

British Smaller Companies VCTplc (BSC)

INVESTOR UPDATE Autumn 2018

Dear Shareholder

Welcome to your twelfth BSC Investor Update. We hope that you continue to find the Updates informative.



Some Emerging Trends

- The first quarter of the year saw two new additions to the portfolio, with investment in Hutchinson Networks, a leading provider of multi-vendor IT and network solutions, and Arcus Global, providing cloud-based software solutions to public sector organisations. Both businesses required growth capital to help accelerate international growth and to support the continuing development of their businesses. There is more detail given in the New Investments section on this page.
- BSC's investment across the two totalled £3.1 million alongside £2.1 million of investment from its companion VCT, BSC2. This increase in the average size of investment for BSC is continuing the trend we are seeing in the growth capital investments.
- We are also seeing some of this investment by the existing portfolio with a view to expanding their overseas and particularly US presences. Some examples include Gill Marine, which has consolidated its US distribution channel; Mangar with its expansion into the US delivering its 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 BSC supporting as appropriate and others by re-investing their profits, with the impact of both to increase costs in order to deliver future growth.

What Next?

Since the focus of new investment shifted to younger companies, BSC has made ten new investments totalling £16.7 million and made follow-on investments of £1.0 million into two of these investments. At this time this portfolio of growth investments is relatively young, with only four being invested for more than a year.

Our expectation is that the level of follow-on investment required will increase, with our experience from previous growth capital investments made by BSC suggesting that for every initial £1 invested, a further 50-75p is likely to be required over the next 2-3 years. As a result of this latent demand for capital and the current run rate of investment the Board is closely reviewing BSC's level of liquidity, and has announced its intention to launch a full prospectus offer, with details of timing and amount to be confirmed later in the year.

SHAREHOLDER PORTAL – POTENTIAL ACTION REQUIRED –

Shareholders may or may not be aware that Link Asset Services, the Registrars (previously called Capita) operate a shareholder portal account. This portal provides information such as number of shares held and dividends paid, and allows you amongst other things, to update your address and amend your dividend preferences or bank details.

There are 155 BSC shareholders who also hold shares in British Smaller Companies VCT2 plc (BSC2) as well as in BSC. The two Companies, whilst closely aligned, are separate entities which means that accounts need to be activated for both.

There are also a number of you who hold shares only in BSC who are yet to activate your account.

Please call Tracey Nice (details on back page), who will be happy to help and talk you through the activation process.

Remember, if you are a shareholder in both BSC and BSC2, you need to activate both shareholder portal accounts.

New Investments

- £1.3 million in April 2018 into Hutchinson Networks Limited, a leading provider of multi-vendor IT and network solutions to clients globally. Hutchinson Networks will utilise the money to fund additional marketing and operational resources to accelerate international growth in a growing market.
- £1.8 million into Arcus Global Limited, a provider of cloud-based software solutions to local and national public sector organisations. The funding will support the continued growth of the business; building resource in technology development, sales and customer services. Together, this will enable Arcus Global to further expand its range of software solutions aiding the public sector to increase its use of digital technologies and transform services.

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

Performance

BSC has delivered a solid performance during the first quarter of 2018/2019 with **Total Return** per share increasing from 216.0 pence per share to 217.6 pence per share, a return of 2.0 per cent on the opening net asset value of 79.6 pence per share. This is equivalent to an IRR of 8.6 per cent. **Cumulative Dividends** increased to 140.4 pence per share following payment of the interim dividend of 4.0 pence per share on 18 May 2018.

General Data Protection Regulation ("GDPR")

The General Data Protection Regulation ("GDPR") came into force on 25 May 2018. 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

Communications

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 BSC.

David Hall
Managing Director, YFM Equity Partners

HUTCHINSON NETWORKS



“The general move to cloud based services across all industries continues to drive exceptional growth opportunities for us. We are very pleased to have YFM as investors; we liked the straightforward approach and their experience of taking businesses to the next level.”

