

## British Smaller Companies VCT2 plc (BSC2)

# INVESTOR UPDATE Winter 2017/2018



### Dear Shareholder

Welcome to your Winter 2017/2018 BSC2 Investor Update. It is now over five years since we published the first Update and I hope that you continue to find it an informative and useful document.

### Introduction - Patient capital review

This has been an important period with the Government reviewing its support both in terms of both quantum and method for investment in the UK's small and growing businesses. This review covered an assessment of the focus and targeting of its current support particularly the Venture Capital Trust, Enterprise Investment, Seed Enterprise Investment Schemes and Entrepreneurs' Relief. In addition it produced plans for the outline of additional support through a National Investment Fund.

Recent research from The Association of Investment Companies and the British Private Equity and Venture Capital Association highlighted:

- **3,200 companies** are currently backed by UK private equity and venture capital. Over 500 of those benefitted from £1.4 billion of VCT investment.
- **448,000 people** are employed in the UK by companies backed by private equity and venture capital. 50,000 of those are employed by VCT-backed businesses and since the VCTs invested, these companies have created 27,000 jobs (a 116 per cent increase).
- **Providing follow-on finance** is an important aspect of VCTs' investment approach. More than a third of VCT-backed businesses have received more than three investment rounds.

We also highlighted a track record of patient investment. Over the last 21 years VCTs advised by YFM have made 139 investments and invested £141 million. Increase in revenue of the underlying investments to date has been £501 million (a 268 per cent increase), and the increase in employees over the investment period is 6,168 people (a 151 per cent increase).

### Outcome

It is extremely encouraging that the Government has decided to extend and reinforce its support for investment in UK SMEs. Some further important changes were announced:

- The intention to create a National Investment Fund of £7.5 billion; with £2.5 billion of government funding.
- Increasing funding for Enterprise Capital Funds to £1.5 billion; and
- A National Security Strategic Investment Fund of £85 million.

For VCTs the Government is keen to ensure that its policy objectives are achieved and to do this has set some new rules to further focus their investments.

Some key changes are:

- An increased annual investment limit of £10 million for knowledge-intensive companies.
- The introduction of a principles-based test.
- Restrictions to the use of loan instruments.
- Qualifying Investments to be increased from 70 per cent to 80 per cent from April 2019.

Full details can be found at [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/661398/Patient\\_Capital\\_Review\\_Consultation\\_response\\_web.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661398/Patient_Capital_Review_Consultation_response_web.pdf)

Details of how some of these changes and particularly the principles-based test will be implemented will emerge between now and April next year, although the tests are being applied in practice from 4 December 2017.

### Performance

In the third quarter of 2017 BSC2's Total Return per share increased from 113.0 pence per share to 113.4 pence per share, a return of 0.7 per cent on the opening net asset value, equivalent to an annualised return of 2.7 per cent. On 29 September 2017 the Company paid an interim dividend of 1.5 pence per share, which brings cumulative dividends to 55.5 pence per share. At 30 September 2017 the net asset value per share stands at 57.9 pence per share.

### Investments and realisations

The new VCT rules will lead to more investments into earlier stage businesses, with the existing portfolio providing an element of stable returns in the short term. During the period BSC2 invested £1.2 million into Friska and £0.6 million into e2E Engineering.

BSC2 invested into Harvey Jones in 2007 and sold its final interest in the business in August for £0.2 million. This takes the total return from this investment to £2.2 million, a multiple of 1.4x cost.

### Shareholder survey

Once the results of the survey have been fully digested, we will publish a separate document. In the meantime I want to provide you with a flavour of the results:

- **28 per cent** more shareholders than in 2012 are investing in VCTs for longer than ten years.
- It is encouraging to see that **one third** of shareholders who responded to the survey are planning to transfer their shares to their children/grandchildren. We have provided some hints and tips as to how you can do this, on page two.
- It is also very positive for the VCT industry as a whole that the number of shareholders **is increasing** and that they are diversifying their holdings across VCTs.
  - The number of BSC2 shareholders has increased by 11 per cent per annum since 2012.
  - The number of investors holding only BSC2 shares has halved as investors diversify across the asset class.

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

## €5m Top-up Offer – Opening 11 January 2018

On 11 January 2018 British Smaller Companies VCT2 plc will be launching an Offer for Subscription to raise up to €5 million. Documents will be available on the website from 11 January 2018. The application form will be posted out on 10 January 2018. For more information please contact our Investor Relations Support Manager, Tracey Nice, whose details are on the back page.

## FRISKA



“Over the past seven years, we have been honing our menu, the way our stores look and feel, our brand and of course our operating systems. We feel confident that now is the right time to bring our feel good food (and coffee) to cities around the UK and working with YFM will allow us to do this faster and better, just like our food.”

