

British Smaller Companies VCT plc (BSC)

INVESTOR UPDATE **Spring 2019**



Dear Shareholder

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

Three Exits and a New Investment

The end of 2018 saw three disposals generating proceeds totalling £13.1 million; as a result of which BSC paid a 7 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.

2019 has started with strong demand for VCT investment. As we enter Spring we have completed a £3 million new investment (BSC £1.8 million) into a seller of resort wear, Frescobol Carioca, with three other prospective investments totalling £11.1 million (BSC £6.7 million) in exclusivity and currently going through due diligence.

Development of the Growth Portfolio

As the growth portfolio has developed, after the investment in Frescobol it now comprises 37 per cent of the unquoted portfolio. 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, with £0.6 million from BSC in three investments 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.

The Team

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

Performance

BSC delivered a strong performance during its third quarter to 31 December 2018 with Total Shareholder Return increasing by 2.5 pence to 221.5 pence per share. The increase represents 3.2 per cent of the opening net asset value, which is equivalent to an annual return of 13.2 per cent. As previously mentioned, the recent wave of successful exits - please see page 2 for more information - meant that BSC could pay a £7.5 million dividend, of which £2.2 million was re-invested by shareholders who are members of the Dividend Re-investment Scheme. Following the payment of this dividend in February 2019, Cumulative Dividends have increased to 147.4 pence per share.

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

2019 Shareholder Workshop

This year's Workshop is being held on Thursday 20 June 2019 at Gibson Hall, situated on Bishopsgate at the thoroughfare's junction with Threadneedle Street, in London.

Those of you who attended our 2017 Shareholder Workshop will have heard from and met Matthew Scullion, CEO of Matillion, mentioned above. I am delighted to be able to confirm that Matthew is attending again this year as one of our speakers to tell us all about Matillion two years on.

Gibson Hall is an historic venue, built by John Gibson who was the former assistant to Sir Charles Barry who built the Houses of Parliament.



Your invitation, with reply slip and Freepost envelope, is enclosed and provides more information about the event.

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

DIVIDEND PAYMENTS

- There is currently £300,000 of outstanding dividends waiting to be claimed in BSC and British Smaller Companies VCT2 plc (BSC2). 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.



A WAVE OF EXITS

In December 2018, BSC together with BSC2, completed successful exits from three of its portfolio companies. Combined with further investments into the remaining portfolio, total deal activity topped £65 million in December. The backcloth of the most uncertain times in the UK's recent political history has not dimmed the ability of the UK's small businesses to generate value, employment and boost exports.



SO WHO IS BUYING?

"It has been a real mix," said Ian Waterfield, one of YFM's partners involved in the sales of Mangar Health and Gill Marine. "Both buyers for these businesses were from overseas: one a French-based corporate and the other a syndicate comprising US and New Zealand investors."

"While the UK political establishment was tying itself in knots and the markets were reacting, in both cases the sales processes continued and reached successful conclusions two days after the original Brexit vote in Parliament was due to take place. This is testament to the strength of the businesses and the global opportunity that both present."

"It hasn't just been overseas buyers still looking to invest in the UK," said Jamie Roberts, a YFM partner who guided through the sale of GTK to AIM-listed Volex plc. "It was great to see demand from a UK quoted business prepared to invest significant cash in an acquisition." "Whilst we can be prepared to take paper on an exit it's always better for our investors to be able to deliver cash and with Volex paying 85 per cent of the consideration in cash this suited all of us."

WHAT WAS THE ATTRACTION?

"Whilst it might sometimes seem obvious, the three portfolio companies had all developed significantly over the time that YFM had been involved," commented David Hall, Managing Director of YFM. "On average we've been invested just under five years in these businesses. In that time they've undergone a fair amount of change, some of which was envisaged at the point we invested, but quite a lot not."

Whilst not untypical of the changes facing UK small businesses as a whole, there were some specific factors in each of the three cases that helped build the resilience and value increase that ultimately attracted the different buyers.

GTK had a UK-base but imported from China. YFM helped them set up their own eastern European manufacturing facility that gave more control over their supply chain. This dual footprint had a real attraction to the buyer.



Gill Marine is a Nottingham based designer and manufacturer of branded technical apparel. Its real transformation since YFM's involvement had been the acquisition of its US distributor which cemented its access to its largest market. Taking that step for some small businesses can seem a big leap, but the support from an external investor makes a big difference.

