

## British Smaller Companies VCT2 plc (BSC2)

# INVESTOR UPDATE Summer 2018

### Dear Shareholder

Welcome to your Summer 2018 BSC2 Investor Update. In this edition we provide an overview of some overall trends in new investment within your Company, as well as some of the external factors affecting VCTs.

### Some Emerging Trends

- The first quarter of the year is characterised by the new additions to the portfolio, with investment in Ncam, a UK business specialising in augmented reality and a second, Eikon, specialising in post production digital editing for films particularly with an international audience. There are some interesting elements to both these investments that act as further pointers to the nature of the investments that have recently been, and will continue to be, added to the portfolio.
- Firstly, both were seeking investment to expand their global presence, not just in terms of end markets and the attendant customer bases, but also internationally expanding their overseas operations. Perhaps by coincidence in these two investments there is a physical and financial investment in the west coast of the US; however this drive to expand internationally by these smaller UK businesses is something we seek to encourage.
- Secondly BSC2's investment across the two totalled £3.0 million alongside £4.5 million of investment from its companion VCT, BSC. This increase in the average size of investment for BSC2 is continuing the trend we are seeing in the growth capital investments and looks to be set fair for the foreseeable future.
- We are also seeing some of this investment by the existing portfolio with a view to expanding their overseas and particularly US presence. Specific examples include Gill Marine, where they have consolidated their US distribution channel; Mangar with their expansion into the US delivering their first £1.0 million of sales; Matillion with offices in New York and a recently opened second US office in Denver; and Springboard's first US clients adopting the technology.
- Some of this investment has been through external sources, with BSC2 supporting as appropriate and others by re-investing their profits, with the impact of both to increase costs in order to deliver this future growth.

### What Next?

Since the focus of new investment changed to younger companies, BSC2 has made ten new investments totalling £11.1 million and made follow-on investments of £0.8 million into two of these investments. At this time this portfolio of growth investments is relatively young, with only five being more than a year old.

Our expectation is that the level of follow-on investment required will increase, with our experience from previous growth capital investments made by BSC2 suggesting that for every initial £1 invested, a further 50-75p is likely to be required over the next 2-3 years. This latent demand for capital and the current run rate of investment is beginning to put some pressure on the cash reserves of BSC2 which the Board is closely reviewing.

### Performance

BSC2 has delivered a solid result during the first quarter of 2018 with total return up to 114.7 pence per share, an increase of 0.7 per cent on the opening NAV. Cumulative dividends were 55.5 pence per share before payment of the interim dividend of 1.5 pence per share on 11 May 2018.

### New Investments

- £1.0 million into Ncam who provide market leading camera tracking hardware and software which help deliver augmented reality content for TV broadcasters and films.
- £2.0 million into Eikon who provide cutting edge post-production services to the film and broadcast industry. Recent projects benefitting from their services include The Greatest Showman, A Quiet Place and Victoria and Abdul.
- Follow-on investment of £0.4 million into Matillion as a part of an £18 million fundraising that was supported by two well known US investors.
- Subsequent to the quarter end BSC2 has invested £0.9 million into Hutchinson (an Edinburgh-based global technology business); and
- £1.2 million into Arcus Global (a provider of cloud-based software solutions to local and national public sector organisations).

I hope you enjoy the case study included in this Update for Eikon which can be found, along with information on prospective regulatory changes, on page 2.

### General Data Protection Regulation ("GDPR")

The General Data Protection Regulation ("GDPR") came into force on 25 May 2018. The new Data Protection Act 2018 brings into UK law the provisions of the EU GDPR which is designed to ensure the protection of personal data and the safe flow of data between countries in the global marketplace.

We take the protection of personal data very seriously. If you would like to view our Privacy Policy, it can be found at [www.bscfunds.com](http://www.bscfunds.com)

### Communications

The 23rd annual Shareholder Workshop was held at the Honourable Artillery Company on 16 May 2018. There was a presentation from one of our newest investments, Ncam mentioned earlier, alongside short films from our other new portfolio companies Friska, Eikon and e2E.

