

## British Smaller Companies VCT2 plc (BSC2)

### INVESTOR UPDATE



**Dear Shareholder**

I would like to welcome you to the Autumn / Winter 2016 edition of the BSC2 Investor Update.

#### Overview

BSC2 has delivered a pleasing performance with NAV per share increasing from 61.0 pence per share to 62.3 pence per share, equivalent to 2.1% in the quarter, before payment of the interim dividend. At 30 September total return stood at 112.8 pence per share. On 26 September an interim dividend for the current year of 2.0 pence was paid which brings cumulative dividends to 52.5 pence per share.

#### New investment

This was the first full quarter since the issue of the HMRC guidelines in respect of the new VCT rules. As a result there was considerable resource applied to investment activity. In the period this resulted in a follow-on investment of £0.1m million into Intamac. Since then three new investments totalling £3.4 million have been made.

It is encouraging to see the completion of new investments and also the developing pipeline of further investment opportunities.

The new VCT rules have changed the nature of the businesses that the Company can invest in, with new investments needing to re-invest profits to fund their growth plans. The most recent investments have consisted mainly of equity, rather than yielding debt instruments, and this is likely to be the norm going forwards. As a result it is expected that this will reduce the maintainable level of dividends compared to those achieved historically.

#### Fundraising

As you may already be aware, BSC2 will launch a non-prospectus top-up to raise €5 million on 3 January 2017. The offer documents will be available on BSC2's website, [www.bscfunds.com](http://www.bscfunds.com), on that date and they will be posted to all shareholders no later than 6 January 2017. The offer will be available to existing shareholders until 31 January 2017 and will close on 5 April 2017, unless it is fully subscribed before then. All applications will have to be made by post and will be accepted in order of receipt until fully subscribed.

#### Corporate broker

I am pleased to announce that your Company has appointed Panmure Gordon (UK) Limited as its corporate broker with effect from 1 January 2017. Panmure's contact details are available at [www.bscfunds.com](http://www.bscfunds.com).

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

Currently just under 21% of you choose to re-invest your dividends. Any DRIS investment does attract income tax relief at the rate of 30% and additionally in the case of BSC2's scheme, the investment is made at a 5% discount to the last reported NAV. If you are interested in signing up for the DRIS, more details of this can be found on page 3.

#### Proxy voting

It seems such a long way off, but the AGM arranged for May 2017 will soon be upon us. It is very pleasing that so many more of you now elect to receive communications by email, and we don't know whether that is one of the reasons why the number of shareholders who submit their proxy vote ahead of the AGM has fallen by 45%. We want to encourage as many of you as possible to use your vote and so when we post out the Annual Report and Accounts, we will be including detailed instructions as to how you can vote on-line, regardless of your communication preference. Those of you receiving postal documentation will still be able to post a hard copy of the proxy form back, and this will be available to download and print for any shareholders who do not wish to use the on-line facility.

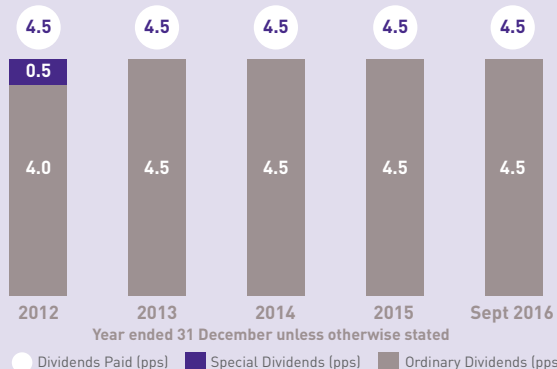
#### Communication

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.

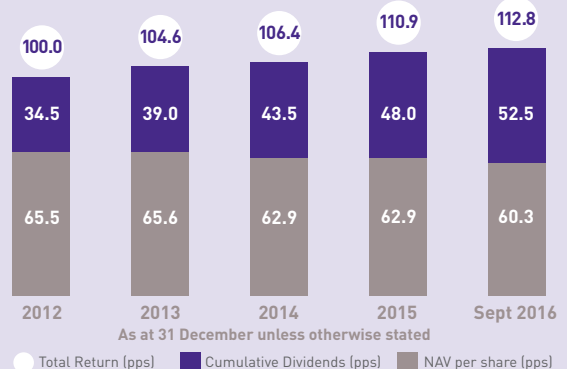
**David Hall**  
Managing Director  
YFM Equity Partners

### DIVIDENDS PAID

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



### TOTAL RETURN



\*Based on the average dividend over 5 years to 30 September 2016 expressed as a percentage of the last reported NAV being 30 September 2016.

