

## Welcome to British Smaller Companies VCT2 plc (BSC2) Investor Update

I would like to start by thanking all of you for your continued support. These Investor Updates are six monthly publications designed to complement the interim and final accounts. This issue provides an update for the first quarter to 31 March 2014.



### Investment Rates Continue to Climb

The improved economic climate has increased confidence amongst business owners. This has led them to significantly increase investment in their businesses which, in turn, has increased demand for equity investment funds provided by VCTs.

In the last four months of 2013 your VCT completed three new investments totalling £3.95 million. The first investment of 2014 was completed in January when BSC2 invested £1.64 million to support the acquisition of Mangar Health Limited. The quarter also saw BSC2 approve three investments totalling £3.5 million; the first of which completed in May. It is encouraging that there is a strong pipeline of further investments where BSC2 has entered into exclusivity. At the time of writing there are four investments in this position requiring aggregate investment of £12 million of which £4.8 million is to be provided by BSC2. This gives the prospect of achieving £10-12 million of investment by the end of the summer of which over 75 per cent would have been invested in the latter six months. This would amount to £25-30 million of investment when aggregated with British Smaller Companies VCT plc (BSC).

It is also encouraging that there remains a strong level of demand behind these opportunities. This continues the pattern we have seen since the beginning of 2013, with economic confidence growing and increasing levels of bank lending encouraging small firms to invest and vendors to transact.

The average amount invested by BSC2 into a new "first-time" investment is between £1.2-1.5 million with an aggregate investment when combined with BSC of £3-3.75 million. The demand for investment is broad and across all sectors. Private equity has often been a lead indicator as the investment is predicated on growth plans for the coming three to five years. With demand for equity continuing to increase, whilst not itself an absolute sign that the economic recovery is set fair, it is another positive indicator.

In this issue you will find:

- An update on the financial performance of BSC2, including Total Return and dividend history
- A portfolio update highlighting the valuation movements during the period
- An introduction to GTK

### Fundraising

In the 2013/14 tax year, BSC2 along with its sister company, BSC, launched a Joint Offer and raised more than £26 million for the two funds. I am delighted to report that approximately 1,500 investors subscribed with more than half being new Shareholders. The strong investment rate coupled with the increasing pipeline of prospective investments means that your VCT is already well on with investing the money raised through the Joint Offer.

### Results to 31 March 2014

The results for the first quarter are encouraging with a further increase in the Net Asset Value to 66.3 pence per share and Total Return to 105.3 pence per share. The 2.5 pence per share year-end dividend is due to be paid on 30 June 2014.

### Communication

The programme of providing information by email is up and running and working well. Please see the back page for more details of both this service, the Shareholder Portal and how you can register for both.

As always, we encourage your feedback on our Updates. Please contact our Investment Services Manager, Tracey Nice (see back page), with any suggestions.

Thank you again for your continued support and investment.

David Hall, Managing Director, YFM Equity Partners

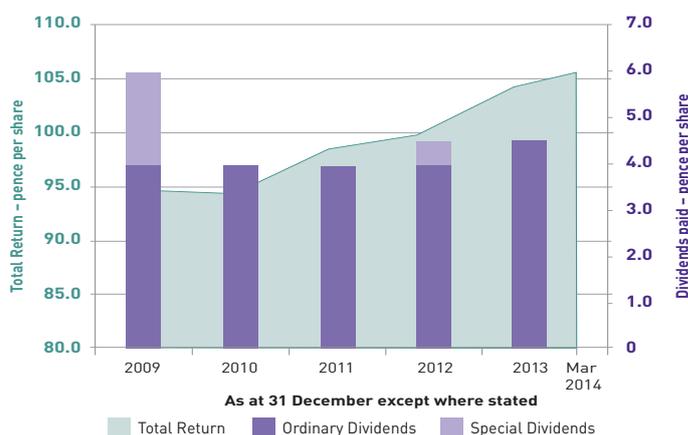
## Total Shareholder Return

The chart opposite shows the Total Return of BSC2 for the five years and three months to 31 March 2014 and the dividends paid in each of the last five calendar years. Total Return is the Net Asset Value plus cumulative dividends paid.

Over the period, Total Return increased by **13.3 per cent** to 105.3 pence per share. The average dividend for the five years was 4.6 pence per share. This equates to a yield of 6.9 per cent based on the current Net Asset Value of 66.3 pence per share.