As usual the shareholders who attended took the time and trouble to complete and return the feedback form. It is good to hear that almost 90 per cent of those shareholders said they would consider investing in VCTs again. Some investors wanted more information on the performance of individual investments, lessons learned, the mathematics behind the valuations and how YFM buy and sell. We will endeavour to include some of these topics over the coming months, but thanks to all who returned the forms.

As ever, we do really value your feedback, so if there was 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



## EIKON



“We are very excited about the future and growing the business alongside YFM as our partner. We chose YFM because of their history of helping businesses grow, particularly in the US, and because of their honest and straightforward approach.”

Peter Wright, Co Founder and CEO, Eikon

## The business

Leading end-to-end digital post-production services provider for the motion picture and broadcast industry

State-of-the-art facilities in London and an existing small office in Los Angeles

Specialists in digital mastering and localisation to the film, broadcast and online media industry

## The strategy

Expand into the US market including investing \$5 million in new facilities in Los Angeles

Increase market share in its existing core markets

Develop new relationships with new market entrants such as Netflix and Amazon

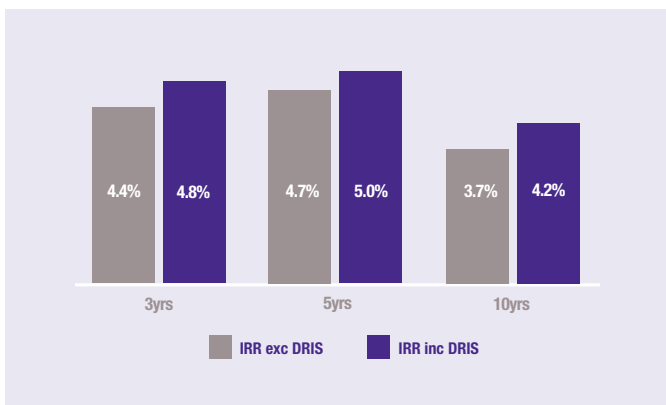
## The developments

Investment completed in March 2018

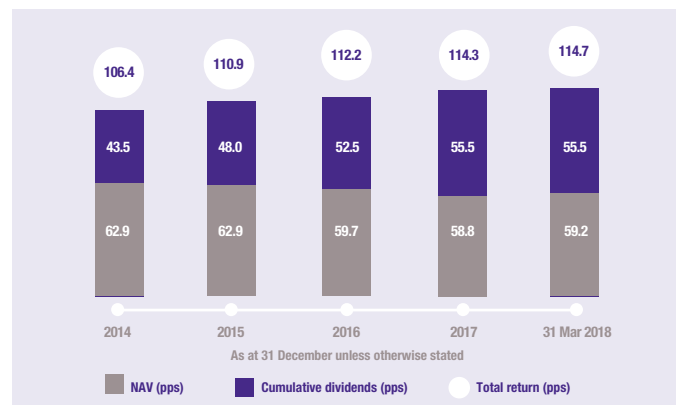
Lease signed on new office in Burbank, Los Angeles

New KDM product finalised (improving the global film distribution process) with live trials commencing

## BSC2 INVESTMENT RATE OF RETURN



## BSC2 TOTAL RETURN



Average investment rate of return per annum of the Company over 3, 5 and 10 year periods to 31 December 2017.

## REGULATORY CHANGES

The two areas of current consultation/discussion with HMRC are around advance assurance and the increase in the investment limit to £10 million for knowledge intensive businesses.

## Advance assurance

- HMRC has issued guidance, the thrust of which suggests that it is seeking to reduce the number of occasions where advance assurance is sought, with a greater reliance on the advisors to provide the necessary comfort that investments comply with the qualifying conditions.
- There are a number of reasons for this policy direction, but reducing the strain on HMRC resource is one consideration, with some of that resource redeployed into post-investment compliance checking. This general thrust is being considered not just for VCTs but also EIS and SEIS as well.
- HMRC is suggesting that the penalty for making an investment that does not qualify will be less onerous - currently a VCT would lose its VCT status which would result in tax relief in the previous five years having to be recovered. However, the remedies of how to rectify an error are the subject of discussion.
- If a solution can be found, that will be helpful, although a smoothly operating advance assurance process would work equally as well.