## MACRO ART



“This MBO and planned capital investment will enable our business to capitalise on the positive economic outlook, expand into new areas and increase efficiency. We will invest in new equipment and employ more people to support our client’s ambitious printing demands.”

James Jennings,  
Managing Director, Macro Art

### The Business

An established niche wide format digital printer

Supplying the events exhibition, trade and retail markets

An MBO from the founders and funding for expanded production capacity

### The Strategy

Invest in capital equipment and technologies to expand into new product areas

Recruit additional sales resource to capitalise on growing reputation

Positioned as a specialist provider of bespoke printing solutions

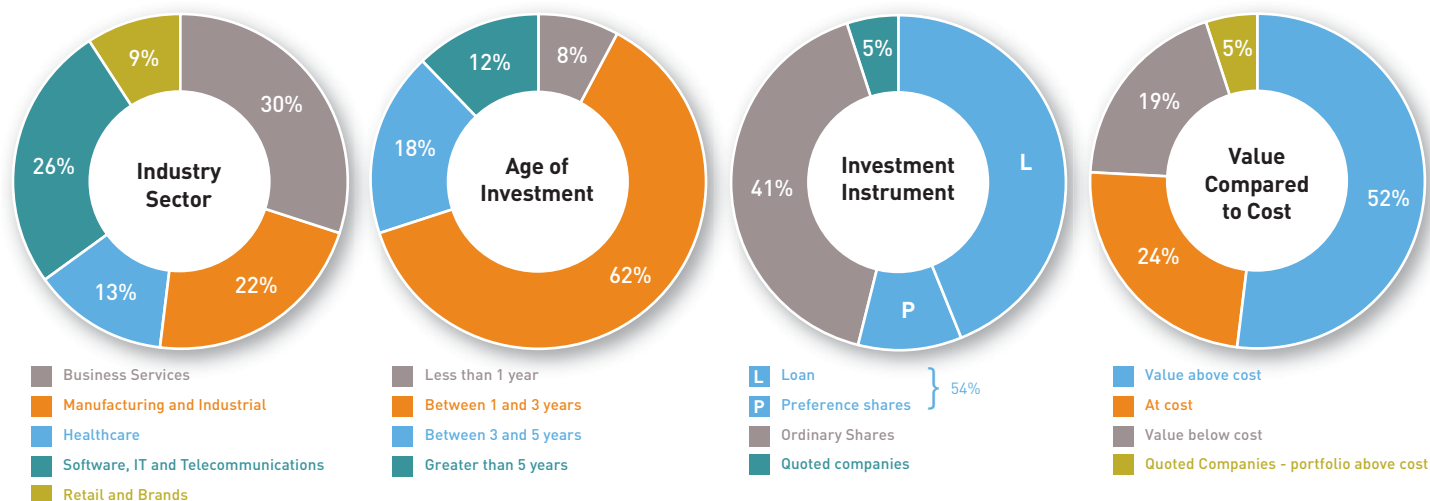
### Developments

Won new customer contracts resulting in increased dye sublimation sales

Cemented a close working relationship with an event installation business providing greater opportunities

Seeking to further expand products and service capacity both organically and through acquisitions

## PORTFOLIO AT A GLANCE



## FINANCIAL HIGHLIGHTS

Total Return Since Launch (to December 2015)	110.9			
Years	1	3	5	10
Net Asset Value - "NAV" at start of period *	62.9	65.5	68.4	74.2
NAV at 31 December 2015 *	62.9	62.9	62.9	62.9
Dividends paid in period *	4.5	13.5	22.0	43.0
Total Return *	67.4	76.4	84.9	105.9
Total Growth % *	7.2%	16.6%	24.1%	42.7%
Investment Rate of Return	7.4%	5.8%	5.1%	4.6%

\* Excludes all tax relief – pence per share.

This new table demonstrates the average total return growth per annum of the Company over the 1, 3, 5 and 10 year periods to 31 December 2015.

