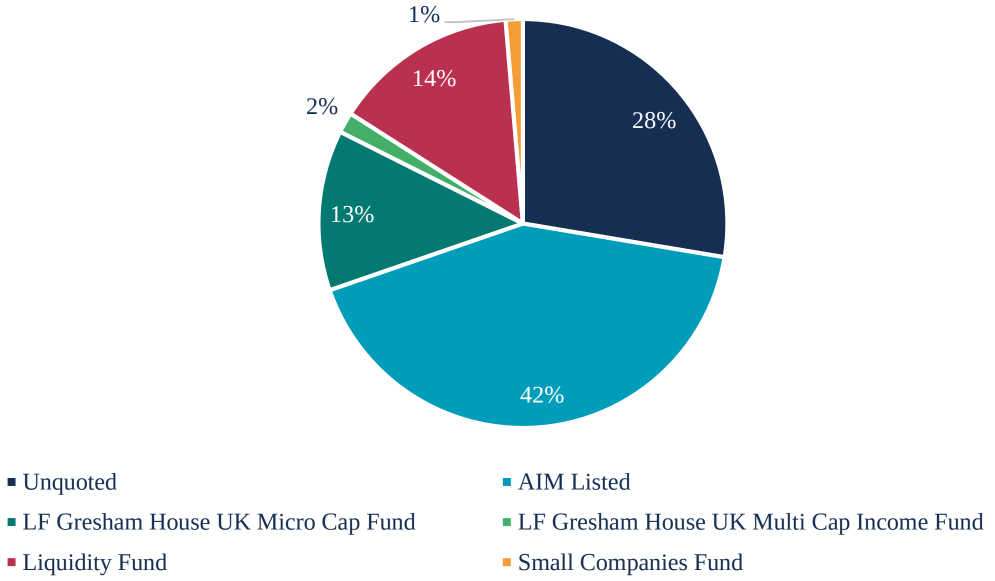
Source: Gresham House; AdvantageIQ

Collectively, the top ten holdings account for just under a third of the total portfolio. All but one of the portfolio's largest holdings were invested in prior to the November 2015 rule change, and have been held for over five years, some significantly longer than that. By way of example the top two companies- Carousel Logistics Limited and Ideagen, - generated revenues of £26.1 million and £36.1 million respectively (as per their latest financial accounts) and are therefore a far later stage of development than investee companies earmarked for investment under the current raise. The Manager does not have any specific target split in terms of allocation to new and follow-on investments, although in our meeting it was noted that it expects approximately 25-30% of investment to be in the form of follow-on funding.

Any uninvested cash awaiting deployment will be held in a combination of cash and OEICS, including equity funds managed by Gresham House, JP Morgan and Blackrock. As can be seen in the chart on the next page, as at 31 August 2019 approximately 30% of the BSVT's total portfolio was held in such assets. Investment into these funds, (which include the LF Gresham House UK Micro Cap and LF Gresham House Multi Cap Income Fund), enable the VCT to maintain their exposure to small companies indirectly, whilst the Manager identifies opportunities to invest directly into small UK companies through a suitable number of qualifying investments. This serves to reduce the level of cash drag on the overall portfolio; although, performance on the LF Gresham House UK Micro Cap and LF Gresham House Multi Cap Income Fund, has been underwhelming over the past 12 months (see *Performance*). Further, it should also be noted that while the AIM portion of the fund should provide the VCT with greater liquidity, to an extent, than other non-AIM VCTs in the market, it might also introduce a greater degree of volatility as well, most notably as was witnessed through Q4 2018.

The chart below illustrates the current portfolio allocations toward quoted, unquoted as well as other non-qualifying funds, used for liquidity purposes.

CHART 5: PORTFOLIO HOLDINGS AS AT 31 AUGUST 2019



Source: Gresham House; AdvantageIQ

The Manager has not provided us with a pipeline of potential investments, however it has stated that it is targeting capital deployment totalling £30 million before 31 December 2019. More specifically, in the eight months to 31 August 2019, the Manager deployed £24.5 million in both new and follow-on investments, and we understand that there is capacity to deploy an additional £5.5 million by year end. This level of deployment does therefore demonstrate Baronsmead's ability to source suitable investments in a timely manner.

The VCT operates an established share buy-back policy which targets a 5% discount to the prevailing net asset value (the policy is non-binding and at the discretion of the board), which is in line with or better than most other VCTs in the market. In addition to this, trading value over the past 12 months (to September) has averaged almost £4.4 million per month, and trades at a discount to NAV of 5.5%, which suggests that shares in the VCT provide a reasonable level of liquidity on the secondary market.

With 80 holdings the VCT provides a good level of diversification, illustrated by the fact that largest holding accounts for just 5.28% of the total NAV (as at 31 August 2019). In addition to this, incoming investors will gain access to a legacy portfolio of more mature investee companies, which as realised, should provide the VCT with ample capital to pay dividends. However, it should also be noted that although the VCT is advertised as Generalist, it does have a more concentrated focus than other VCTs which are placed in the same category; further, exposure to AIM quoted companies can expose the portfolio to a level of market volatility.

Investment Process

The Manager has described its investment process as follows in AdvantageIQ:

TABLE 6: INVESTMENT PROCESS

INVESTMENT PROCESS	DETAILS
Deal sourcing/ origination	The Investment Team have built strong networks with business owners, senior talent, early stage investors and angel investors to generate deal pipeline. The team will look to leverage its sector knowledge and network to source suitable deals. The investment team will fully analyse approximately 140 investment opportunities each year.
Deal filtering and selection	The investment team do an initial filter to get down to a manageable list of deal opportunities to focus on. The filtering is based on: • VCT qualification • Sector insight and fit with team's experience • Stage of development (stage of revenue and profits) • Quality, experience and alignment with the entrepreneurs
Due diligence process	The Investment Committee undertake an initial appraisal where a review of the opportunity is debated before due diligence commences. This is to ensure that the due diligence is correctly framed, and all commercial aspects have been fully considered at an early stage as it is too late to influence diligence at the final Investment Committee meeting. For a larger unquoted deal, due diligence can include: financial; commercial, management referencing, legal, operational, VCT compliance and AML/KYC compliance. This can take anywhere from 4-8 weeks. In most situations, an experienced CFO known and trusted by the team is used to visit the company's finance function and appraise it. Typical spend on a due diligence process can be up to £150k for a larger investment. The Manager funds any due diligence costs for projects that abort, not the VCT. For a smaller Unquoted deal, the due diligence process can be more focused on the most important aspects and additional due diligence can be considered ahead of a subsequent investment. For Quoted deals, it is not possible to get access to pursue extensive due diligence. But the team still undertake what diligence is feasible including customer references and using their sector contacts to take references on key aspects.
Deal approval	There is a two stage Investment Committee process for all unquoted investments. The first stage is an Initial Appraisal that commits the significant resourcing and funding required to pursue an investment that the team decides to promote. A key