## Annual investment limit

- In the Budget, the annual limit on investment into knowledge intensive businesses was increased from £5 million to £10 million. However, this is currently only adopted in UK law.
- The limit is an EU state-aid requirement and, as at the time of writing, the EU has not yet consented to the change.
- As a result any investment made in excess of £5 million in a 12 month period would breach the state-aid rule which in itself could jeopardise a VCT's status.
- It is to be hoped that this will be clarified quickly; albeit the initial announcement was in November 2017's Autumn Statement.

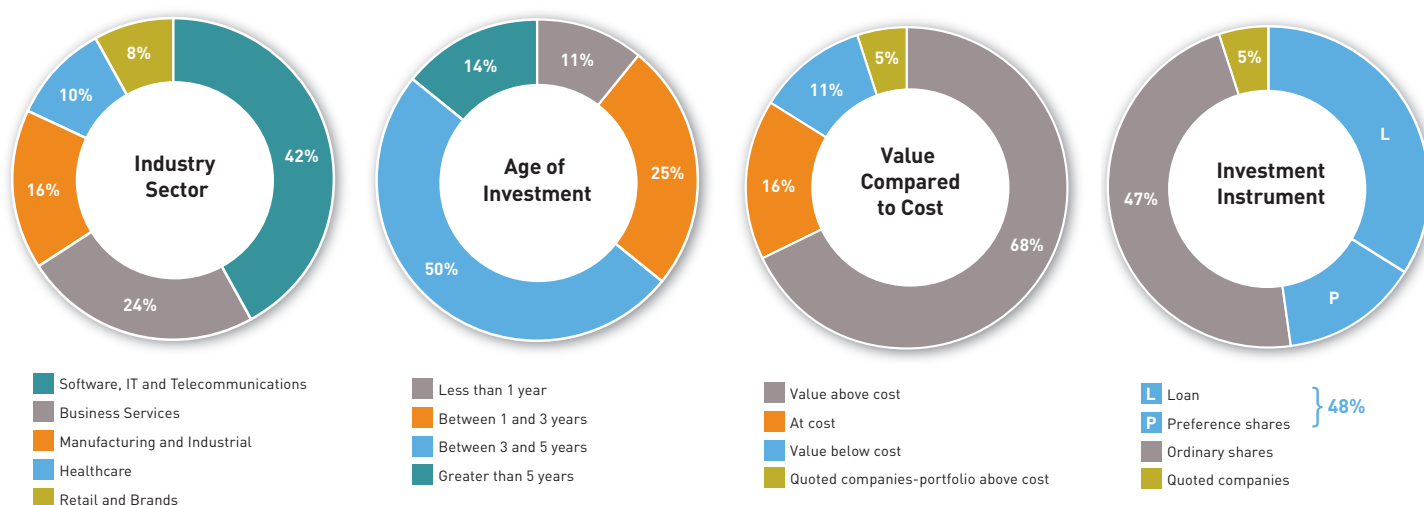
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## PORTFOLIO UPDATE

In the three months to 31 March 2018 the investment portfolio (after netting off additions and proceeds), was up £0.53 million in the quarter. **The unquoted portfolio**, which comprises 95 per cent of the total portfolio, increased by £3.81 million, with a value increase of £0.63 million after netting off additional investment of £3.36 million offset by loan repayments of £0.18 million. The Top 10 investments saw a value gain in the quarter of £1.05 million. **The quoted portfolio** saw a small value fall of £0.10 million in the quarter.