The return for Shareholders subscribing in each of the different fundraisings, and those who originally subscribed for shares in British Smaller Technology Companies VCT plc, can be found in the table on page 2.

Total Shareholder Return & Dividends Paid



## Total Return by Fundraising Round

The Company has raised funds at a number of different times since its inception. We thought it would be helpful to show the returns on each fundraising round as many investors have made multiple investments. Additionally the last two columns of this table show the difference in the overall return where Shareholders are subscribed to the Dividend Re-investment Scheme (DRIS) compared to those who are not.

Tax year	Offer price	Offer price net of tax	Net Asset Value at 31 March 2014	Cumulative dividends paid since Fundraising*	Total Return since Fundraising*	Overall return (not in DRIS)**	Overall return (in DRIS)***
	Pence	Pence	Pence	Pence	Pence	Pence	Pence
2000/01 and 2001/02	100.00	80.00	66.30	39.00	105.30	125.30	150.55
2001/02 and 2002/03	100.00	80.00	66.30	39.00	105.30	125.30	150.55
December 2005 issue of shares on acquisition of British Smaller Technology Companies	69.00	n/a	45.52	25.85	71.37	n/a	n/a
2009/10 and 2010/11	77.25	54.08	66.30	17.00	83.30	106.48	115.39
2010/11 and 2011/12	70.25	49.18	66.30	13.00	79.30	100.38	106.79
2012	70.50	49.35	66.30	9.00	75.30	96.45	100.52
2012/13 and 2013/14	69.50	48.65	66.30	4.50	70.80	91.20	93.08

\* This assumes that at the time of investment the tax relief given on the investment was not also invested in shares of the Company.

\*\* NAV plus cash dividends paid plus tax relief on the initial subscription.

\*\*\* NAV plus tax relief on the initial subscription plus additional tax relief and NAV on DRIS shares purchased. Assuming that all dividends since inception were invested under terms of the current DRIS.

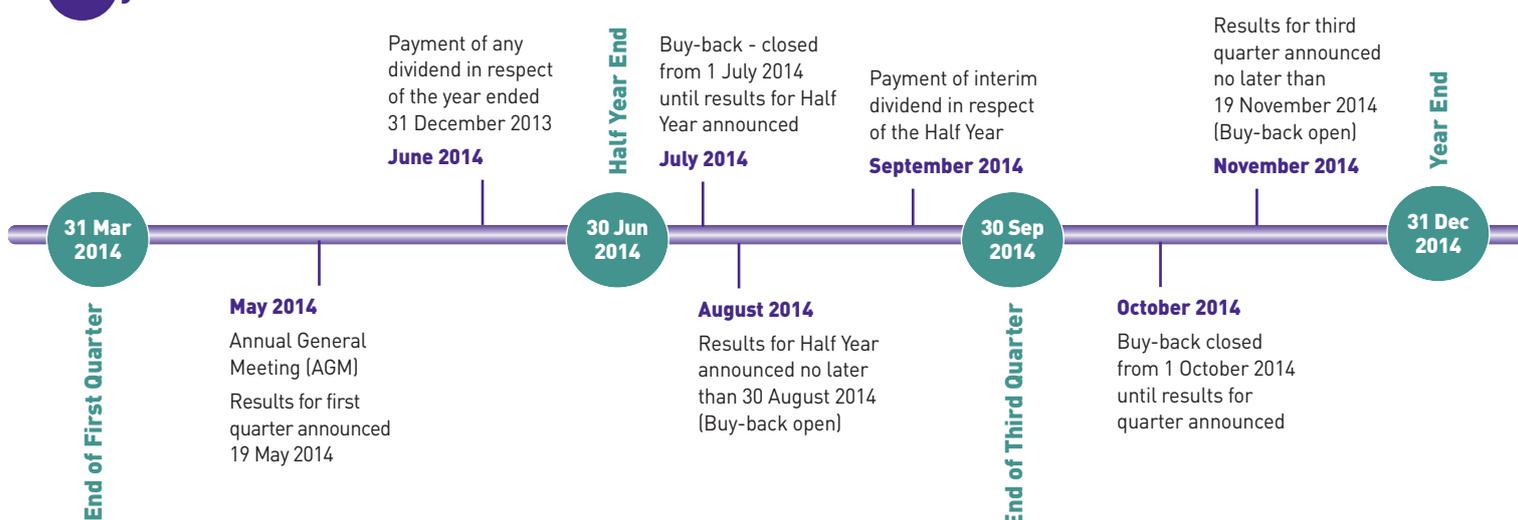
## For your Records – Dividends Paid and Date

