

## British Smaller Companies VCT2 plc (BSC2)

# INVESTOR UPDATE June 2017



### Dear Shareholder

I would like to welcome you to the June 2017 edition of the BSC2 Investor Update.

### Overview

BSC2 has delivered a solid performance during the first quarter of 2017 with total return per share increasing from 112.2 pence per share to 112.9 pence per share, a return of 1.2 per cent on the opening net asset value, equivalent to an annualised return of 4.8 per cent. At 31 March 2017 net asset value per share stood at 60.4 pence per share. On 12 May 2017 the Company paid a final dividend for the year ended 31 December 2016 of 1.5 pence per share, which brings cumulative dividends to 54.0 pence per share.

### New investment

Following a busy final quarter of 2016 in which £3.4 million was invested into three new companies, this quarter has seen a follow-on investment of £0.1 million in PowerOasis Limited to provide headroom as the business looks to develop a range of commercial opportunities and secure investment from a strategic partner. In addition, the pipeline of further investment opportunities contains a number of attractive opportunities, and discussions are well advanced in a number of cases.

In January the Company realised part of its holding in AIM listed AB Dynamics plc, with proceeds of £125,000 received for shares originally costing £24,000. This was in addition to £175,000 of loan repayments.

In May the Company realised its investment in Selima Limited, generating initial proceeds of £1.0 million. This takes the total return from this investment to £1.1 million, a multiple of 3.7x original cost. There is the prospect of further returns, with the potential for additional consideration subject to the achievement of milestones over the next 30 months.

### Fundraising

On 3 January 2017, BSC2 launched a non-prospectus top up to raise €5 million. I am pleased to report that the offer was fully subscribed within a week and raised net proceeds of £4.1 million.

### Buy-back and issue of ordinary shares

During the quarter the Company issued 6,787,231 ordinary shares pursuant to the above offer for subscription.

In April, the Company purchased 350,000 ordinary shares at a price of 55.8 pence per share, in accordance with its stated buy-back policy. The price paid represents a discount of 4.1 per cent to the related ex-dividend net asset value of 58.2 pence per share.

### Regulatory changes

The 2017 budget was quiet in relation to venture capital schemes and, following the significant changes to the VCT rules over the past two years, this period of stability is welcome.

### Dividend Re-investment Scheme ("DRIS")

The Company operates a DRIS and currently just under 22 per cent of shareholders choose to re-invest their dividends. The DRIS gives you the opportunity to re-invest your dividends in new shares in the Company and has a number of advantages. **To find out more, and for details on how to subscribe to the DRIS, please see page 3.**

### Shareholder workshop

On 3 May 2017, the Company, together with British Smaller Companies VCT plc, held its 22nd Investor Workshop which took place at The Grand Connaught Rooms in Covent Garden, London. As in previous years, the workshop was exceptionally well attended with approaching 200 attendees. There were presentations from four CEOs of investee companies and three members of the Investment Adviser.

### Shareholder survey

Many of you took part in the shareholder surveys of 2012 and 2014, the results of which were very useful. With more investors now in the Company and with the changes to the VCT industry since 2014, we have decided it's time to conduct a follow-up survey to make sure we stay in touch with the views of our shareholders. Enclosed with this quarterly Update, is the 2017 survey, and I should be grateful if you could please complete and return this either by post, in the freepost envelope provided FREEPOST YFM, or by following the link at the top of the survey if you would prefer to complete online. The survey is completely anonymous.

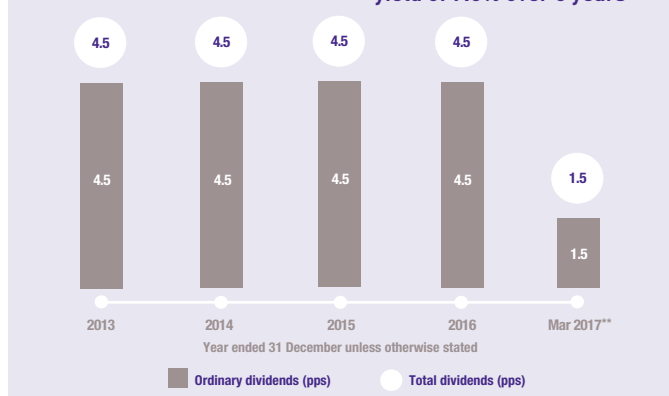
As ever, we do really value your feedback, so if there is anything you would like to see added to this Update, our workshops or any other communication you receive from us, please do let us know.

Thank you again for your continued support of BSC2.