Griff Holland, Co-founder, Friska

### The business

Chain of ‘food to go’ restaurants centred in Bristol offering breakfast and lunchtime food as well as great coffee

Founded by Griff Holland and Ed Brown

‘Feel Good Food’ ethos reflected in high quality well-sourced food, engaging store environments and leading customer service levels

### The strategy

Expand the number of restaurants building on the quality of the Friska offering and brand

Build a distinctive national “Feel Good Food” brand

Deploy funding to roll out new restaurants into major cities in the UK

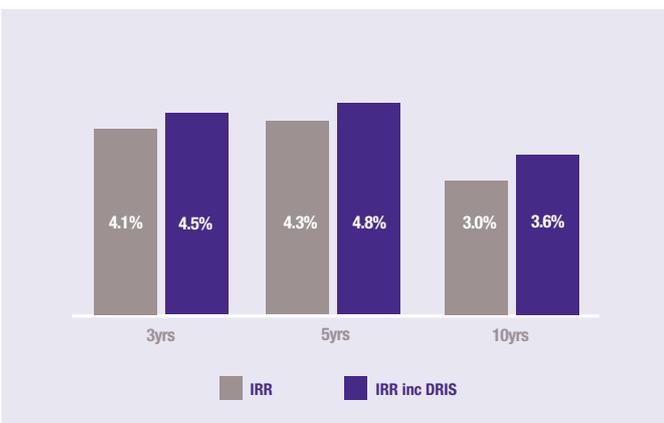
### The developments

Appointed industry experienced Chairman

Expanded into Manchester

Expansion into sites within striking distance of Bristol

### INVESTMENT RATE OF RETURN



Average investment rate of return per annum of the Company over 3, 5 and 10 year periods to 31 December 2016.

### TOTAL RETURN



### TRANSFERRING MY VCT SHARES TO MY CHILDREN AND GRANDCHILDREN

As mentioned in my Welcome, a third of you are planning to transfer your VCTs to your children or grandchildren. Many of you asked additional questions as to how this could be done and the things to consider.

#### How do I go about transferring my shares?

- A very simple form needs to be completed and returned to Link, along with your share certificate.
- Link will process the transfer and send a new share certificate to the new shareholder.
- You can contact Tracey Nice who will send you the form and a guide.

#### Watch out for:

- A transfer to children is a disposal and therefore you do need to consider whether the shares have been held for at least five years. If not, there will be a clawback of the initial VCT income tax relief.
- If the shares were purchased prior to 6 April 2004 and Capital Gains Tax deferral relief was claimed, then that deferred capital gain will become chargeable to capital gains tax.
- Any child/grandchild must be at least 18 years of age when they receive the shares in order to benefit from a CGT free exit and in order to receive dividends from the VCT tax free, provided that they do not acquire more than £200,000 of VCT shares in the tax year; and
- Normal inheritance tax rules apply to share transfers.

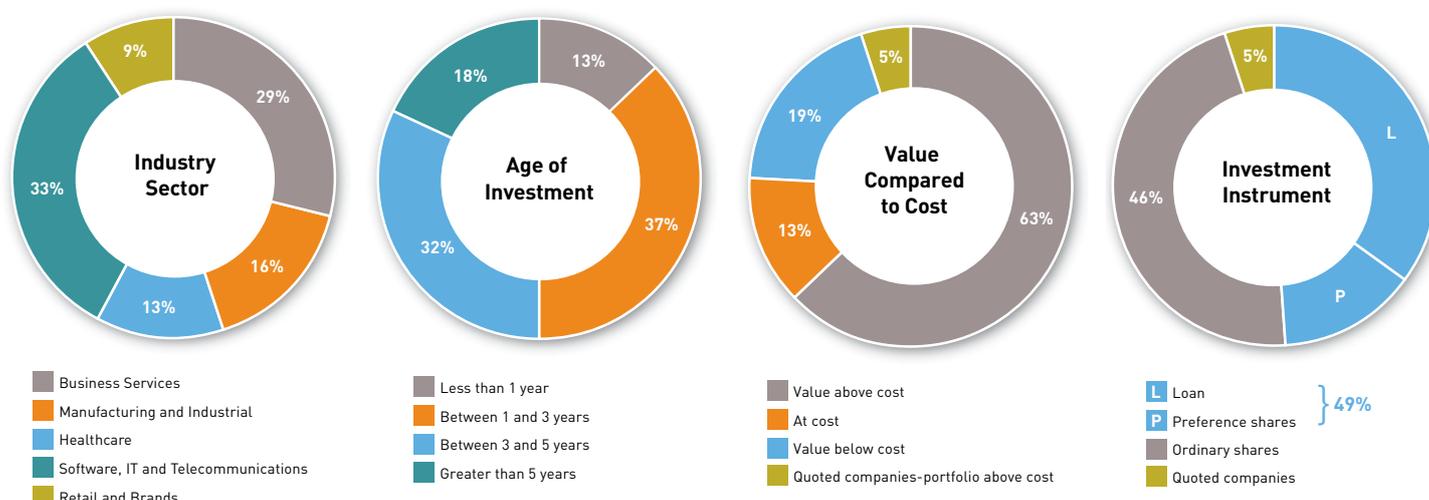
Past performance is no guide to future performance and the value of an investment in British Smaller Companies VCT2 plc may go down as well as up and you may not get back the full amount invested.