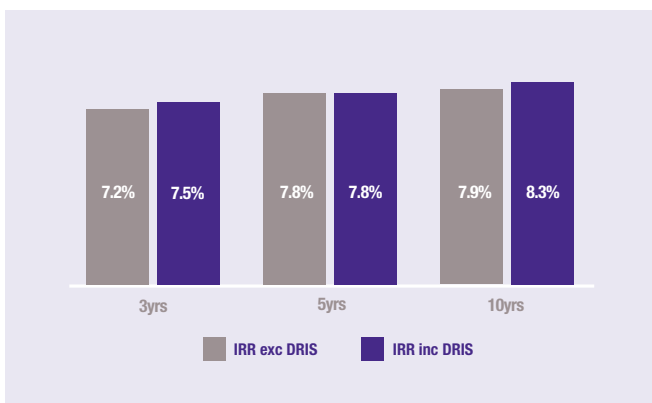


Mangar Health has always had a strong product presence for its lifting equipment in the UK local authority and ambulance markets. Further growth has been achieved in care homes and improved distribution in Europe and the US. YFM encouraged the expansion of the management team, with a strong emphasis on promoting from within.



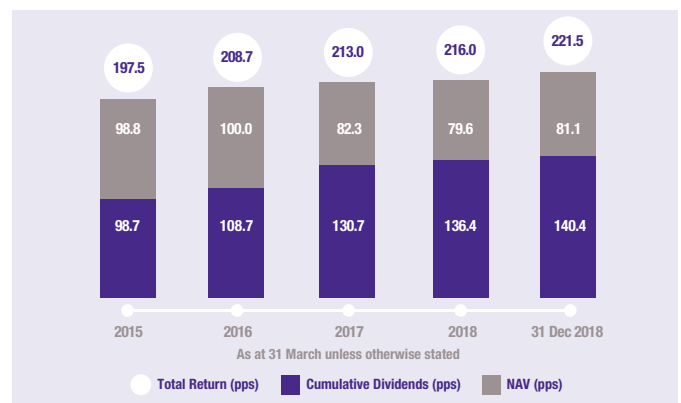
David Hall concluded: "There's no one recipe for success, but by continuing to innovate, deliver well and, perhaps occasionally, being that bit braver than you thought you were going to be, it's surprising how much you can do."

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 SHAREHOLDER RETURN



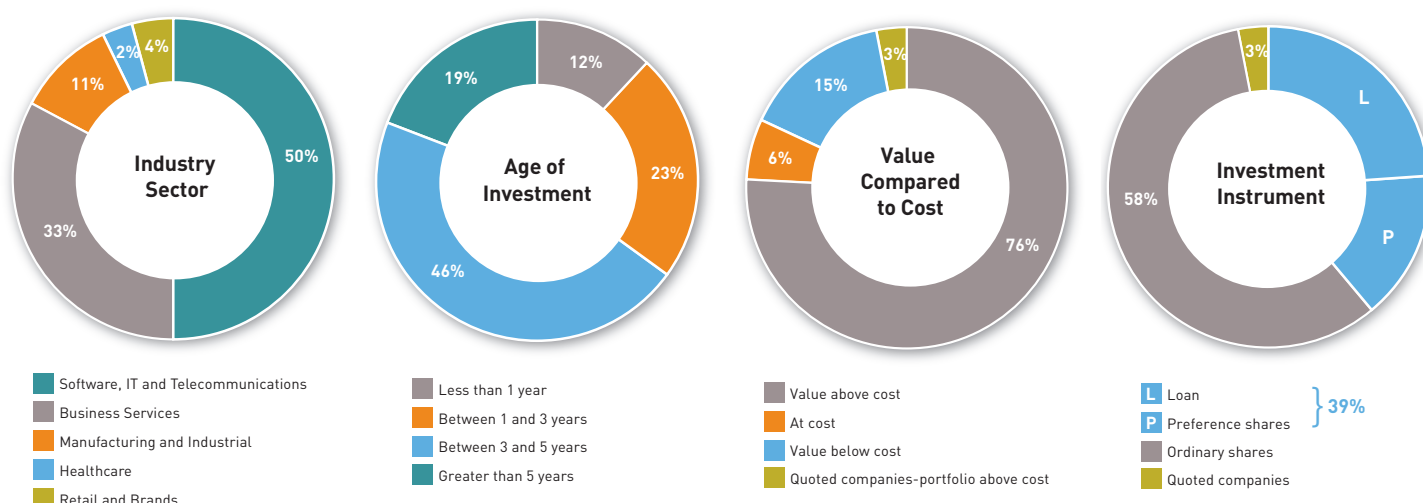
Past performance is no guide to future performance and the value of an investment in British Smaller Companies VCT plc may go down as well as up and you may not get back the full amount invested.