	decision for this IC is the funding for due diligence (as outlined above). Additionally, VCT qualification needs to be verified, either through an HMRC application or through the self-assurance processes in place at the Manager. The second stage is a final IC decision after the due diligence and legal work has been completed. Should due diligence findings be positive and negotiations successful, Investment Committee must give unanimous approval for the VCTs to invest in the opportunity. For Quoted investments, which are on average smaller, a similar process is followed although the extent of due diligence is more focused and to a lesser extent as there is less access to the potential investee.

Source: Gresham House; AdvantageIQ

We understand that the investment team will receive approximately 220 deals per year, of these only 55 or one quarter of the total, will be subject to further examination. From these, Baronsmead will make offers to approximately 27, although only 17 will eventually be presented to the investment committee. Finally, of the over 200 approaches received, Baronsmead expects to make 10 investments, equating to a conversion ratio of just 5%.

In previous visits to Gresham House, Director of Unquoted Investments, Steve Cordiner, walked us through the investment selection process, and we were provided investment proposals and papers presented to the IC for inspection. We were encouraged by the structure and rigour of the procedures followed. We also noted the emphasis which the Manager places on the ensuring that there is an alignment between the objectives of the entrepreneur and the Manager before any money is changed hands.

When considering an investment, Bevan Duncan will consider the overall portfolio, and ensure that any single investment does not result in overexposure, or present unnecessary risk. Similarly, sector knowledge and experience of the team will be considered to ensure that the investment team has the necessary skillset to provide accretive value to the company. Although this is a prudent approach, it does also mean that the VCT will limit the level of diversification enjoyed by some of the larger VCTs in the market, as it will be constrained by the types of companies into which it will invest. Nevertheless, the due diligence process operates as a robust filtering system undertaken before the selection of underlying investments and the deal approval process provides a sufficient level of governance.

Risk Management

We identify the following as the key risks of an investment in the Fund: failure/poor performance of an investee company, execution risk, liquidity risk, exit risk, dilution risks to follow-on investments and maintenance of VCT tax benefits.

Risks relating to investee company defaults are partly mitigated during the investment process through the analysis and due diligence undertaken before an investment decision are made. In addition to this, the portfolio is well diversified, with 80 separate investments. There is limited position concentration; at the time of writing the largest holding constitutes 5.28% of NAV, which is well within most acceptable risk tolerances for minimising stock-specific risks appropriately. The investment strategy is sector agnostic, however there is a noticeable sector concentration in TMT as well as Business Services, as expected, thanks to the sectoral bias (as a result of relevant knowledge and expertise) discussed in the investment strategy section. In order to mitigate overexposure, the Manager will examine the portfolio as a whole when making investment decisions so that too much sector exposure can be avoided.

Additionally, the Fund provides investors with some diversification benefits through exposure to a mixture of more mature companies invested in prior to the November 2015 rule change (Over half of the investee companies within the current portfolio have been held by the VCT for over five year), as well as newer riskier investments which meet current VCT qualifying criteria. The Manager will seek to mitigate the risks associated with investments into these younger, riskier companies by initially placing small amounts into each business, and only providing additional capital as investee companies develop according to pre-defined criteria set out by the Manager. Initial investments are likely to be as low as £500,000, but this will incrementally increase in further rounds of investment. When asked about the discipline of being able to refuse follow-on funding to companies who initially joined the portfolio as part of the Emerging Stakes part of the portfolio, the Manager was keen to point out that subsequent funding rounds need to still go through the investment process as if it were a new investment. The Manager also indicated that it had denied funding to portfolio companies before but helped find other potential funders.

For those investee companies that might be hoping to be sold to a trade buyer or to private equity, Bevan Duncan will ensure the businesses are prepared for a successful exit, as well as monitoring the performance of the portfolio more generally. The Investment Committee is regularly updated by the investment team on company progress and monitors performance against set criteria which highlights both potential issues to be addressed along with opportunities to help support and drive performance. However, Baronsmead, unlike some of their peers, do not always take board seats on investee companies (typically those with lower cost investments), preferring to monitor management information, setting regular milestones for the business to meet and progress against until they feel increased involvement will materially change the range of investment returns. Where certain co-investors have a larger stake and are considered aligned with Baronsmead's investment objectives, the team works alongside the co-investor who will work more closely with management. The policy of monitor-and-intervene where the team can have a significant impact on performance, provides the team a certain amount of operational leverage to devote more time to research, evaluating investment opportunities, and furthering professional networks.

The VCT offers a share buyback policy at a discount of no more than 5% of the latest published NAV (net asset value), subject to market conditions, available liquidity, and the maintenance of the VCT status. Baronsmead was also keen to point out that the legacy portfolio will allow the VCT to more consistently have the funds for consistent dividend disbursements going forward than some other VCTs without such a mature, profit-generating portfolio, who might rely on exits and higher dips in the NAV to ensure similar levels of dividend cover. According to data provided by the AIC, the VCT has traded at a discount of 5.28% over the past year (to August 2019), which is encouraging. The VCT had, as at 31 August 2019, over one third of its assets in cash and cash equivalents, which should provide it access to the necessary liquidity to undertake buybacks. This level of liquidity does however come with the associated risks of lower return (as a result of cash drag, and lower yielding investments).

While some of the non-qualifying investments are in liquidity funds managed by outside investment teams, the fact that the majority of the non-qualifying portfolio will be managed by a Gresham House team should also allow the VCT to have a good level of oversight of these funds and be able to monitor any changes in team or strategy more easily than if the team was based elsewhere.

