

Investor Update Summer 2019

YFM Equity Partners

BRITISH SMALLER COMPANIES VCT2 PLC (BSC2)

bscfunds.com
Transforming small businesses

Dear Shareholder

A strong end to the calendar year and a busy start to 2019.

Four Exits and Four New Investments

The end of 2018 saw three disposals generating proceeds totalling £9.0 million; as a result of which BSC2 paid a 5 pence per share dividend on 15 February 2019. The buyers of these companies included a UK listed business; a French based med-tech business; and a US-based, New Zealand family office backed, business. The geographic spread, coupled with the range of investors, certainly suggests that at the end of 2018 there remained a strong and healthy interest in investing in the UK economy. Continuing into 2019, in April we also sold the investment in Leengate Holdings for £1.3 million, delivering a 2.3x return on the original investment.

2019 has started with strong demand for VCT investment. To date we have invested £17.1 million (BSC2 £6.9 million) into four new and five follow-on investments. The new investments were £3.0 million (BSC2 £1.2 million) into a seller of resort wear, Frescobol Carioca; £3.5 million (BSC2 £1.4 million) into an e-learning software business, Elucidat; £3.6 million (BSC2 £1.4 million) into a disruptive video agency, Wooshii and £3.9 million (BSC2 £1.6 million) into the Emma Reynolds and Ken Yamada-founded ramen restaurant group, Tonkotsu.

Development of the Growth Portfolio

The growth portfolio has continued to develop and it now comprises 46 per cent of the unquoted portfolio following the investments noted above. We are seeing some emerging demand for further investment. This arises for a combination of reasons: changing plans to adapt to markets, some growing a little quicker and some changing course. The level of further investment in the current year has been relatively low (£1.2 million in aggregate from BSC2 in five investments, of which £0.5 million arose in the first quarter), but this is likely to be part of a growing trend. As we have added further investment, in a number of cases we have taken the opportunity to add to and strengthen the management teams in these companies.

We expect that the portfolio mix will continue to change as the pure growth capital investments continue to be added and as the buy-out and growth investments made pre-November 2015 are realised. As has been widely trailed, the expectation is that there is likely to be a higher volatility in dividends and net asset values, as we have seen over the past year or so, and something that was repeated in the first quarter of 2019.

We are delighted that in the recent Northern Tech Awards, which cover all regions north of Watford, Matillion was identified as the 3rd fastest

growing company and even more delighted that it also picked up the Top Award as Best Technology Company www.northerntechawards.com/award-winners

The Team

We have continued to add to the team at YFM with new joiners in Manchester (Dan Freed), Leeds (Mike Clarke) and London (Helen Villiers). We expect to see more recruits joining throughout 2019.

The BSC2 Board has changed. Richard Last has stepped down as Chairman, being replaced by Peter Waller, and we welcome Roger McDowell to the Board. There is more information on Peter and Roger on page 2.

Performance

BSC2 delivered a steady performance during its first quarter to 31 March 2019 with Total Return marginally increasing by 0.1 pence to 118.5 pence per share, an increase of 0.17 per cent over the opening net asset value. As previously mentioned, the recent wave of successful exits meant that BSC2 could pay a £5.4 million dividend in February, of which £1.1 million was re-invested by shareholders who are members of the Dividend Re-investment Scheme. Following the payment of this dividend and the dividend of 1.5 pence per share paid on 10 May 2019, cumulative dividends have increased to 65.0 pence per share.

2019 Shareholder Workshop

This year's Workshop was held on 20 June 2019 at Gibson Hall, in London. We are very grateful to the nearly 200 shareholders who attended and supported this annual event. This year, aside from the presentations from YFM, we heard from Matthew Scullion, CEO of Matillion, and Ed Brown, co-founder of Friska. The presentation from the day is available on the website www.bsfunds.com

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.