## PORTFOLIO UPDATE

In the three months to 30 September 2017 the investment portfolio (after netting off additions and proceeds) was up £0.52 million in the quarter. **The unquoted portfolio**, which comprises 95 per cent of the total portfolio, increased by £1.91 million, with a value increase of £0.44 million after netting off additional investment of £1.80 million offset by loan repayments and realisations of £0.33 million. The Top 10 investments saw a value gain in the quarter of £0.67 million. **The quoted portfolio** saw a value gain of £0.08 million in the quarter.

Company	Website	Unaudited investment valuation at 30 June 2017 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Unaudited investment valuation at 30 September 2017 £000	% of net asset value of £58.6m
ACC Aviation (via NewAcc (2014) Limited)	flyacc.com	3,564	-	-	↑ 140	3,704	6.3%
Intelligent Office (via IO Outsourcing Limited)	intelligentofficeuk.com	3,090	-	-	↑ 174	3,264	5.6%
Mangar Health Limited	mangar.co.uk	2,791	-	-	↓ (137)	2,654	4.5%
Ketech Enterprises Limited	ketech.com	2,019	-	-	↑ 104	2,123	3.6%
Springboard Research Holdings Limited	spring-board.info	1,890	-	-	↑ 32	1,922	3.3%
GTK (Holdco) Limited	gtk.co.uk	1,664	(149)	-	↑ 275	1,790	3.1%
Gill Marine Holdings Limited	gillmarine.com	1,685	-	-	↑ 76	1,761	3.0%
Business Collaborator Limited	groupbc.com	1,810	-	-	↓ (160)	1,650	2.8%
Immunobiology Limited	immbio.com	1,612	-	-	↔ -	1,612	2.8%
Matillion Limited	matillion.com	1,400	-	-	↑ 169	1,569	2.7%
<b>Top 10 total</b>		<b>21,525</b>	<b>(149)</b>	<b>-</b>	<b>673</b>	<b>22,049</b>	<b>37.7%</b>
Remainder of unquoted portfolio		14,955	(182)	1,800	(230)	16,343	27.9%
<b>Total unquoted portfolio</b>		<b>36,480</b>	<b>(331)</b>	<b>1,800</b>	<b>443</b>	<b>38,392</b>	<b>65.6%</b>
<b>Quoted portfolio</b>		<b>2,212</b>	<b>(218)</b>	<b>-</b>	<b>79</b>	<b>2,073</b>	<b>3.5%</b>
<b>Total portfolio</b>		<b>38,692</b>	<b>(549)</b>	<b>1,800</b>	<b>522</b>	<b>40,465</b>	<b>69.1%</b>

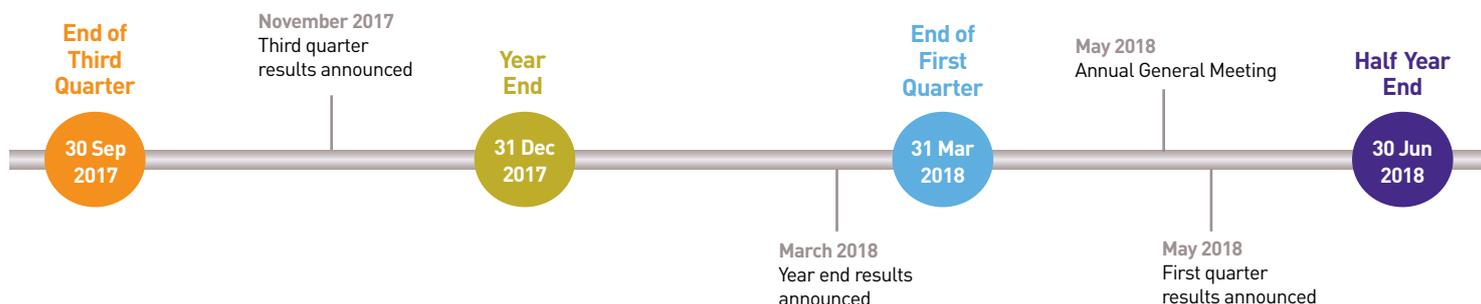
## PORTFOLIO AT A GLANCE



Data source: Based on BSC2 Valuations at 30 September 2017

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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 30 September 2017</b>	<b>55.5</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.**

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## CONTACT US

For further information, including how to register for email communications, please call or email.

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