

The investment strategy of the Company is to invest in UK businesses across a broad range of sectors to create a portfolio that blends a mix of businesses operating in established and emerging industries that offer opportunities in the application and development of innovation in their products and services.

Dear Shareholder

This Update summarises the activity of your Company for the quarter to 30 September 2020.

Whilst it is true that every year throws up challenges and opportunities for the small business sector, 2020 has arguably thrown up more than most. For a small proportion of the UK's businesses, we have witnessed the extremely unusual situation of Government intervention requiring them to cease trading; for some with operations throughout the country they have seen different rules apply in different locations.

Venture Capital Trusts aim to seek out those businesses which are innovating and growing. This can either be as part of an emerging market, such as data collection and commercialisation of social media channels, or as part of an existing market evolution, such as the migration of training to online platforms. As a result, it is to be hoped that the portfolio, rather than providing a snapshot of UK plc's small businesses, reflects a pool of the more innovative higher growth businesses.

Performance

Your portfolio has continued to demonstrate the resilience seen earlier in the year which has reflected in a strong performance in the quarter and continues the trend seen in the three months to June. As a result, at September 2020 the portfolio saw an increase in value of £5.05 million in the quarter, which represents a gain of 3.9 pence per share, equivalent to 13.6 per cent on the June portfolio value. With a 0.2 pence net operating cost, the Total Return was up 3.7 pence in the quarter to 120.6 pence. After the 1.5 pence dividend paid in September, this resulted in a net increase in NAV per share of 2.2 pence to 50.6 pence per share, a gain of 7.9 per cent in the quarter.

The impact across the economy of the Covid-19 pandemic has not been uniform, with sectors and performance impacted differently. To illustrate this, we have analysed the portfolio by sector and also shown how the valuations have been affected starting with the pre-pandemic figures at 31 December 2019 and then showing the three subsequent quarters so far this year.

At December 2019 the portfolio had a valuation of £47.9 million, since when £4.1 million of assets have been realised generating proceeds of £5.8 million, delivering an uplift of £1.7 million. The residual portfolio of £43.8 million, after a dip to a low point of £34.2 million in March, has now recovered to £41.6 million. As a consequence, the pre-Covid-19 portfolio has recovered to a value of £47.3 million of which £7.8 million has been achieved through partial and full realisations.

The strongest performing sector has been Technology, Media and Telecommunications (TMT), where the underlying performances have seen the valuations increase by around 13 per cent over the pre-Covid-19 December 2019 levels. Of particular note are Matillion, Springboard, Arcus, Unbiased and Deep Secure which have all made significant strides forward in the period. Whilst the travel sector as a whole has been significantly impacted (and the two businesses in which the Company is invested (ACC Aviation Services and Traveltek) have not been immune from that), the impact on valuations was predominantly at the end of the first quarter of the calendar year, with the latter six months seeing a more resilient performance which has reflected in stability thereafter. The business services sector equally saw an initial fall in valuations, but over the succeeding six months the performance is reflected in the valuations, where all of the value has been recovered.

The sector that continues to be most impacted is retail and hospitality, where the lockdowns have a direct impact on the ability to trade in two out of the three investments, Friska (food-to-go, based in Bristol) and Tonkotsu (London-based restaurants). Tonkotsu has proved the more resilient in terms of trading being less reliant on office workers. Both are funded well into 2021; albeit there still remains a prospect of re-opening under the tiered restriction system. Frescobol (men's casual clothing and accessories) have pivoted their retail model to an online offering whilst at the same time putting more focus on the wholesale channel. As a consequence, they have managed to achieve revenues at approximately 90 per cent of 2019 levels but significantly reduced losses.

Overall, as at 30 September 2020, 72.8 per cent of the value of the portfolio is represented by the strongest performing TMT sector and only 2.2 per cent in the directly impacted retail and hospitality.