PwC provide tax advice to the fund and are consulted when there is any need for expert counsel on VCT-qualifying issues.

Overall, we find the risk management approach suitable for a fund of this kind. While some might be put off by the lack of a board seat, the evidence of information monitoring and subsequent intervention does mitigate this to a good degree. With the important role played by Bevan Duncan in terms of monitoring the portfolio and helping management teams preparing for exit, this is certainly some key man risk in this area, although we were pleased to learn that the team hopes to add a team member who will be tasked with helping Bevan in terms of portfolio monitoring, which should help to lessen this to some degree .

Key Features

The table below outlines all of the fees charged by the VCT and are the same structure as Baronsmead's previous VCT offerings. All fees, which include a 2.5% annual management charge and a £169,000 annual administration fee payable by the VCT. This also includes a 2.75% initial fee which is taken from the subscription upon purchase of shares.

There is no early bird or loyalty discount for this offer. Lastly, there is a performance fee of 10% for any proceeds in excess of £1.08 per share.

The table below outlines all of the fees payable by the VCT:

TABLE 7: OVERVIEW OF FEE STRUCTURE

FEE (EXCLUDING VAT)	CHARGED TO:	
	INVESTMENT	INVESTEE COMPANY
Initial Fee	2.75%[1]	-
Arrangement Fee	-	-
Annual Management Fee	-	2.5%
Annual Admin Fee		See below[2]
Custodian Fee	-	-
Dealing Fee	-	-
Director's Fee	-	See below[2]
Exit Performance Fee	10%	-
Hurdle	108%[3]	-
Available discounts	No discounts or early bird offers	
Adviser/Intermediary charges	All fees as above plus any advisory fees.	
Execution Only Fees	All fees as above plus any intermediary fees.	
Direct Application Fees	All fees as above	

[1] The Investment Manager receives a fee of 2.75% of the gross proceeds of each Offer. Out of this fee, the Investment Manager will pay all costs associated with the Offers, on behalf of the Companies. The Investment Manager will be responsible for any costs associated with the Offers in excess of this fee.

[2] Company secretarial, accounting and administration function is outsourced to Link. The administration fee of £173,000 pa is payable to the investment manager and is the actual cost of the outsourced function. Gresham House notes that this is to cover outsourcing costs of accounting and Company Secretarial services. These costs are agreed with the VCT Boards and Gresham House make no profit on the pass through

[3] A performance fee will not be payable to the Manager until the total return on shareholders' funds exceeds an annual threshold of the higher of 8 per cent or base rate plus 2 per cent calculated on a compound basis. The amount of any performance fee which is paid in an accounting period shall be capped at 5 per cent of shareholders' funds for that period

Performance

The VCT was initially launched by Livingbridge (BSVT's previous manager) in 1998, and therefore has an extensive track record of performance. Recent VCT rule changes have had a comparatively limited impact on its investment strategy, (when compared to other VCTs which had focused on MBO's). While it has always focused on private equity and venture capital investments, it will now focus on younger, riskier investments such that its strategy aligns with current VCT-qualifying criteria.

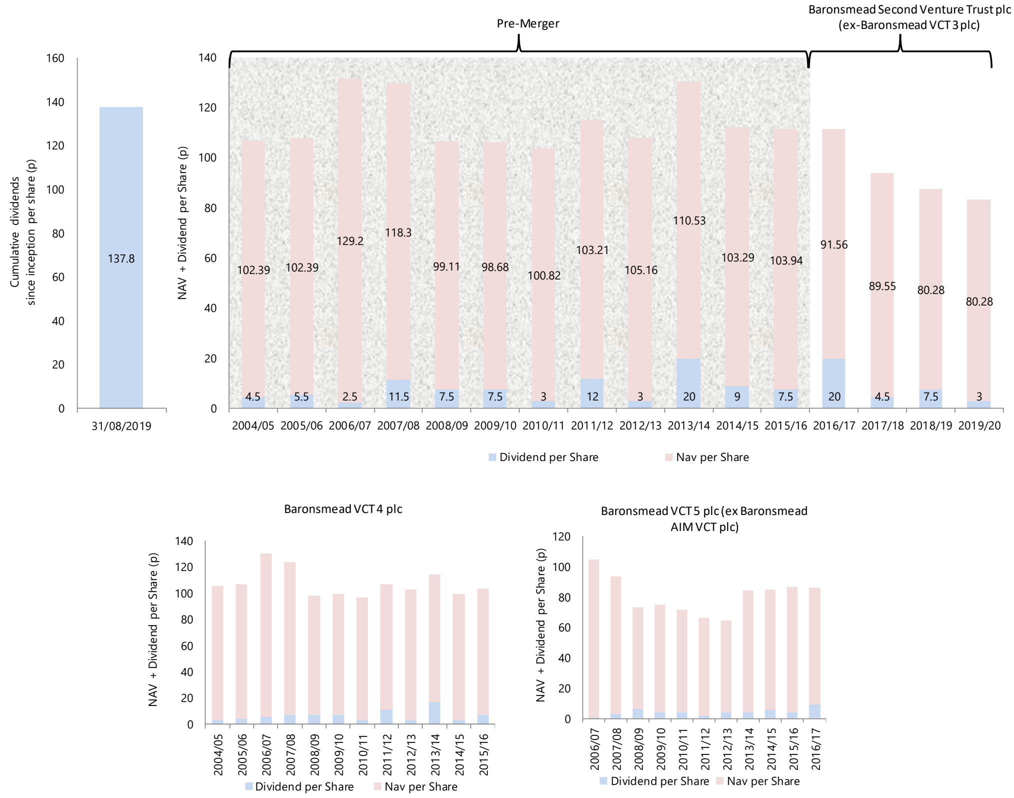
Dividends: Previously, the annual dividend had annual absolute dividend target value of 6.5p per share, and has managed to meet or exceed this (significantly so in some instances) in the past five financial periods. The average dividend over the past 10 years has been 8.95p, equating to a favourable yield of 8.5%. It should be noted however, that the Board has recently revised its dividend policy for two reasons: i) as the level of shares increases, it will become increasingly difficult to sustain the current level of dividend as a percentage of NAV, ii) due to the early stage nature of investments, the timing of returns will be less predictable. The VCT will now announce annual dividends based on the yearly performance of the VCT with the aim to target 7% of the opening NAV for that year. Finally, it should be noted that the VCT has a dividend reinvestment plan (DRIP) as well as a share buyback policy in place.