The table below displays the dates when the BSC2 dividends have been paid and we hope you find it useful in keeping and checking your records. In the five years to 31 December 2013, BSC2 has paid or proposed annual average dividends of 4.6 pence per share to its Shareholders. The 2.5 pence per share year-end dividend will be paid on 30 June 2014.

Date paid	Pence per share	Date paid	Pence per share	Date paid	Pence per share
<b>Cumulative to 31 December 2008</b>	<b>16.0</b>	30 September 2010	2.0	26 October 2012	2.5
19 May 2009	2.0	10 June 2011	2.0	5 June 2013	2.5
30 October 2009	4.0	8 September 2011	2.0	27 September 2013	2.0
21 May 2010	2.0	22 May 2012	2.0	<b>Cumulative at 30 Sept 2013</b>	<b>39.0</b>
				30 June 2014*	2.5

\* Proposed payment date

## Key Dates



## Portfolio Update

Over the first quarter to 31 March 2014, the portfolio valuation has increased by £1.4 million to £17.8 million, with an underlying value gain of £0.35 million (representing an increase of 2.2 per cent on the 31 December opening value) after adjusting for investments and realisations in the period. This equates to a value gain of 0.6 pence per share based on the issued shares at 31 March 2014.

The quoted portfolio experienced a strong value gain of £0.39 million with the unquoted portfolio seeing a small value fall of £0.04 million, although the top 10 investments increased slightly. The biggest value movements were Pressure Technologies (up £0.25 million), DisplayPlan (up £0.16 million), Callstream (up £0.11 million) and Waterfall Services (up £0.11 million), offset by PowerOasis (down £0.14 million), Bagel Nash (down £0.12 million), Insider (down £0.10 million) and Seven Technologies (down £0.08 million). A new investment was made to support the buyout of Mangar Health (£1.64 million), a world leader in inflatable lifting equipment for people who have difficulty with movement. The quoted holding in Optos was realised for £0.15 million and partial realisations were achieved from Pressure Technologies (£0.10 million) and Iomart (£0.10 million) along with loan repayments from DisplayPlan (£0.23 million), Callstream (£0.04 million), GTK (£0.03 million) and Bagel Nash (£0.02 million). Overall a realised profit of £0.05 million was achieved.

After the issue of new shares (£7.53 million net of costs) the Net Asset Value finished at £38.39 million or 66.3 pence per share, an increase of 0.7 pence per share over the three months.

Company	Website	Investment valuation at 31 December 2013 (£000)	Proceeds (£000)	Additions (£000)	Valuation gains (losses) including profits on disposal (£000)	Investment valuation at 31 March 2014 (£000)	% Net Asset Value
DisplayPlan Holdings Limited	displayplan.com	2,142	(228)	-	161	2,075	5.4%
Gill Marine Holdings Limited	gillmarine.com	1,870	-	-	-	1,870	4.9%
Mangar International Limited	mangar.co.uk	-	-	1,640	-	1,640	4.3%
Seven Technologies Holdings Limited	seventechnologies.co.uk	1,711	-	-	(83)	1,628	4.2%
GTK (UK) Limited	gtk.co.uk	1,141	(28)	-	-	1,113	2.9%
Immunobiology Limited	immbio.com	987	-	-	-	987	2.6%
Leengate Holdings Limited	leengatevalves.co.uk	934	-	-	-	934	2.4%
Deep-Secure Ltd	deep-secure.com	915	-	-	(40)	875	2.3%
Callstream Group Limited	bluebelltelecom.com	674	(35)	-	112	751	2.0%
Bagel Nash Group Limited	bagelnash.com	733	(20)	3	(118)	598	1.6%
<b>Top 10 total</b>		<b>11,107</b>	<b>(311)</b>	<b>1,643</b>	<b>32</b>	<b>12,471</b>	<b>32.6%</b>
Deferred proceeds		132	-	-	1	133	0.3%
Remainder of unquoted portfolio		2,681	-	-	(68)	2,613	6.8%
<b>Total unquoted portfolio</b>		<b>13,920</b>	<b>(311)</b>	<b>1,643</b>	<b>(35)</b>	<b>15,217</b>	<b>39.6%</b>
<b>Quoted portfolio</b>		<b>2,467</b>	<b>(346)</b>	<b>65</b>	<b>389</b>	<b>2,575</b>	<b>6.7%</b>
<b>Total portfolio</b>		<b>16,387</b>	<b>(657)</b>	<b>1,708</b>	<b>354</b>	<b>17,792</b>	<b>46.3%</b>