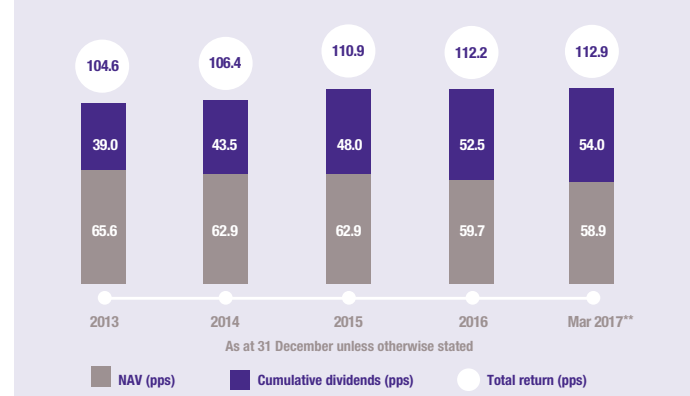
**David Hall** Managing Director, YFM Equity Partners

### DIVIDENDS PAID

Representing an average cash yield of 7.5% over 5 years\*

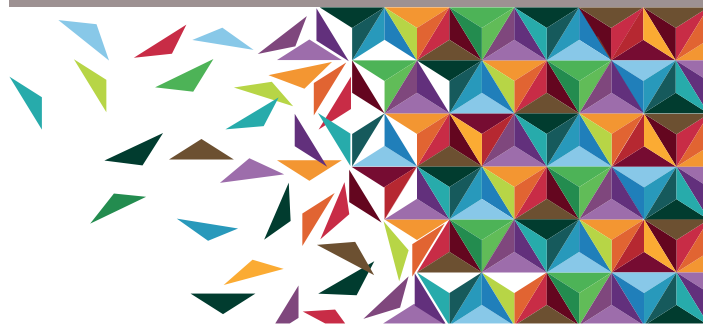


### TOTAL RETURN



\*Based on the average dividend over 5 years to 31 March 2017 expressed as a percentage of the last reported NAV being 31 March 2017. \*\* Adjusted for the 1.5 pence dividend paid on 12 May 2017.

## DEEP-SECURE



“To have achieved both significant growth and transformation of the business in what must have been some of the most challenging years in living memory is a fantastic result for us.”

Richard Beaton, Chairman, Deep-Secure Limited

## The business

High security network gateway products, specialising in Content Threat Removal

Strong underlying proprietary technology

Clients include UK government, MOD and NATO

## The strategy

Backing a highly successful serial entrepreneur whom we had worked with before

To increase sales by investing in sales and marketing

To develop the next generation of products

## The developments

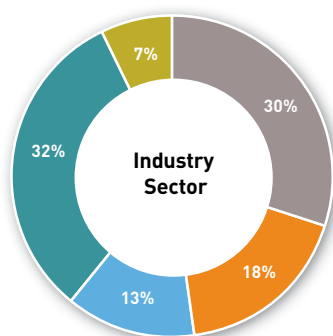
Appointed a proven and highly successful CEO in 2016

Bolstered sales and marketing resource

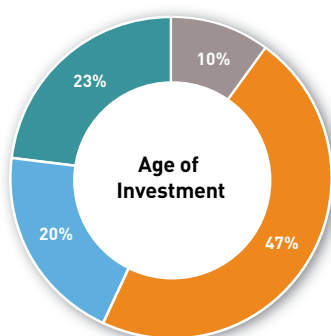
Developed a market leading approach to cyber security

Cyber security is a strong growth sector

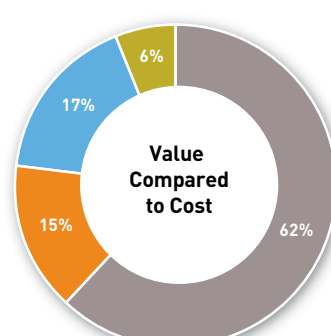
## PORTFOLIO AT A GLANCE



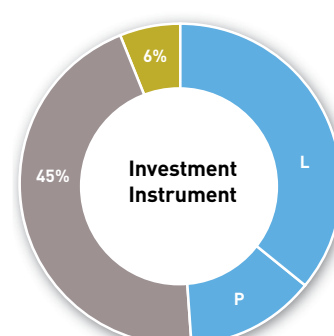
Business Services  
Manufacturing and Industrial  
Healthcare  
Software, IT and Telecommunications  
Retail and Brands



Less than 1 year  
Between 1 and 3 years  
Between 3 and 5 years  
Greater than 5 years



Value above cost  
At cost  
Value below cost  
Quoted companies - portfolio above cost



Loan  
Preference shares  
Ordinary shares  
Quoted companies

Data source: Based on BSC2 Valuations at 31 March 2017.