NAV: Non-qualifying investments will be allocated into a mixture of cash and OEICs, including equity funds managed by Gresham House, and liquidity funds managed by JP Morgan and Blackrock. Approximately 13% of net assets (as at 30 June 2019) are invested in the LF Gresham House UK Micro Cap. Investment in these types of assets will help to minimise cash drag, but at the same time can increase volatility. As an example, the LF Gresham House UK Micro Cap Fund has lost almost 6% over the past year (to 26 September 2019), which will have a marked impact overall return. Although returns have been more favourable in the nearer term (up 3% over the past six months), it does present an element of volatility which otherwise would not be present[5].

An examination of the VCT's performance is encouraging over a longer investment horizon and since inception, placing the VCT in the first quartile relative to peers, with an IRR of 7.1%. However, over the more recent five-year period, performance has been less impressive, ranking in the third quartile, with an IRR of 3.7%.

[5] Gresham House would like to point out that the LF Gresham House UK Micro Cap Fund has achieved growth in excess of 300% since inception in 2009

CHART 6: ANNUAL NAV AND DIVIDEND PAYOUT FOR BARONSMEAD SECOND VENTURE TRUST SHARES BY TAX YEAR SINCE INCEPTION (AS AT 31 AUGUST 2019)



Source: MJ Hudson Allenbridge

Please note that “2019/20” represents tax year to the latest data published date. NAVs as at 31 August 2019.

* We adjust the “cumulative dividends paid since inception” bar (top left) to consider the historic dividends paid by all the VCTs which have merged with BSVT, since their respective inception dates prior to any corporate actions that have taken place. These dividend payments are weighted by their respective ratios applied to share holdings at the time of each merger/corporate action.

The graph above illustrates performance by tax year. It is therefore important to note, the dividend for the 2018/19 tax year was 7.5p which exceeded the target dividend of 6.5p. In addition to this, in the 2019/2020 tax year 3p worth of dividends have been paid per share. The Board has recently revised this policy. Going forward, will seek to pay dividends representing 7% of the opening NAV in that financial year.

TABLE 8: KEY PERFORMANCE INDICATORS (AS AT 31 JULY 2019)

FUND NAME	LATEST NAV PER SHARE (PENCE)	CUMULATIVE DIVIDENDS PER SHARE SINCE INCEPTION (PENCE)	TOTAL FUND RETURN PER SHARE SINCE INCEPTION (PENCE)	BID PRICE (PENCE)	BID DISCOUNT TO NAV (%)
Baronsmead Second Venture Trust plc (ex Baronsmead VCT 3 plc)	78.0	137.8	215.8	73.0	-6.4
Baronsmead VCT 3 plc C Shares (merged with O share)	66.8	101.8	168.6		
Baronsmead VCT 4 plc	72.5	114.6	187.1		

Baronsmead VCT 4 plc C Shares (merged with O share)	75.2	98.8	174.0	
Baronsmead VCT 5 plc (ex Baronsmead AIM VCT plc)	65.4	60.3	125.7	
Baronsmead AIM VCT plc C Shares (merged)(conversion of the C shares into O shares)	61.4	56.9	118.3	

Source: Gresham House; AdvantageIQ

* Total Fund Return = the most recent NAV per share + the Cumulative Dividends paid per share since inception

Notes:

1. We do NOT adjust NAVs to take account of dividends that have become ex-dividend but not yet paid. The 'Dividends per share' column includes these dividends. Amounts are rounded to one decimal place.
2. NAVs incorporate supplementary (performance incentive) share adjustments where applicable.
3. Share prices and their discounts to NAV do not necessarily reflect the price and discount at which shares may actually be re-purchased.
4. Depending on the date of launch, some VCTs may have provided a different level of initial tax relief from that suggested in the table headings (below).

TABLE 9: PERFORMANCE SINCE INCEPTION (AS AT 31 JULY 2019)

FUND NAME	IRR % PER YEAR (WITHOUT TAX RELIEF)	RECENT 3 YEAR IRR % P.A. (WITHOUT TAX RELIEF)	RECENT 5 YEAR IRR % P.A. (WITHOUT TAX RELIEF)	IRR % P.A. ASSUMING 20% INITIAL INCOME TAX RELIEF	IRR % P.A. ASSUMING 30% INITIAL INCOME TAX RELIEF	IRR % P.A. ASSUMING 40% INITIAL INCOME TAX RELIEF
Baronsmead Second Venture Trust plc (ex Baronsmead VCT 3 plc)	7.1%	5.0%	3.7%	9.8%	11.6%	13.8%
Baronsmead VCT 3 plc C Shares (merged with O share)	5.4%	12.2%	10.5%	8.0%	9.7%	11.7%
Baronsmead VCT 4 plc	5.7%	8.7%	9.1%	8.2%	9.8%	11.8%
Baronsmead VCT 4 plc C Shares (merged with O share)	5.7%	8.6%	9.0%	8.3%	9.9%	12.0%
Baronsmead VCT 5 plc (ex Baronsmead AIM VCT plc)	1.6%	8.0%	12.9%	4.1%	5.7%	7.6%
Baronsmead AIM VCT plc C Shares (merged)(conversion of the C shares into O shares)	1.5%	18.9%	9.5%	3.9%	5.5%	7.3%

Source: Baronsmead; AdvantageIQ

CHART 7: MARKET POSITION RANKED BY ANNUALISED NET IRR FOR LISTED VCTS SINCE INCEPTION(AS 31 August 2019)