## Case Study – GTK (UK) Limited



### The Company

GTK is a global provider of electronics solutions including Cable Assemblies, Connectors and Optoelectronics, offering a full manufacturing solutions service, from custom turnkey sub-assemblies to full product assembly. Increasingly customers require customised solutions and GTK has the expertise and infrastructure to support these requirements. With production facilities in the UK, Taiwan and China GTK is well positioned to support its customers on a regional or global basis.

### Background and Investment Rationale

This was a management buyout from the founder, who wanted to retire from the business. The deal was introduced by one of our contacts who had previously sat on the board of one of YFM's other businesses.

GTK is a well-established and profitable business with a diversified customer base. The strategy is based on organic growth and extending the core product ranges, with the possibility of selective small acquisitions to add new expertise e.g. in-house design capability.



## Fund Updates by Email

### The Latest Deals Delivered to Your Inbox

Many of you have now registered to receive Updates by email and have recently had information on the latest deals, including Douglas Gill International, GTK UK Limited, Leengate Valves Ltd and Mangar International. BSC2's most recent deal is Intelligent Office and the email will be circulated shortly. If you want to receive the next email with details of this most recent investment and future deals you can subscribe to this new service by emailing or calling Tracey Nice (below).



## Capita Registrars – Shareholder Portal

We are always looking at ways to improve and grow our relationship with Shareholders and something that we offer, with Capita, is access to the Shareholder Portal.

The Shareholder Portal is an online facility which allows Shareholders to securely access their holdings via the internet at their own convenience. By creating a Shareholder Portal account, Shareholders are able to access the full range of online services, including the ability to:

- View your holdings movements, indicative share price and valuation
- View your dividend payment history
- Register and change bank mandate instructions
- Register and change your email and address details
- Download and print Shareholder forms
- **Elect to participate in the Dividend Re-investment Scheme – NEW!**

Over 350 BSC2 Shareholders are already registered and we are sure that many more of you will find this service useful. If you wish to

register please go to [www.capitashareportal.com](http://www.capitashareportal.com) and enter British Smaller Companies VCT2 plc in the search box. Click on the British Smaller Companies VCT2 plc link once available and follow the instructions on screen.

To register you will need to enter the following information:

- Surname
- Your Investor Code (found on your share certificate or dividend information or phone Tracey Nice)
- Postcode (if resident in the UK)/first name (if not resident in the UK)

Once registered you will have full access to your account. Capita Registrars will send you a confirmation letter and an email.

For those of you who prefer to speak to someone in person, you can continue to phone or write in the normal way.

If you have any queries or need further assistance please contact Tracey Nice.

### Important Notice

Past performance is no guide to future performance and may not be repeated. The value of investments may go down as well as up and you may not get back the full amount invested. This Investor Update is not an offer to invest in British Smaller Companies VCT2 plc. Tax rules and regulations can change over time and any benefit will depend on individual circumstances, on investors retaining their investments for the relevant period and on the companies invested in retaining their qualifying status. Please refer to the HM Revenue and Customs website for guidance on the tax relief available on VCT investments. You are recommended to seek specialist independent tax and financial advice before investing in a VCT investment.

### Financial Highlights for the first quarter to 31 March 2014

2.5 pence per share final dividend

Net Asset Value increased to  
66.3 pence per share\*

Total Return increased to  
105.3 pence per share\*\*

\* From 65.6 pence per share at the year-end (increased profitability from several businesses has seen the value of the portfolio rise by £1.4 million)

\*\* From 104.6 pence per share at the year-end

## Fund Updates by Email



If you would like to receive the latest fund updates by email, such as the latest deal news as it happens, you can subscribe to this new service by emailing or calling Tracey Nice (below).

## Contact Us

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