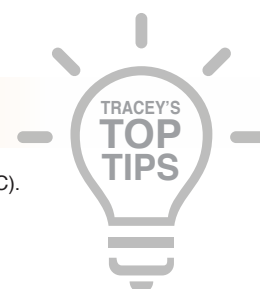
David Hall
Managing Director, YFM Equity Partners



DIVIDEND PAYMENTS

- > There is currently £300,000 of outstanding dividends waiting to be claimed in BSC2 and British Smaller Companies VCT plc (BSC). Could you be one of the many shareholders missing out?
- > Do you still have your dividends paid by cheque? If so, it's worth knowing that when your dividends are paid by BACS directly into your bank account, you still receive in the post, a dividend voucher, advising you of the payment and the amount.

To check whether you have any outstanding dividends and/or find out more about dividend payments by BACS, simply contact Tracey Nice (details back page) who will be happy to help.





WOOSHII A challenger digital video agency

"It's a really exciting time for Wooshii, and the funding from YFM will allow the business to capitalise on the huge opportunity that lies ahead. We selected YFM as a partner given their knowledge of our market as well as having supported numerous businesses like Wooshii through this planned phase of growth. We're delighted to have YFM join the team."

Fergus Dyer-Smith, founder and CEO of Wooshii

The business

- > Provides global brands with a scalable video production solution for digital marketing and internal communications content
- > Utilises a bespoke tech platform in-house developed to bring together a global network of 15,000+ freelance creatives to produce content for clients
- > Boasts an impressive blue chip client list including a number of global brands

The strategy

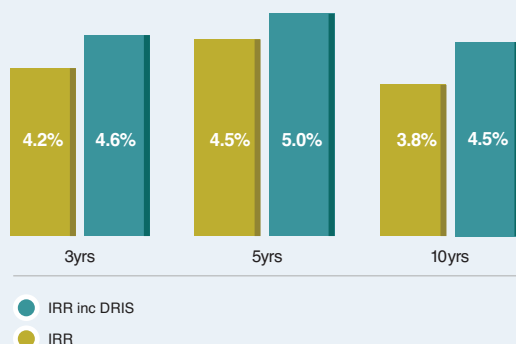
- > Back the international sales strategy of the impressive management team, led by a CEO/founder with experience in building businesses from the ground up
- > Invest in both the sales and account management teams to increase new client wins and expand sales to existing clients
- > Grow the production team to maintain the high quality of output and service as the business expands

The developments

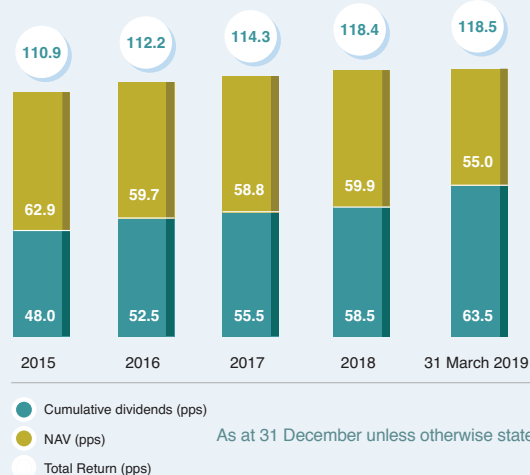
- > Expanded the sales and account management teams as planned
- > Recruited a Head of US to help grow sales in the North American market
- > Recruited a new COO and CFO

BSC2 INVESTMENT RATE OF RETURN

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



BSC2 TOTAL SHAREHOLDER RETURN



As Peter Waller steps into the Chairman role and Roger McDowell joins the Board we thought they should tell you a little bit more about themselves.