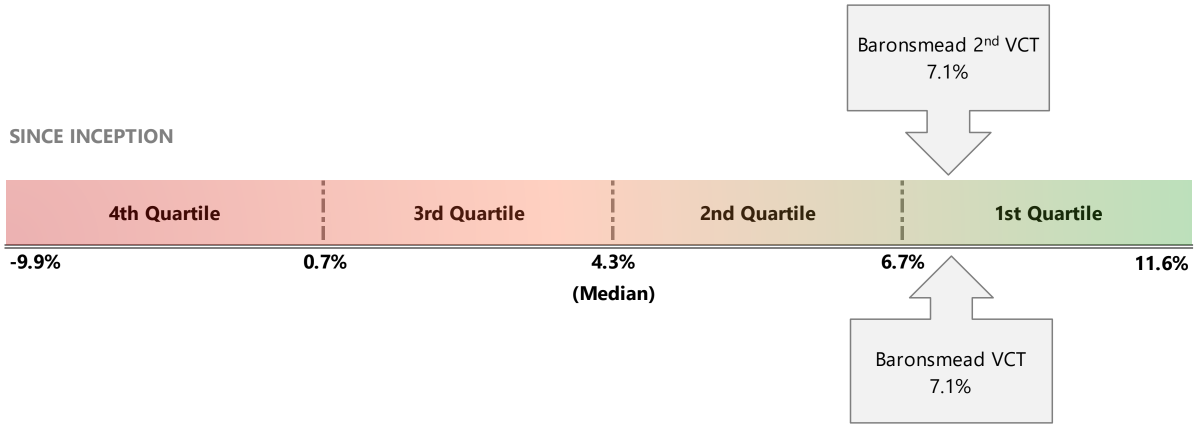


CHART 8: MARKET POSITION RANKED BY ANNUALISED NET IRR FOR 3 YEARS FOR LISTED VCTS (AS 31 August 2019)

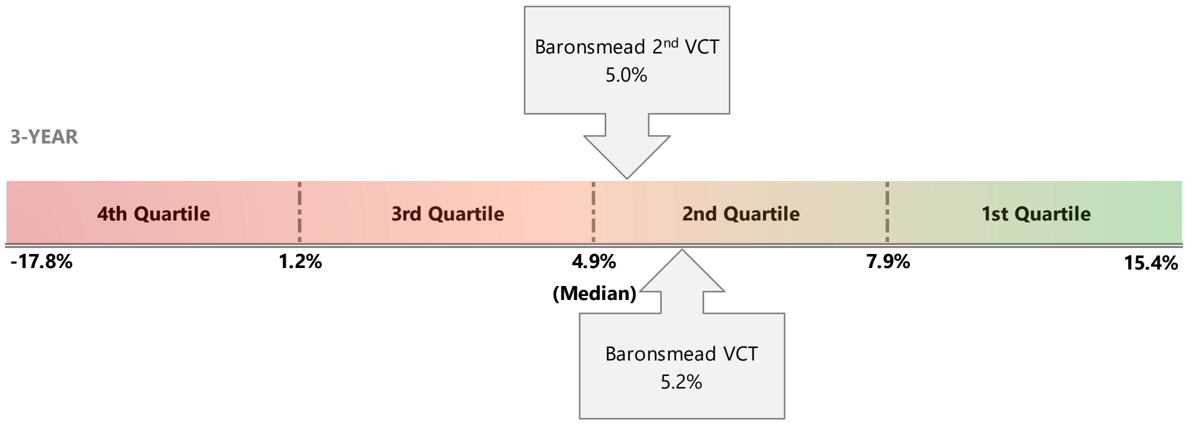


CHART 9: MARKET POSITION RANKED BY ANNUALISED NET IRR FOR 5 YEARS FOR LISTED VCTS (AS 31 August 2019)

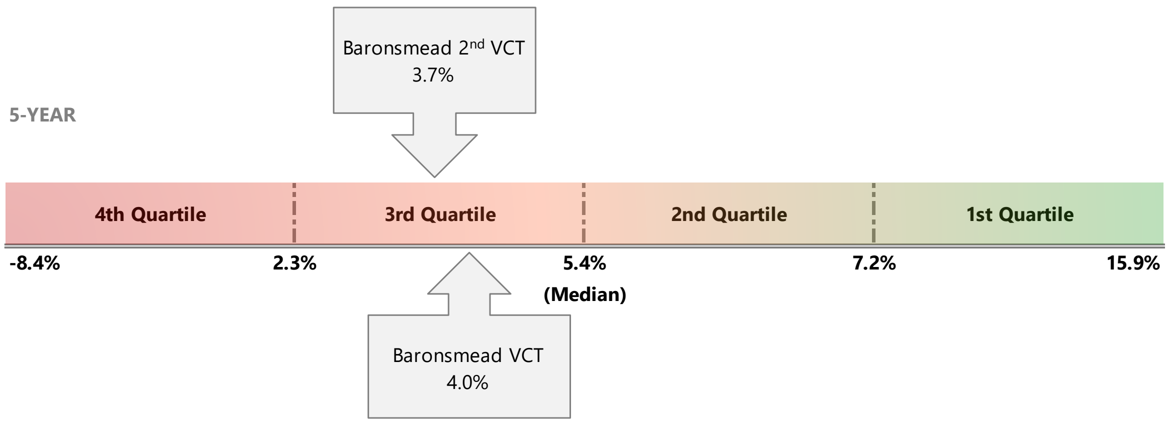
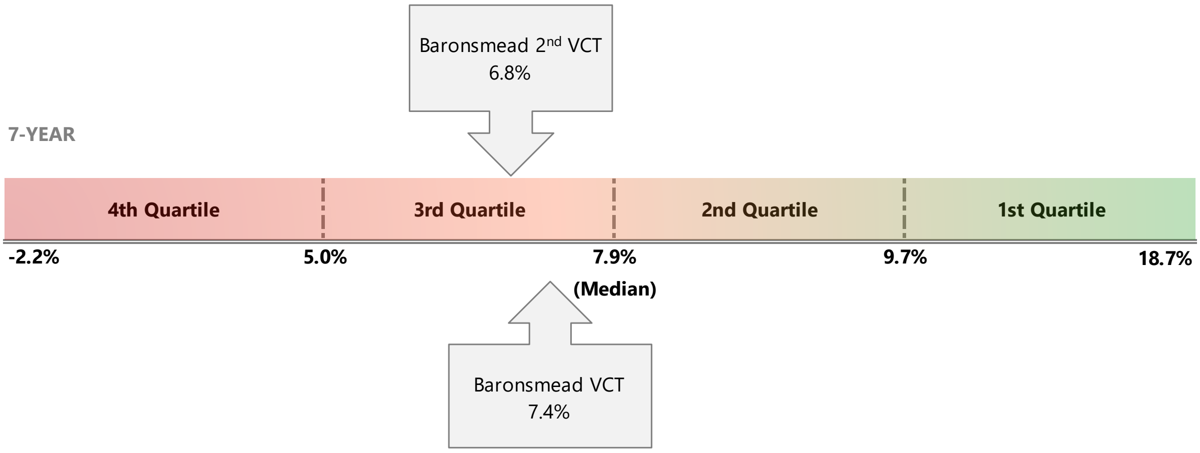


