

Welcome to British Smaller Companies EIS Fund Investor Update – December 2016

Dear Investor

Portfolio Value: £2.43 million: Cost £1.97 million

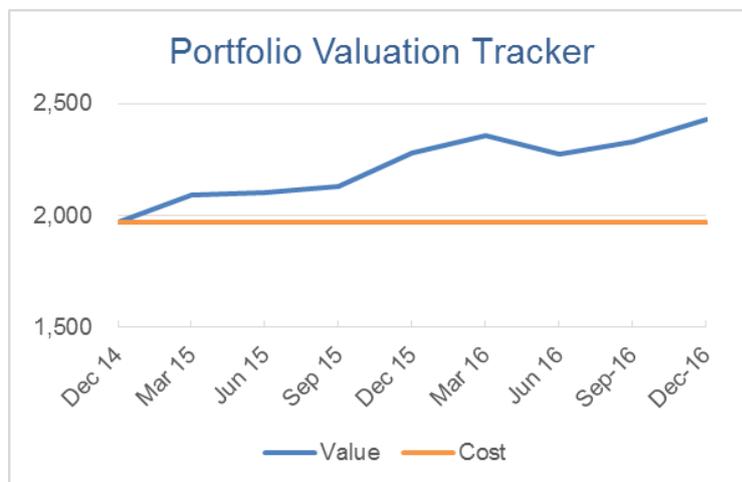
This quarter has seen a 4% increase in the portfolio value driven by further positive progress, particularly from the investments in Mangar and GTK; this despite the sale of the residual investment in Dryden for a nominal value. The total value of the portfolio at 31 December 2016 was £2.43m, 23% above the original aggregate cost.

In the last twelve months we have recruited new CEOs to both Mangar and Gill and expanded GTK's production capacity to include a facility in Romania. Seven Technologies continues to work on development projects with international reach. These changes are all aimed at driving the further growth of the investments in order to position them for ultimate sale.

We report on your aggregate investment as if BSC EIS is a fund, although in reality the investments are treated separately for tax purposes and will also be realised separately in order to maximise your returns. The proceeds will be distributed to you as each investment is realised.

I hope you find this update useful but, as always, we welcome any comments and suggestions you may have. Please contact **Tracey Nice** with your feedback by calling **0113 261 6478** or emailing tracey.nice@yfmeop.com

David Hall, Managing Director, YFM Equity Partners LLP



Portfolio Performance

Mangar Health Limited: Manufacturer of specialist lifting devices for elderly patients					
Cost	£500,000	Audited accounts: year ended 31 July	Percentage of portfolio value	Quarterly valuation movement	Valuation versus cost
Valuation*	£876,000				
Basis of valuation	Earnings multiple				
Date of investment	January 2014				
Quarterly commentary: Mangar has made a good start to the year, continuing to see sales growth from its core local authority customers in the UK. The new CEO is building the sales team and projecting significant growth from multiple channels in the UK and overseas.	£m	2016			
	Sales	7.74	36%	1% ↑	75% ↑
	EBITA	1.34			
Gill Marine Holdings Limited: Manufacturer and retailer of branded clothing for sailing enthusiasts					
Cost	£600,000	Audited accounts: year ended 30 September	Percentage of portfolio value	Quarterly valuation movement	Valuation versus cost
Valuation*	£718,000				
Basis of valuation	Earnings multiple				
Date of investment	September 2013				
Quarterly commentary: Progress continues to be made in key strategic areas, with a gradual growth in online sales and expansion of the range into adjacent markets such as the US sports fishing market.	£m	2016			
	Sales	12.23	30%	11% ↑	20% ↑
	EBITA	1.07			

* These investments have been valued in accordance with the International Private Equity and Venture Capital valuation guidelines for reporting valuations.

GTK (Holdco) Limited: Manufacturer and distributor of specialist electronic components						
Cost	£250,000	Audited accounts: year ended 31 July				
Valuation*	£511,000					
Basis of valuation	Earnings multiple					
Date of investment	October 2013					
Quarterly commentary: GTK has maintained strong revenue and profit growth through the current year, following the investment in new sales resource and products. The order book is healthy and the manufacturing facility in Romania has extended the range of services offered.		£m	2016	Percentage of portfolio value	Quarterly valuation movement	Valuation versus cost
		Sales	12.19	21%	1% ↑	104% ↑
		EBITA	1.08			

Seven Technologies Holdings Limited: Specialist technical surveillance and cyber security solutions						
Cost	£370,000	Audited accounts : year ended 30 September				
Valuation*	£322,000					
Basis of valuation	Earnings multiple					
Date of investment	June 2013					
Quarterly commentary: Seven Technologies saw a very disappointing close to the 2016 year with expected orders not materialising and the cost base has been significantly reduced. The current year has started well and we expect a recovery in profits.		£m	2015	Percentage of portfolio value	Quarterly valuation movement	Valuation versus cost
		Sales	15.38	13%	6% ↑	-13% ↓
		EBITA	1.41			

* These investments have been valued in accordance with the International Private Equity and Venture Capital valuation guidelines for reporting valuations.

Dryden Human Capital - Potential Tax Relief: As explained above Dryden Human Capital Limited was sold in January for a nominal consideration. You may be able to mitigate your financial losses by claiming tax relief against any gains you may have. You can include a claim for the loss when you next complete your Self Assessment Tax Return, however we recommend that you seek appropriate professional advice.

Company Valuation Tracker

— Value — Cost



Important Notice: Past performance is no guide to future performance and may not be repeated. The value of an investment in British Smaller Companies EIS Fund ("the Fund") may go down as well as up and you may not get back the full amount invested. The Fund will include investments in unquoted companies or Non-Readily Realisable Investments for which there is a restricted market and it may therefore be difficult to deal in the investments or to obtain reliable information about their value. You should be aware that there may be difficulty in selling such investments at a reasonable price and, in some circumstances it may be difficult to sell them at any price. Subscription to the Fund should not be viewed as a short-term investment. Any withdrawals within three years of investments into Investee Companies will result in the loss of EIS Relief. Furthermore, due to the relative lack of liquidity – particularly during the early years of the investments – the shortfall versus the original investment could be large. The value of tax reliefs available depends on personal circumstances and is subject to shareholders retaining their shares for a three-year period. In addition, the availability of tax reliefs depends on the companies invested in maintaining their qualifying status. Please refer to the HM Revenue and Customs website for further guidance on the tax reliefs available on EIS investments. Tax reliefs and concessions under the EIS tax regime are not guaranteed to remain unchanged for the life of the Fund, as the regime for taxation of Investors in funds such as the Fund is liable to change from year to year. For further information on these and other risk factors, please refer to page 14 of the Information Memorandum.

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