Peter Waller



I have a Masters degree from Cambridge University and a long history of working in the information technology sector before taking on a series of non executive director positions. I was born in Surrey but at various times I have lived and worked in the Midlands, Yorkshire and Scotland as well as London. I was lucky enough to have also spent three years in Paris whilst working with IBM. I am married with two grown up children and now live in Hampshire. My main interest outside of business is sport having played rugby, cricket, squash and tennis to a reasonable standard although I now spend most of my spare time playing golf or bridge. I am a member of the Worshipful Company of Information Technologists (WCIT), the Institute of Directors, the RAC Club and I am a Freeman of the City of London.

Roger McDowell



Having led a family business through a main market IPO and subsequent sale, I've now had 20 years' experience as Chairman and NED in nearly 20 PE backed and listed businesses in sectors ranging from Tech & FMCG to Financial Services & Engineering. I am married with 5 children, whose ages range from 31 to 12 and I split my time between homes in Cheshire and London. A variety of sports play a large part in my family. In particular I am an avid Manchester United fan but I am also passionate about golf and rugby. I am delighted to be travelling to Japan for this year's Rugby World Cup. Having a keen interest in music, I am an aspiring saxophonist and enjoy a wide variety of live performances ranging from Opera to Progressive Rock. Other interests are as diverse as skiing, open water swimming, boats and art!

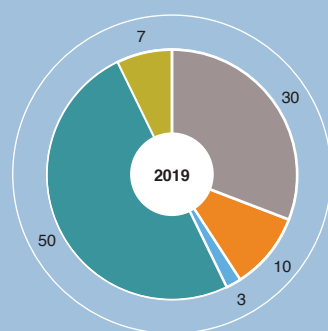
Portfolio Update

Following the strong unrealised gain in the final quarter of 2018 the first three months of 2019 were more stable, with the investment portfolio delivering a gain of £0.28 million (after netting off additions and proceeds). **The unquoted portfolio**, which comprises 97 per cent of the total portfolio, delivered a value increase of £0.18 million after netting off additional investments of £1.69 million. The Top 10 investments generated a value gain in the quarter of £0.75 million. **The quoted portfolio** saw a small value gain of £0.09 million in the quarter after netting off share sale proceeds of £0.10 million.

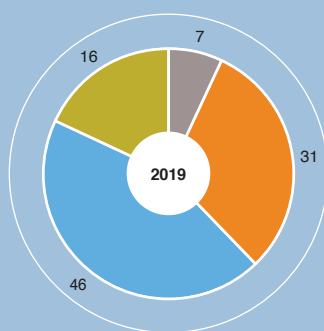
Company	Website	Unaudited investment valuation at 31 Dec 2018 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Unaudited investment valuation at 31 Mar 2019 £000	% of net asset value of £59.6m
Matillion Limited	matillion.com	5,180	–	–	↑ 309	5,489	9.2%
ACC Aviation Group Limited	accaviation.com	5,248	–	–	↑ 192	5,440	9.1%
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	intelligentofficeuk.com	2,992	–	–	↑ 29	3,021	5.1%
Business Collaborator Limited	groupbc.com	2,284	–	–	↑ 157	2,441	4.1%
KeTech Enterprises Limited	ketech.com	2,329	–	–	↓ (98)	2,231	3.8%
Deep-Secure Ltd	deep-secure.com	2,028	–	–	↑ 82	2,110	3.5%
Eikon (Holdco) Limited	eikongroup.co.uk	2,080	–	–	↑ 15	2,095	3.5%
Springboard Research Holdings Limited	spring-board.info	1,674	–	–	↑ 13	1,687	2.8%
Leengate Holdings Limited	leengatevalves.co.uk	1,240	–	–	↑ 51	1,291	2.2%
Frescobol Carioca Limited	frescobolcarioca.com	–	–	1,200	–	1,200	2.0%
Top 10 total		25,055	–	1,200	750	27,005	45.3%
Remainder of unquoted portfolio		11,964	–	485	(567)	11,882	19.9%
Total unquoted portfolio		37,019	–	1,685	183	38,887	65.2%
Quoted portfolio		1,083	(100)	–	92	1,075	1.8%
Total portfolio		38,102	(100)	1,685	275	39,962	67.0%