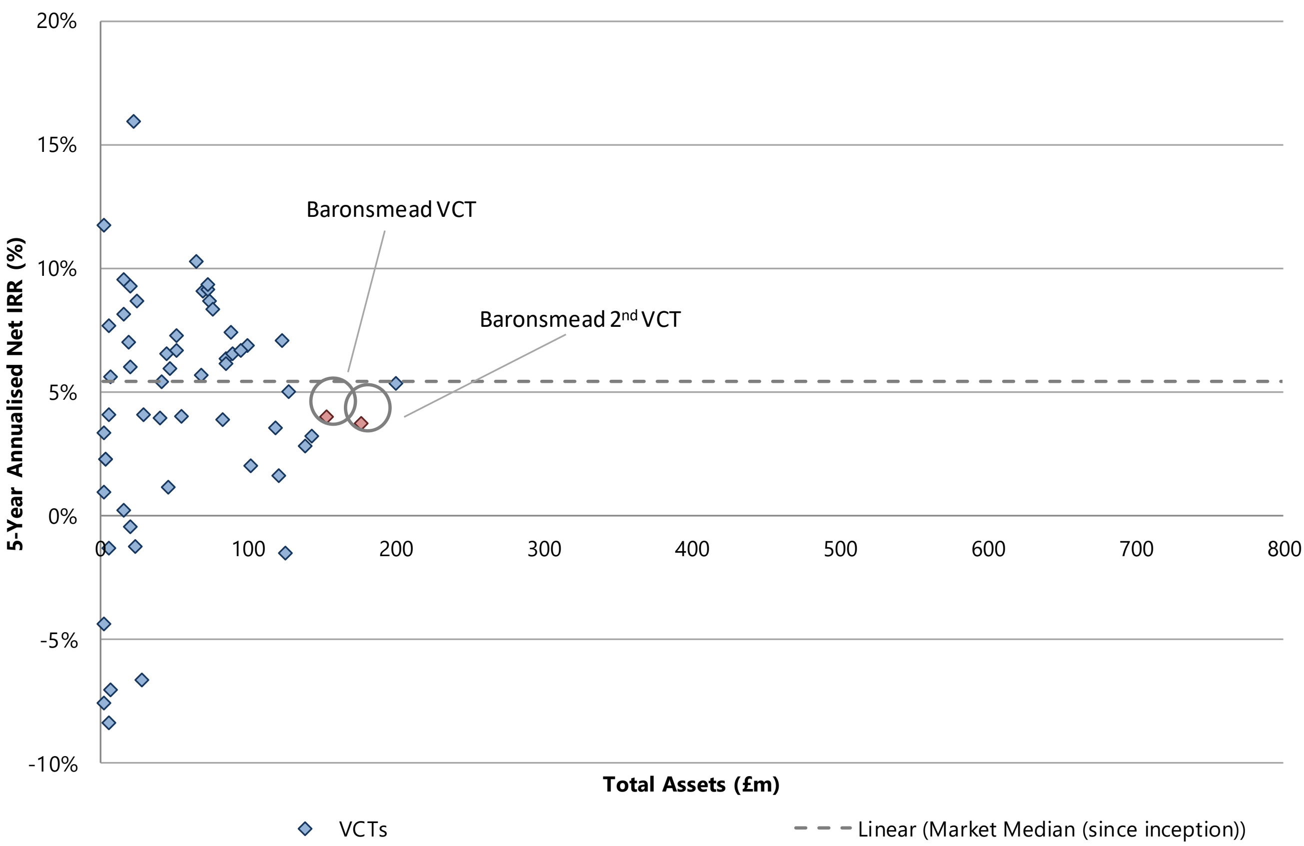
CHART 10: MARKET POSITION RANKED BY ANNUALISED NET IRR FOR 7 YEARS FOR LISTED VCTS (AS 31 August 2019)



Source: MJ Hudson Allenbridge

Please note that the above chart is based on the annualised net IRR for currently listed VCTs and is based on the most up to date information available to us at the time of writing; as such there may be a maximum lag of six month due to the timing of individual VCT NAV announcements.