Stephen Heslop, COO, Hutchinson Networks

The business

Leading provider of multi-vendor IT, impartial network solutions to national and international clients

Advanced infrastructure services to a wide variety of clients

Customers include a major UK airport, international consumer brand, UK police force and global retail chain

The strategy

Expand the existing team to take advantage of national and international market opportunities

Increase national reach by improving presence in other locations

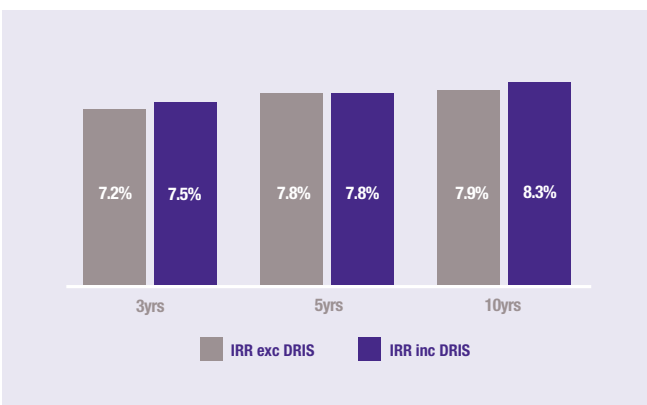
Develop the existing hosted platform to further increase recurring revenues

The developments

Introduced an individual and chairman with relevant experience of fast growing businesses

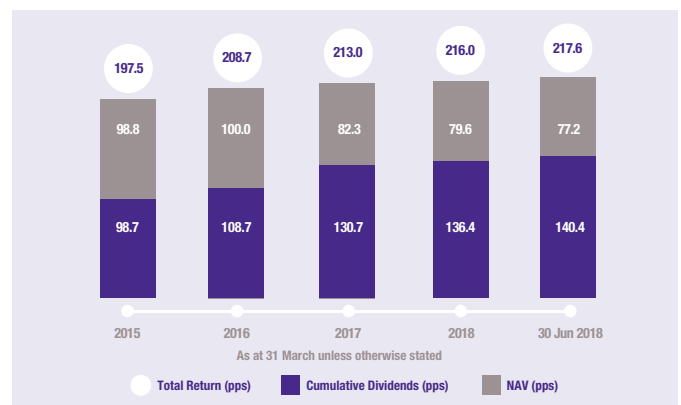
Further international contract wins

BSC INVESTMENT RATE OF RETURN



Average investment rate of return per annum of the Company over 3, 5 and 10 year periods to 31 March 2018.

BSC TOTAL RETURN



REGULATORY CHANGES

The two areas of recent 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.
- The new limit requires consent under the EU's state-aid rules.
- The EU approved the new limit on 5 July 2018.

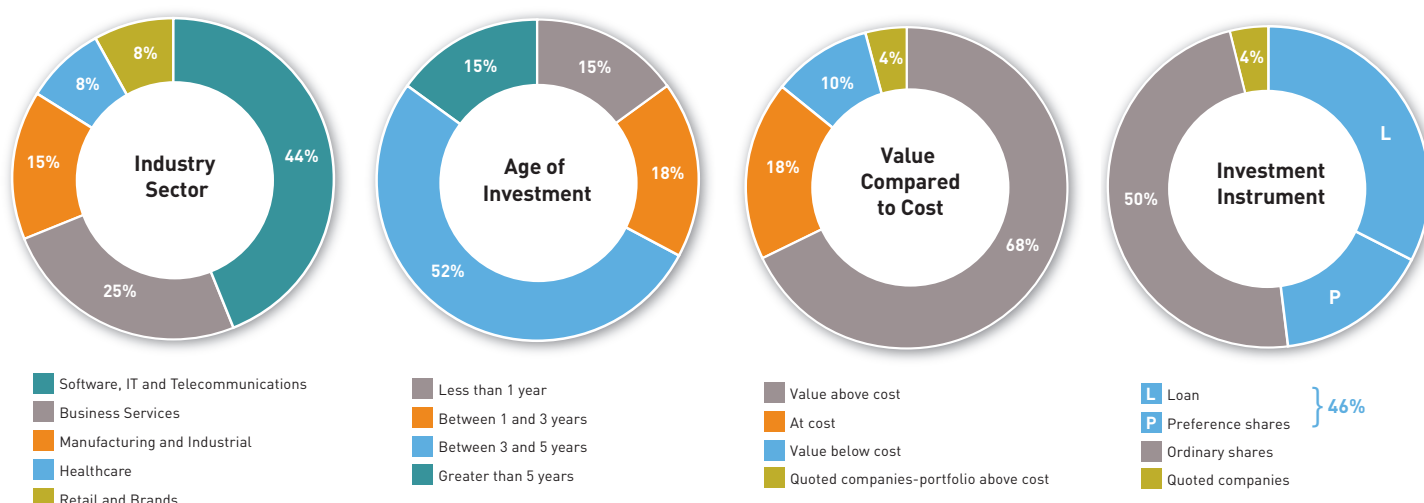
Past performance is no guide to future performance and the value of an investment in British Smaller Companies VCT plc may go down as well as up and you may not get back the full amount invested.