Company	Website	Unaudited investment valuation at 31 December 2017 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Unaudited investment valuation at 31 March 2018 £000	% of net asset value of £63.6m
Matillion Limited	matillion.com	2,222	-	378	↑ 692	3,292	5.2%
Intelligent Office (via IO Outsourcing Limited)	intelligentofficeuk.com	3,307	-	-	↓ (61)	3,246	5.1%
ACC Aviation (via NewAcc (2014) Limited)	flyacc.com	3,119	-	-	↔ -	3,119	4.9%
Mangar Health Limited	mangar.co.uk	2,641	-	-	↑ 130	2,771	4.4%
Ketech Enterprises Limited	ketech.com	2,336	-	-	↑ 152	2,488	3.9%
Eikon (Holdco) Limited	eikongroup.co.uk	-	-	2,000	↔ -	2,000	3.1%
Gill Marine Holdings Limited	gillmarine.com	1,922	-	-	↑ 29	1,951	3.1%
GTK (Holdco) Limited	gtk.co.uk	1,950	(149)	-	↑ 132	1,933	3.0%
Business Collaborator Limited	groupbc.com	1,802	-	-	↑ 63	1,865	2.9%
Springboard Research Holdings Limited	spring-board.info	1,930	-	-	↓ (87)	1,843	2.9%
<b>Top 10 total</b>		<b>21,229</b>	<b>(149)</b>	<b>2,378</b>	<b>1,050</b>	<b>24,508</b>	<b>38.5%</b>
Remainder of unquoted portfolio		16,912	(26)	977	(420)	17,443	27.4%
<b>Total unquoted portfolio</b>		<b>38,141</b>	<b>(175)</b>	<b>3,355</b>	<b>630</b>	<b>41,951</b>	<b>65.9%</b>
<b>Quoted portfolio</b>		<b>2,282</b>	<b>-</b>	<b>-</b>	<b>(98)</b>	<b>2,184</b>	<b>3.5%</b>
<b>Total portfolio</b>		<b>40,423</b>	<b>(175)</b>	<b>3,355</b>	<b>532</b>	<b>44,135</b>	<b>69.4%</b>

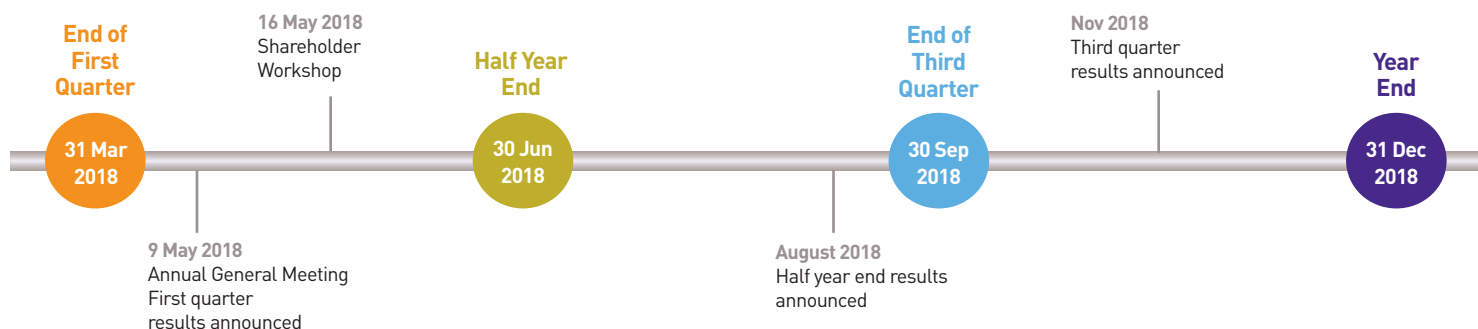
## PORTFOLIO VALUE AT A GLANCE



Data source: Based on BSC2 Valuations at 31 March 2018

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## 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	12 May 2017	1.5
8 September 2011	2.0	7 October 2014	2.0	29 September 2017	1.5
22 May 2012	2.0	8 June 2015	2.5	<b>Cumulative to 31 March 2018</b>	<b>55.5</b>
				11 May 2018	1.5

## 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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