## FINANCIAL HIGHLIGHTS

All figures pence per share

Total Return Since Launch (at 31 December 2016)	112.2			
Years	1	3	5	10
Net Asset Value - "NAV" at start of period*	62.9	65.6	68.5	83.7
NAV at 31 December 2016*	59.7	59.7	59.7	59.7
Dividends paid in period to 31 December 2016*	4.5	13.5	22.5	45.5
Total Return in period to 31 December 2016*	64.2	73.2	82.2	105.2
Total Growth (%)	2.1%	11.6%	20.0%	25.7%
Investment Rate of Return (%)**	2.1%	4.1%	4.3%	3.0%

\* Excludes all tax relief - Pence per share.

\*\* Based on the date dividends paid.

We have included here an updated table which demonstrates the average total return growth per annum of the Company over the 1, 3, 5 and 10 year periods to 31 December 2016.

Past performance is no guide to future performance and the value of an investment in British Smaller Companies VCT2 plc may go down as well as up and you may not get back the full amount invested.

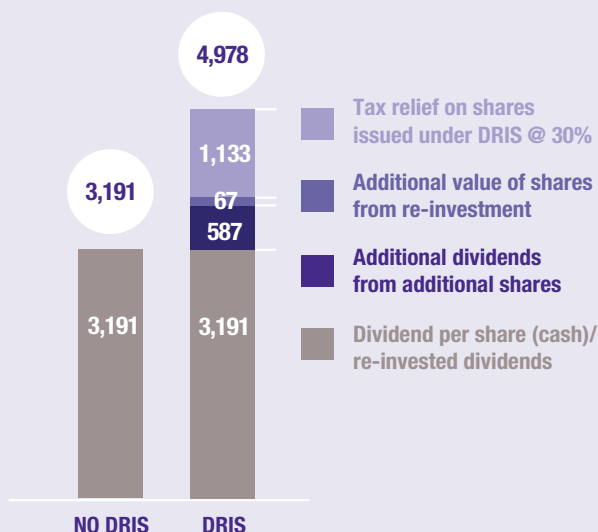
## PORTFOLIO UPDATE

In the three months to 31 March 2017 the investment portfolio (after netting off additions and proceeds) grew in value by £0.61 million. The unquoted portfolio which comprised 94 per cent of the total portfolio increased by £0.21 million, with a value gain of £0.33 million after netting off additional investment of £0.06 million offset by loan repayments of £0.18 million. The Top 10 investments performed strongly with a value gain in the quarter of £0.40 million. The quoted portfolio saw a value gain of £0.28 million in the quarter.

Company	Website	Unaudited investment valuation at 31 December 2016 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Unaudited investment valuation at 31 March 2017 £000	% of net asset value of £60.9m
ACC Aviation (via NewAcc (2014) Limited)	flyacc.com	3,480	-	-	↑ 83	3,563	5.9%
Intelligent Office (via IO Outsourcing Limited)	intelligentofficeuk.com	2,951	-	-	↑ 41	2,992	4.9%
Mangar Health Limited	mangar.co.uk	2,486	-	-	↑ 177	2,663	4.4%
KeTech Enterprises Limited	ketech.com	2,000	-	-	↑ 12	2,012	3.3%
DisplayPlan Holdings Limited	displayplan.com	2,015	-	-	↓ (5)	2,010	3.3%
Business Collaborator Limited	groupbc.com	1,743	-	-	↑ 8	1,751	2.9%
Springboard Research Holdings Limited	spring-board.info	1,706	-	-	↑ 21	1,727	2.8%
Gill Marine Holdings Limited	gillmarine.com	1,690	-	-	↓ (7)	1,683	2.8%
GTK (Holdco) Limited	gtk.co.uk	1,675	(149)	-	↑ 73	1,599	2.6%
Immunobiology Limited	immbio.com	1,486	-	-	↔ -	1,486	2.4%
<b>Top 10 total</b>		<b>21,232</b>	<b>(149)</b>	<b>-</b>	<b>403</b>	<b>21,486</b>	<b>35.3%</b>
Remainder of unquoted portfolio		16,015	(26)	60	(77)	15,972	26.2%
Total unquoted portfolio		37,247	(175)	60	326	37,458	61.5%
Quoted portfolio		2,072	(124)	-	284	2,232	3.7%
<b>Total portfolio</b>		<b>39,319</b>	<b>(299)</b>	<b>60</b>	<b>610</b>	<b>39,690</b>	<b>65.2%</b>

## DIVIDEND RE-INVESTMENT SCHEME (DRIS)

## DRIS returns over 5 years based on an initial investment of £10,000



BSC2's Dividend Re-investment Scheme ("DRIS") is a great way of building up your shareholding in a tax efficient\* way by re-investing your cash dividends in the Company, and has three advantages:

- 1) The dividends remain tax free;
- 2) The investment attracts income tax relief at the rate of 30 per cent; and
- 3) The investment is made at a 5 per cent discount to the last reported NAV.