Portfolio at a glance

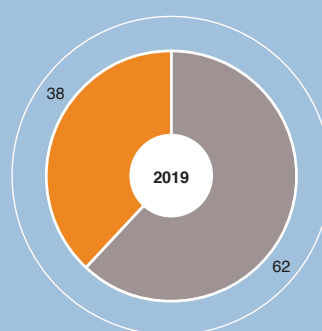
INDUSTRY SECTOR (%)



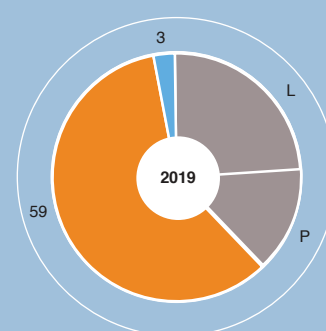
AGE OF INVESTMENT (%)



VCT RULES (%)



INVESTMENT INSTRUMENT (%)



- Business Services
- Manufacturing and Industrial
- Healthcare
- Software, IT and Telecommunications
- Retail and Brands

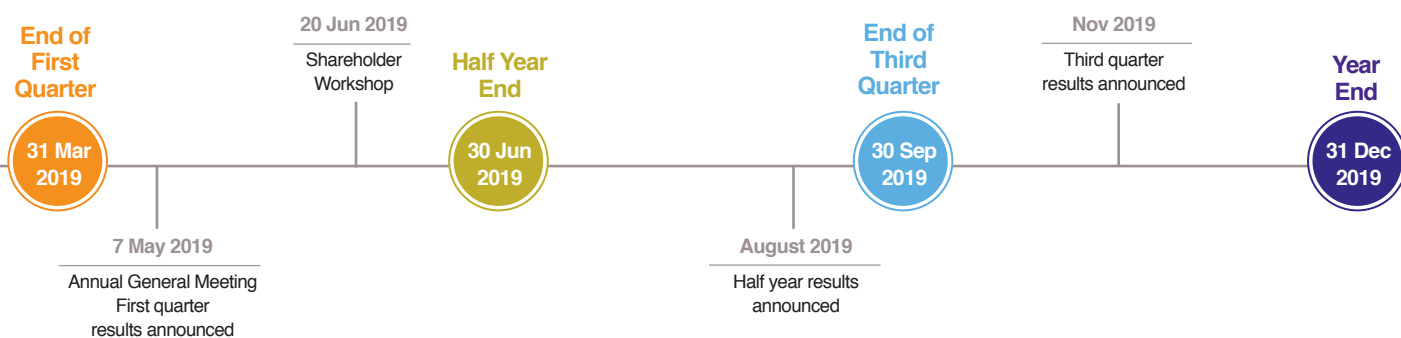
- Less than 1 year
- Between 1 and 3 years
- Between 3 and 5 years
- Greater than 5 years

- Investments made prior to rule change in 2015
- Investments made following rule change in 2015

- Loan
- Preference shares } 38%
- Ordinary shares
- Quoted companies

Data source: Based on BSC2 Valuations at 31 March 2019

Key dates



For your records - Dividends 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
Cumulative to 31 December 2010	26.0	30 June 2014	2.5	29 September 2017	1.5
10 June 2011	2.0	7 October 2014	2.0	11 May 2018	1.5
8 September 2011	2.0	8 June 2015	2.5	28 September 2018	1.5
22 May 2012	2.0	28 September 2015	2.0	15 February 2019	5.0
26 October 2012	2.5	9 May 2016	2.5	Cumulative to 31 March 2019	63.5
5 June 2013	2.5	26 September 2016	2.0	10 May 2019	1.5
27 September 2013	2.0	12 May 2017	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

Please call or email for further information on any shareholder issue, including switching to direct dividend payments.

Dividends

Investor Queries

General

Tracey Nice
Investor Relations Support Manager

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