PORTFOLIO UPDATE

In the three months to 31 December 2018 the investment portfolio (after netting off additions and proceeds), delivered a gain of £2.04 million. **The unquoted portfolio**, which comprises 97 per cent of the total portfolio, delivered a value increase of £2.24 million after netting off the three full exits in December 2018 (which together with other loan and preference share repayments totalled £14.14 million) and small additional investments of £0.26 million. The Top 10 investments saw a value gain in the quarter of £4.26 million. **The quoted portfolio** saw a fall in value of £0.20 million in the quarter.

Company	Website	Unaudited investment valuation at 30 Sep 2018 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Unaudited investment valuation at 31 Dec 2018 £000	% of net asset value of £87.44m
ACC Aviation (via NewAcc (2014) Limited)	flyacc.com	4,938	-	-	↑ 2,934	7,872	9.0%
Matillion Limited	matillion.com	4,673	-	-	↑ 3,097	7,770	8.9%
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	intelligentofficeuk.com	4,868	-	-	↓ (381)	4,487	5.1%
Deep-Secure Ltd	deep-secure.com	4,156	-	-	↓ (103)	4,053	4.6%
Business Collaborator Limited	groupbc.com	2,861	-	-	↑ 566	3,427	3.9%
Eikon (Holdco) Limited	eikongroup.co.uk	2,798	-	-	↑ 322	3,120	3.6%
KeTech Enterprises Limited	ketech.com	3,000	(500)	-	↓ (171)	2,329	2.7%
Springboard Research Holdings Limited	spring-board.info	2,937	-	89	↓ (885)	2,141	2.5%
Leengate Holdings Limited	leengatevalves.co.uk	2,765	(577)	-	↓ (328)	1,860	2.1%
Friska Limited	friskafood.com	2,608	-	-	↓ (796)	1,812	2.1%
Top 10 total		35,604	(1,077)	89	4,255	38,871	44.5%
Remainder of unquoted portfolio		28,692	(13,065)	168	(2,018)	13,777	15.7%
Total unquoted portfolio		64,296	(14,142)	257	2,237	52,648	60.2%
Quoted portfolio		2,484	(1,162)	632	(202)	1,752	2.0%
Total portfolio		66,780	(15,304)	889	2,035	54,400	62.2%

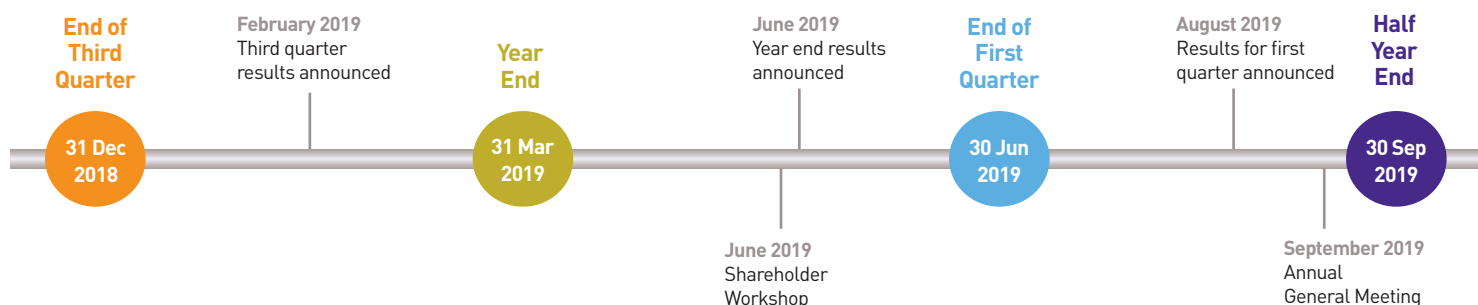
PORTFOLIO AT A GLANCE



Data source: Based on BSC Valuations at 31 December 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 31 Dec 2018	140.45
				15 Feb 2019	7.00

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.

CONTACT US

Please call or email for further information on any shareholder issue, including switching to BACS for your dividend payments and more details on this year's Shareholder Workshop.

Dividends & BACS

Shareholder Workshop 20 June

General

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