## How to subscribe to DRIS

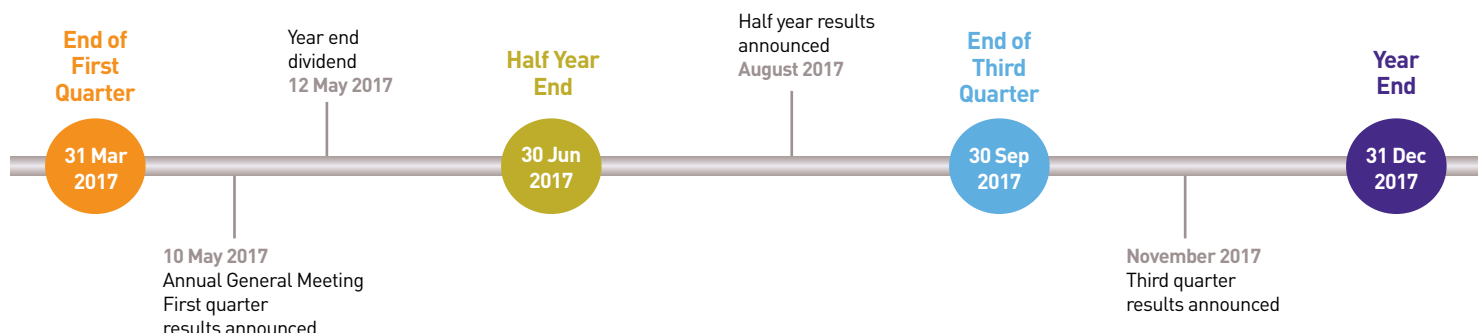
Visit the BSC2 website for terms and conditions and mandate form:

- [www.bsccfunds.com](http://www.bsccfunds.com)
- Click on British Smaller Companies VCT2 plc (BSC2)
- Select the DRIS section (on the left)

For more information contact Tracey Nice on 0113 261 6478 or email [tracey.nice@yfme.com](mailto:tracey.nice@yfme.com)

\* Tax relief may not be available to all shareholders in BSC2. If you are in any doubt as to your tax position you should consult with an appropriately qualified professional adviser.

## KEY DATES



## FOR YOUR RECORDS - DIVIDENDS PAID AND DATE

The table below displays the dates when BSC2 dividends have been paid and we hope you find it useful in keeping and checking your records.

Date paid	Pence per share	Date paid	Pence per share	Date paid	Pence per share
<b>Cumulative to 31 December 2009</b>	<b>22.0</b>	26 October 2012	2.5	28 September 2015	2.0
21 May 2010	2.0	5 June 2013	2.5	9 May 2016	2.5
30 September 2010	2.0	27 September 2013	2.0	26 September 2016	2.0
10 June 2011	2.0	30 June 2014	2.5	<b>Cumulative to 31 March 2017</b>	<b>52.5</b>
8 September 2011	2.0	7 October 2014	2.0	12 May 2017	1.5
22 May 2012	2.0	8 June 2015	2.5		

## IMPORTANT NOTICE

Past performance is no guide to future performance and the value of an investment in British Smaller Companies VCT2 plc ("the Company") may go down as well as up and you may not get back the full amount invested. An investment in a VCT is higher risk than investing in other securities listed on the London Stock Exchange official list. You should regard an investment in the Company as a higher risk, long term investment. The Company invests in mostly unquoted companies which are small and which by their nature carry a heightened level of risk.

In the past there has been limited liquidity in VCT shares listed on the London Stock Exchange. It may therefore be difficult to realise shares in the Company in the future and the share price may not reflect the underlying net asset value.

Tax rules and regulations can change over time and the tax reliefs available are dependent on the Company maintaining HM Revenue & Customs approval, on individual circumstances and on investors retaining their shares for a five year period. We recommend that you seek independent financial advice from an appropriately authorised independent financial

adviser as to whether an investment in the Company is suitable for you, as well as your personal entitlement to tax reliefs associated with any share offer by the Company.

**This Investor Update is not an offer to invest in the Company. It is an advertisement and is not a prospectus.**

This Investor Update has been issued and approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 by YFM Private Equity Limited ("YFM"), which is authorised and regulated by the Financial Conduct Authority (FRN: 122120). YFM is the Investment Adviser to the Company.

YFM Private Equity Limited is ultimately owned by YFM Equity Partners LLP which is registered in England and Wales No: OC384467. Registered Office: 5th Floor, Valiant Building, 14 South Parade, Leeds LS1 5QS.

## CONTACT US

For further information, including how to register for email communications please call or email.

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