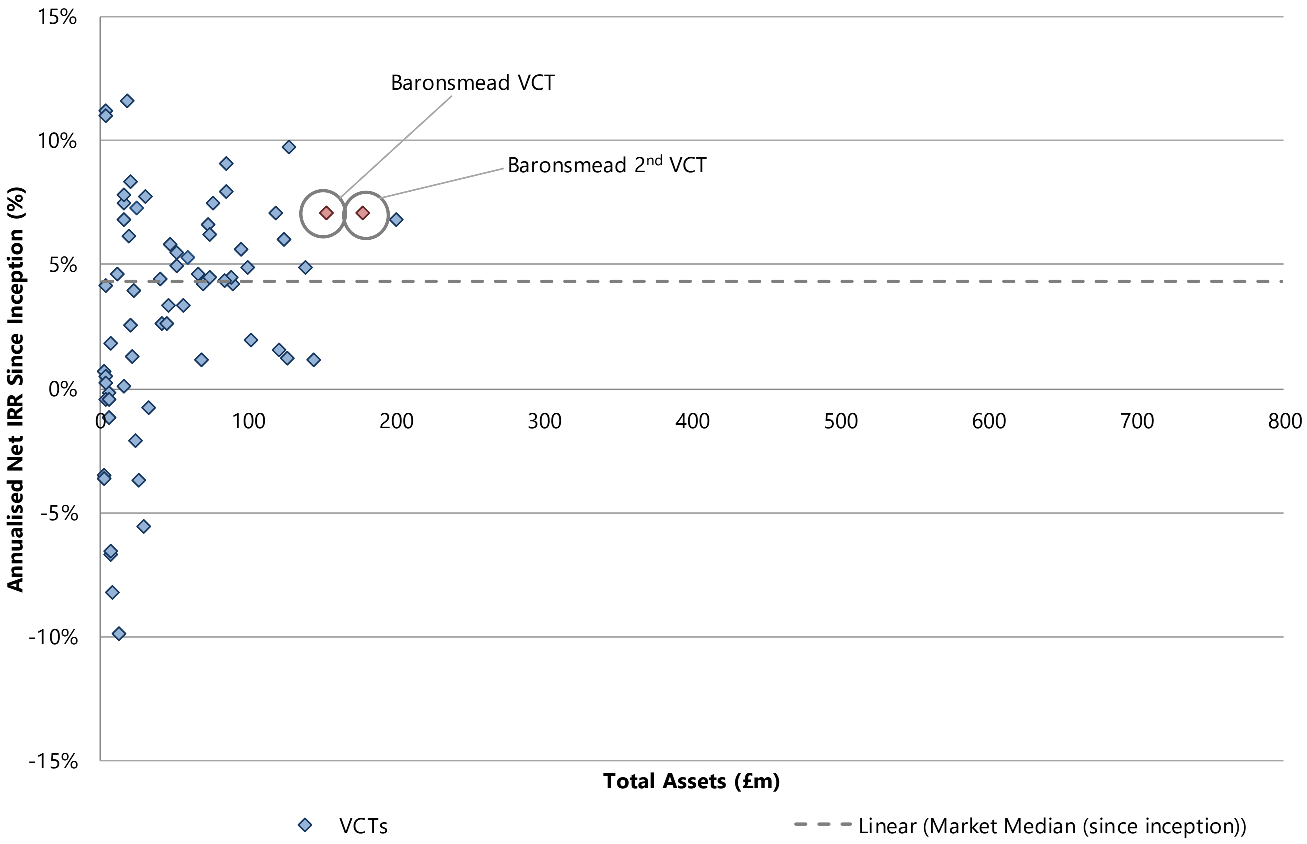
CHART 11: ANNUALISED NET IRR (%) FOR THE PAST 5 YEARS BY SINGLE SHARE CLASS (AS AT 31 AUGUST 2019)



Source: MJ Hudson Allenbridge and AIC

Please note: (i) the above chart is based on the annualised net IRR for currently listed VCTs and is based on the most up to date information available to us at the time of writing; as such there may be a maximum lag of six month due to the timing of individual VCTs' NAV announcements. (ii) as the net IRRs are calculated over different time periods and over different lengths of time as they are since the inception of each VCT they should not be reviewed as directly comparable. (iii) Share classes are counted as separate investment vehicles. (iv) only VCTs that have been in existence for over 3 years are plotted.

CHART 12: ANNUALISED NET IRR (%) SINCE INCEPTION BY SINGLE SHARE CLASS (AS AT 31 AUGUST 2019)



Source: MJ Hudson Allenbridge and AIC

Please note: (i) the above chart is based on the annualised net IRR for currently listed VCTs and is based on the most up to date information available to us at the time of writing; as such there may be a maximum lag of six month due to the timing of individual VCTs' NAV announcements. (ii) as the net IRRs are calculated over different time periods and over different lengths of time as they are since the inception of each VCT they should not be reviewed as directly comparable. (iii) Share classes are counted as separate investment vehicles. (iv) only VCTs that have been in existence for over 3 years are plotted.

Appendix 1: Key Personnel

Key Investment Professionals

Following Gresham House's acquisition of Livingbridge, all investment eight investment personnel (and eight support staff) moved across to Gresham House. The dates below therefore relate to the time each individual began work at Livingbridge and was therefore involved in the investment management of the VCT.

NAME	JOB TITLE	DATE STARTED	BIOGRAPHY
Bevan Duncan	Director, Portfolio	May 2006	Bevan Gresham House in November 2018 having previously been at Livingbridge since May 2006. He has overall responsibility for all portfolio management activities for the Baronsmead VCTs. He also directly manages portfolio investments and has been an active board member of several Baronsmead investee companies including MLS, Eque2, Key Travel and Pho. Bevan qualified as a Chartered Accountant at KPMG in New Zealand, where he provided consultancy services to fast growing small businesses.
Steve Cordiner	Director, Unquoted Investments	November 2010	Steve joined Gresham House in November 2018 having been at Livingbridge since 2010. Steve has led the VCT unquoted investment team investing on behalf of Baronsmead VCT's since that date. Notable investments include Happy Days Nurseries, Carousel Logistics and Symphony Ventures, along with successful realisations such as Kingsbridge. Steve is a qualified Chartered Accountant and prior to joining Livingbridge he spent five years advising Corporate and Private Equity clients on a range of corporate finance and due diligence matters.
Ken Wotton	Managing Director, Quoted Investments	February 2007	Ken joined Gresham House in November 2018, having previously spent 11 years with Livingbridge leading the Equity Funds investment team managing AIM and other listed investments on behalf of the Baronsmead VCTs, LF Gresham House UK Micro Cap Fund (formerly named LF Livingbridge UK Micro Cap Fund), and LF Gresham House UK Multi Cap Income Fund (formerly named LF Livingbridge UK Multi Cap Income Fund). He had previously spent two years at Evolution Securities where he worked in equity research, specialising in the telecoms and technology sectors, focusing on smaller companies with significant experience of AIM market fund raisings. Prior to that, he spent five years in the equity research department of Commerzbank Securities where he focused on the pan-European telecoms sector. Ken qualified as a chartered accountant with KPMG in London.

