

British Smaller Companies VCT2 plc
Interim Management Statement
For the quarter ended 30 September 2016

British Smaller Companies VCT2 plc (the “Company”) presents its interim management statement for the quarter ended 30 September 2016. The statement also includes relevant financial information between the end of the quarter and the date of this statement. A copy of this interim management statement can be found at www.bscfunds.com.

Overview

The Company has continued to make good progress in the quarter with total return rising to 112.8 pence per ordinary share. This is an increase of 1.3 pence per ordinary share; equivalent to 3.5% of the portfolio’s value at 1 July 2016.

Improved profitability in a number of investments contributed to a £1.1 million return from the portfolio in the quarter, delivering a £1.2 million increase in NAV in the period (including the net income surplus of £0.1 million) prior to the payment of the interim dividend.

We have now started to see new investments being approved by HMRC and the Company has completed two new investments since the end of the quarter.

The new VCT rules have changed the nature of the businesses that the Company can invest in, with new investments needing to reinvest 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 the Board would anticipate that this will reduce, in the medium term, the maintainable level of dividends compared to the 7% yield achieved historically.

Performance

	30 September 2016	Movement	30 June 2016
Net Assets (£m)	56.8	(0.3)	57.1
NAV per share (PPS)	60.3	(0.7)	61.0
Cumulative dividends paid (PPS)	52.5	2.0	50.5
Total Return (PPS)	112.8	1.3	111.5
Shares in issue	94,152,527	682,526	93,470,001

The total return at 30 September 2016, calculated by reference to the NAV per ordinary share and the cumulative dividends paid per ordinary share, was 112.8 pence per ordinary share compared to 111.5 pence per ordinary share at 30 June 2016. Following payment of an interim dividend of 2.0 pence per ordinary share cumulative dividends paid have increased to 52.5 pence per ordinary share (30 June 2016: 50.5 pence per ordinary share).

The unaudited NAV per ordinary share as at 30 September 2016 was 60.3 pence per ordinary share (30 June 2016: 61.0 pence per ordinary share) representing a decrease of 0.7 pence per ordinary share. The decrease in NAV per ordinary share is due to the net upward movement in the overall portfolio valuation offset by the interim dividend paid of 2.0 pence per ordinary share.

Dividends and shares in issue

The number of ordinary shares in issue at 30 September 2016 was 94,152,527 (30 June 2016: 93,470,001). In addition, at 30 September 2016 the Company held 2,367,533 ordinary shares in treasury (30 June 2016: 2,367,533).

On 26 September 2016 the Company paid an interim dividend of 2.0 pence per ordinary share. Pursuant to its dividend re-investment scheme and on the same date the Company issued 682,526 ordinary shares at a price of 56.05 pence per ordinary share.

Much of the existing portfolio comprises investments in maturing businesses with investment structures that provide both ongoing income and repayments. The nature of the portfolio is beginning to change with the most recent investments, including those completed after the period end having to comply with the new VCT rules comprising around 8% of the invested portfolio.

Net assets

Net assets at 30 September 2016 comprised the following:

	£000	% of net assets
Quoted investments at bid price	1,945	3.4
Unquoted investments at fair value	34,797	61.3
Total investments	36,742	64.7
Cash and cash equivalents	19,020	33.5
Other net current assets	1,035	1.8
Net assets	56,797	100.0

The investment portfolio at 30 September 2016 was comprised as follows:

	Valuation £000	Valuation as a % of net assets
Intelligent Office	3,118	5.5
ACC Aviation	2,845	5.0
Mangar Health Limited	2,493	4.4
DisplayPlan Holdings Limited	2,029	3.6
KeTech Enterprises Limited	2,000	3.5
GTK (Holdco) Limited	1,952	3.4
Business Collaborator Limited	1,727	3.0
Gill Marine Holdings Limited	1,683	3.0
Springboard Research Holdings Limited	1,646	2.9
Immunobiology Limited	1,486	2.6

	20,979	36.9
Other investments	15,763	27.8
Total investments	36,742	64.7

During the quarter to 30 September 2016 the Company made one follow-on investment of £0.1 million into Intamac Limited.

In the quarter to 30 September 2016 the realisation and repayment of investments generated cash proceeds of £0.4 million.

Portfolio Performance

Over the quarter to 30 September 2016 aggregate unrealised portfolio valuations have increased by £1.1 million.

The Board continues to follow its policy of maintaining a diversified portfolio. At 30 September 2016, only one investment represented more than 5 per cent of the Company's NAV.

Subsequent investments

Since 30 September 2016 the Company has invested an additional £2.0 million into B2M and Traveltek.

- B2M is a leading provider of software for rugged and industrial enterprise mobile devices, based in Oxfordshire.
- Traveltek is a Scottish technology business which provides market leading dynamic technology to travel agents, tour operators and wholesalers worldwide.

Since HMRC issued its guidelines to the new legislation in May this year the Company has completed three new investments totalling £2.9 million. Heads of terms granting exclusivity for a further three investments totalling £3.0 million have recently been signed.

Outlook

The completion of new investments and developing pipeline of investment opportunities is encouraging. In this context the Company has decided that it will undertake a non-prospectus top-up to raise €5 million to be launched on 3 January 2017. The Board will continue to seek to further expand and diversify the portfolio recognising that its composition will change over time as the current portfolio is realised and the newer investments in younger businesses replaces it. As the return profile from these investments is likely to have a greater volatility the Board will continue to monitor its dividend and buy-back policies closely through this transition.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU No. 596/2014). Upon the publication of this announcement via Regulatory Information Service this inside information is now considered to be in the public domain.

22 November 2016

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