PORTFOLIO UPDATE

In the three months to 30 June 2018 the investment portfolio (after netting off additions and proceeds), delivered a gain of £1.57 million in the quarter. **The unquoted portfolio**, which comprises 96 per cent of the total portfolio, increased by £3.31 million, with a value increase of £1.20 million after netting off additional investment of £3.12 million offset by loan and preference share repayments of £1.01 million. The Top 10 investments saw a value gain in the quarter of £3.23 million. **The quoted portfolio** saw a strong value gain of £0.38 million in the quarter.

Company	Website	Unaudited investment valuation at 31 March 2018 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Unaudited investment valuation at 30 June 2018 £000	% of net asset value of £84.82m
Matillion Limited	matillion.com	4,938	-	-	↑ 563	5,501	6.5%
ACC Aviation (via NewAcc (2014) Limited)	flyacc.com	4,673	(922)	-	↑ 1,675	5,426	6.4%
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	intelligentofficeuk.com	4,868	-	-	↓ (376)	4,492	5.3%
Mangar Health Limited	mangar.co.uk	4,156	-	-	↑ 226	4,382	5.2%
Deep-Secure Limited	deep-secure.com	2,861	-	-	↑ 716	3,577	4.2%
Business Collaborator Limited	groupbc.com	2,798	-	-	↑ 209	3,007	3.6%
Eikon (Holdco) Limited	eikongroup.co.uk	3,000	-	-	↔ -	3,000	3.5%
GTK (Holdco) Limited	gtk.co.uk	2,937	-	-	↑ 18	2,955	3.5%
Springboard Research Holdings Limited	spring-board.info	2,765	-	-	↑ 59	2,824	3.3%
Gill Marine Holdings Limited	gillmarine.com	2,608	-	-	↑ 136	2,744	3.2%
Top 10 total		35,604	(922)	-	3,226	37,908	44.7%
Remainder of unquoted portfolio		23,961	(83)	3,120	(2,028)	24,970	29.5%
Total unquoted portfolio		59,565	(1,005)	3,120	1,198	62,878	74.2%
Quoted portfolio		2,191	-	-	376	2,567	3.0%
Total portfolio		61,756	(1,005)	3,120	1,574	65,445	77.2%

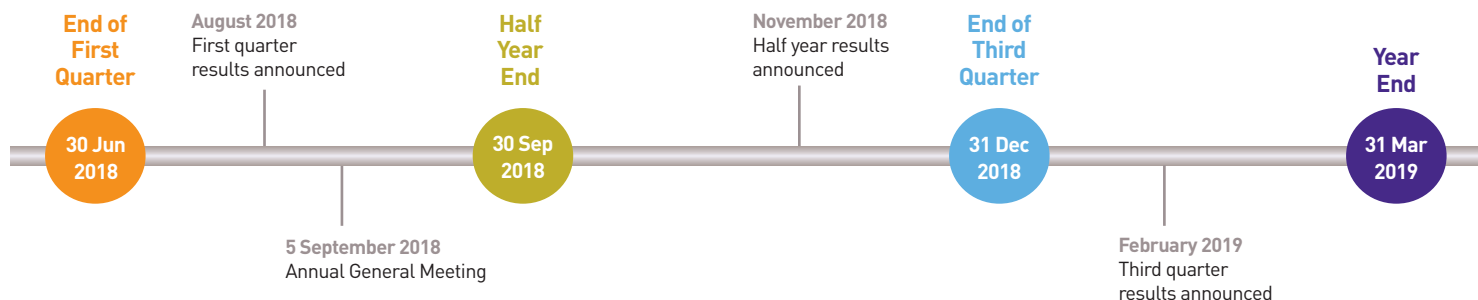
PORTFOLIO AT A GLANCE



Data source: Based on BSC Valuations at 30 June 2018

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KEY DATES



FOR YOUR RECORDS - DIVIDENDS PAID AND DATE

The table below displays the dates when BSC 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
Cumulative to 31 March 2012	79.20	7 January 2015	2.00	5 August 2016	2.00
17 August 2012	3.00	2 March 2015	2.50	5 August 2016	3.50
14 January 2013	2.00	4 August 2015	3.50	18 January 2017	16.50
13 August 2013	4.50	7 September 2015	3.50	26 May 2017	5.75
21 March 2014	2.00	15 January 2016	2.00	18 May 2018	4.00
1 August 2014	3.50	11 March 2016	1.00	Cumulative to 30 June 2018	140.45

IMPORTANT NOTICE

Past performance is no guide to future performance and the value of an investment in British Smaller Companies VCT 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.

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