Hazel Cameron	Head of Portfolio Talent	April 2019	Hazel joined Gresham House in April 2019. She is a Chartered Accountant who worked in corporate finance for a few years before joining private equity and working throughout Europe, US and sometime in Asia. She has sat on boards as a non-executive director for the last 15 years and for the last 10 years focuses on building quality boards.
Thomas Makey	Associate Director	2015	Tom joined the Livingbridge VCT new investment team in 2015. Tom as focussed primarily on consumer and tech transactions, working on investments into Boilerjuice, SilkFred, Yourwelcome, Pointr and Rockfish. Prior to Livingbridge he worked at KPMG for six years across several departments, gaining an ACA qualification and ending in the private equity transaction services team advising mid-market and large cap funds.
Graeme Bencke	Investment Director	2018	Prior to joining Livingbridge Graeme managed both the Pan-European Smaller Companies and the Global Focus equity funds at Pinebridge Investments. He was an equity portfolio manager and analyst at the firm for over 12 years, before which he spent 8 years at F&C Investments where he managed the European Smaller Companies fund. Graeme takes a fundamental and longer-term approach to investing with a focus on cash generative companies with strong and defendable business models. Before entering investment, Graeme spent 6 years as a pilot in the Royal Air Force.
Henry Alty	Investment Director	2016	Henry started at Livingbridge in January 2016. Prior to that he worked at VCT fund manager Foresight group for 3.5 years and prior to that Spectrum the TMT focused strategy consultancy for 6 years on projects in wireless communications, technology and media strategy. Henry has led investments in Disguise, Storyshare, Symphony and Travelocal. He has a first-class degree from the University of Oxford and is a CFA charter holder.
Brendan Gulston	Investment Director	2015	Brendan started at Livingbridge in June 2015 having spent c. five years doing TMT investment banking (corporate finance) at Canaccord Genuity where I provided private and public companies with advice on IPOs, equity placings, M&A and corporate broking.
Maya Ward	Investment Manager	September 2019	Maya joined Gresham House in September 2019, having previously spent 4 years at Octopus, investing in real estate backed healthcare companies. Prior to that she worked at KPMG for 7 years in audit and corporate finance. She has a first class degree in Modern History from Oxford and is a Chartered Accountant.

David Leahy	Investment Analyst	2016	David works across the quoted and unquoted VCT investment teams. Prior to joining Livingbridge, he was an early recruit at Propercorn, a consumer goods start up, and then worked at Puma Investments. He graduated with an MSc in Management from Imperial University and studied Politics and Psychology at Cambridge University.
Sheenagh Egan	Consultant	1997	Sheenagh joined Livingbridge in 1997. She is the chief operating officer of Livingbridge and was jointly responsible for the overall management of the Baronsmead VCTs prior to the change of investment manager in November 2018. Before joining Livingbridge, her experience encompassed both corporate finances, advising on private equity transactions, and corporate recovery. She trained as a chartered accountant with Deloitte, and has also worked for PricewaterhouseCoopers.
Andrew Garside	Consultant	2005	Andrew joined Livingbridge as a Partner in new investments in 2005 and prior to November 2018 was jointly responsible for the overall management of the Baronsmead VCTs. Notable investments include the successful realisations of Inspired Thinking Group and Nexus. He has extensive private equity experience having previously worked on growth investments at 3i plc for 15 years (1989 to 2004), latterly as the Director of a large regional office for 3i.
Sarah Fromson	Investment Director	2019	Sarah Fromson joined the BSVT Board on 1 October 2019. She has recently retired from her role as Head of Investment Risk at Wellcome Trust and is currently Chair of JPMorgan Global Emerging Markets Income Trust plc, as well as being a board member of Boston based Arrow Street Capital Partners. She was previously at RBS Asset Management (formerly Coutts)where she held a number of senior positions, including Chief Investment Risk Officer, Co-Head of Investments and Head of the Long-Only Investment team. She is also a Director of Genome Research Pensions Trustee Limited and the Wellcome Trust Pensions Trustee Limited.

Source: Gresham House; AdvantageIQ

Fund Board of Directors

ANTHONY TOWNSEND – CHAIRMAN

Anthony Townsend joined the board of Baronsmead VCT 3 plc in August 2009. He has over 40 years' experience in financial services. He was previously a director of Rea Brothers Group plc, a nonexecutive director of Worldwide Healthcare Trust plc and was chairman of the Association of Investment Companies. He is chairman of British & American Investment Trust plc, Gresham House plc, F&C Global Smaller Companies plc, Finsbury Growth & Income Trust plc and Miton Global Opportunities plc and a non-executive director of Hansa Capital Ltd.

MALCOLM GROAT

Malcolm Groat joined the board of Baronsmead VCT 4 plc in April 2014 and was appointed to the Baronsmead Second Venture Trust Board following the merger of Baronsmead VCT 3 plc and Baronsmead VCT 4 plc in March 2016. He is a fellow of the Institute of Directors, the Institute of Chartered Accountants in England and Wales and the Royal Society for the Encouragement of Arts, Manufactures and Commerce. During his career, Malcolm has worked as finance director for global businesses in engineering, construction and financial services. Malcolm currently holds directorships at established companies Corps Security, Maritime House and Tekcapital plc, and at young ventures daVictus plc and Vale International Group Limited.

IAN ORROCK

Ian Orrock joined the board of Baronsmead VCT 3 plc in August 2009. He has wide experience having founded, developed and sold a number of businesses particularly focusing on the international media, technology and telecoms sectors ("TMT") and has worked at board level in quoted global organisations. He was also a non-executive director of Henderson Private Equity Investment Trust plc. He is currently a director of a number of TMT businesses including Arkessa Limited, Iotic-Labs Ltd and Silchester Limited.

JOHN DAVIES

John Davies joined the board of Baronsmead VCT 5 plc in February 2006 and was appointed to the Baronsmead Second Venture Trust Board following the merger of BSVT and Baronsmead VCT 5 plc in November 2016. He was a Director of BlackRock Smaller Companies Trust plc until his retirement in July 2011. He was Managing Director of 3i Asset Management Ltd (1985 – 2002), responsible for the management of three investment trusts and the group's quoted portfolio. He is also a director of Gardens Pensions Trustees Ltd, a corporate trustee of the 3i Group Pension Scheme and is a member of the investment committee of the scheme.

NOTE: Please be aware that the Manager mentioned in this report purchased the rights to distribute this single report only (no payment was taken to undertake the research which is carried out fully independently and in accordance with MJ Hudson Allenbridge's governance process).

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