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

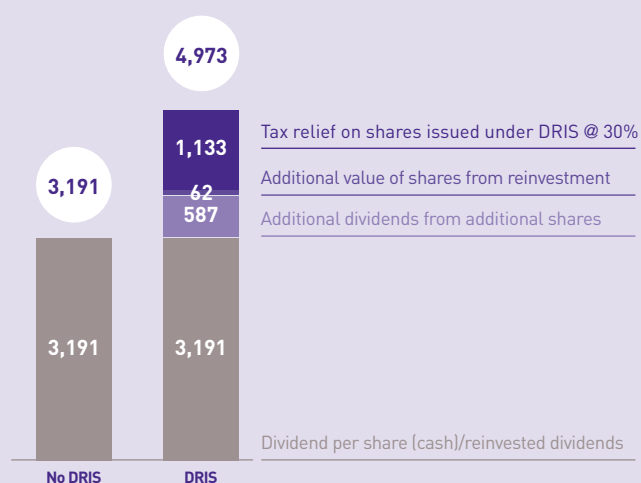
In the three months to 30 September 2016 the investment portfolio (after netting off additions and proceeds), grew in value by £1.08 million. The unquoted portfolio, which comprised 95% of the total portfolio increased by £0.84 million, with a value gain of £0.81 million after netting off additional investment of £0.08 million offset by loan repayments of £0.06 million. The Top 10 investments performed very strongly with a value gain in the quarter of £1.14 million. The quoted portfolio saw a value gain of £0.27 million in the quarter.

Investment	Website	Unaudited investment valuation at 30 Jun 2016 (£000)	Proceeds (£000)	Additions (£000)	Valuation gains including profits on disposal (£000)	Unaudited investment valuation at 30 Sept 2016 (£000)	% of Net asset value £56.8m
Intelligent Office	intelligentofficeuk.com	3,264	-	-	↓ (146)	3,118	5.5%
ACC Aviation	flyacc.com	2,274	-	-	↑ 571	2,845	5.0%
Mangar Health Limited	mangar.co.uk	2,273	-	-	↑ 220	2,493	4.4%
DisplayPlan Holdings Limited	displayplan.com	1,830	-	-	↑ 199	2,029	3.6%
KeTech Enterprises Limited	ketech.com	2,000	-	-	↔ -	2,000	3.5%
GTK (Holdco) Limited	gtk.co.uk	1,845	-	-	↑ 107	1,952	3.4%
Business Collaborator Limited	groupbc.com	1,501	-	-	↑ 226	1,727	3.0%
Gill Marine Holdings Limited	gillmarine.com	1,717	-	-	↓ (34)	1,683	3.0%
Springboard Research Holdings Limited	spring-board.info	1,646	-	-	↔ -	1,646	2.9%
Immunobiology Limited	immbio.com	1,486	-	-	↔ -	1,486	2.6%
<b>Top 10 Total</b>		<b>19,836</b>	<b>-</b>	<b>-</b>	<b>1,143</b>	<b>20,979</b>	<b>36.9%</b>
Remainder of unquoted portfolio		14,125	(56)	78	(329)	13,818	24.4%
<b>Total unquoted portfolio</b>		<b>33,961</b>	<b>(56)</b>	<b>78</b>	<b>814</b>	<b>34,797</b>	<b>61.3%</b>
<b>Quoted portfolio</b>		<b>1,831</b>	<b>(155)</b>	<b>-</b>	<b>269</b>	<b>1,945</b>	<b>3.4%</b>
<b>Total portfolio</b>		<b>35,792</b>	<b>(211)</b>	<b>78</b>	<b>1,083</b>	<b>36,742</b>	<b>64.7%</b>

## DIVIDEND RE-INVESTMENT SCHEME ("DRIS")

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.

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



### How to subscribe to DRIS

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

- [www.bscfunds.com](http://www.bscfunds.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@yfmepl.com](mailto:tracey.nice@yfmepl.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



## DIVIDENDS PAID

Date Paid	Pence per share
<b>Cumulative to 31 December 2009</b>	<b>22.0</b>
21 May 2010	2.0
30 September 2010	2.0
10 June 2011	2.0
8 September 2011	2.0
22 May 2012	2.0
26 October 2012	2.5
5 June 2013	2.5

Date Paid	Pence per share
27 September 2013	2.0
30 June 2014	2.5
7 October 2014	2.0
8 June 2015	2.5
28 September 2015	2.0
9 May 2016	2.5
26 September 2016	2.0
<b>Cumulative to 30 September 2016</b>	<b>52.5</b>

## 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.

**Tracey Nice**  
Investment Services Manager

**T:** 0113 261 6478  
**E:** tracey.nice@yfmap.com  
**W:** bscfunds.com