£000	31 Dec 2019	31 Mar 2020	30 Jun 2020	30 Sep 2020	Nine months	Change	Part-realised	30 Sep 2020
TMT *	25,729	22,570	25,296	29,161	3,432	13.3%	(120)	29,041
Travel	8,028	5,927	6,032	6,232	(1,796)	(22.4%)	(1,934)	4,298
Business Services	4,005	3,343	3,745	4,022	17	0.4%	-	4,022
Retail & Hospitality	3,404	1,268	615	870	(2,534)	(74.4%)	-	870
Manufacturing	1,113	147	158	381	(732)	(65.8%)	-	381
Healthcare	299	-	-	65	(234)	(78.3%)	-	65
Other	1,266	1,259	1,219	1,234	(32)	(2.5%)	-	1,234
	43,844	34,514	37,065	41,965	(1,879)	-	(2,054)	39,911
Additions in period	-	(323)	(410)	(410)	(410)	-	-	(410)
Ongoing portfolio	43,844	34,191	36,655	41,555	(2,289)	(5.2%)	(2,054)	39,501
Realised	4,069	5,241	5,636	5,786	1,717	-	2,054	7,840
Total	47,913	39,432	42,291	47,341	(572)	-	-	47,341

* Technology, media and telecommunications

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Covid 19 - Investment Activity & Dealflow

During the last quarter our investment, portfolio and finance teams have predominantly been working remotely, using Microsoft Teams and Zoom for internal and external communications, which has worked well. Since the easing of the lockdown restrictions, we have begun to hold more face-to-face meetings and a gradual return to office working where appropriate.

We have expanded the YFM team with the recruitment of two new Investment Directors, one Portfolio Director, an Investment Manager and most recently a Head of Growth, a senior appointment with extensive experience of both running and investing in high-growth businesses.


The new investment momentum from 2019 continued into 2020 with two opportunities in advanced negotiation when we went into lockdown. In both cases, the companies chose to defer seeking investment and focus their efforts on managing through the crisis. Both businesses have now resumed funding discussions in earnest, with one in exclusivity with due diligence nearing an end and the second finalising terms.

In November, we completed a £4.8 million investment into Leeds-based marketing automation business Force24, of which your Company invested £1.6 million alongside other funds managed by YFM. In addition to the investment mentioned above which is completing due diligence there are two further investments in exclusivity where due diligence has commenced with the expectation of completing the investments in the coming weeks. In total there are £8.8 million of new investments, of which £3.3 million is from BSC2. We are also actively negotiating further investment totalling £7.9 million into six of the current portfolio businesses. The investment from BSC2 is £2.5 million.

Thank you again for your continued support of BSC2.

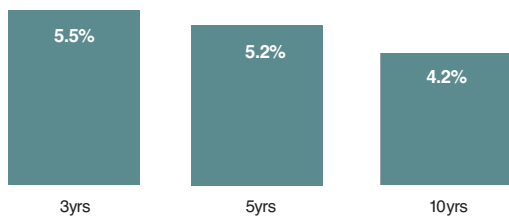


David Hall
Managing Director, YFM Equity Partners

 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.

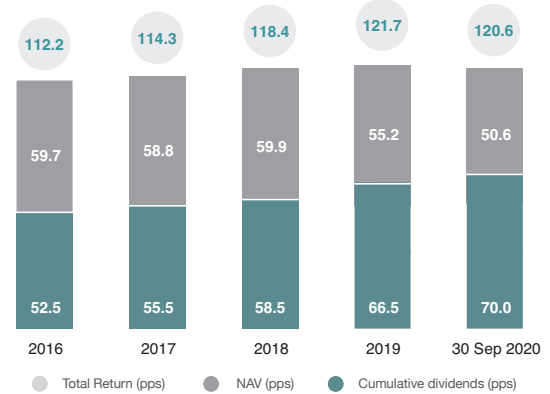
BSC2 Investment Rate Of Return

Average investment rate of return per annum of the Company over 3, 5 and 10 year periods to 31 December 2019.



Excluding DRIS and benefits of all tax reliefs

BSC2 Total Shareholder Return



As at 31 December unless otherwise stated



Business: Business Services
Location: Leeds
Transaction: Growth Capital
Deal Size: Undisclosed
Investment date: 2020



“YFM has a proven track record of supporting fast growing businesses and we undertook our own due diligence, talking to entrepreneurs within the PE house’s investment portfolio as well as to professional advisers, all of whom were very positive. We are confident that they are the right fit for us culturally – they really understand our business and believe in our growth trajectory.”

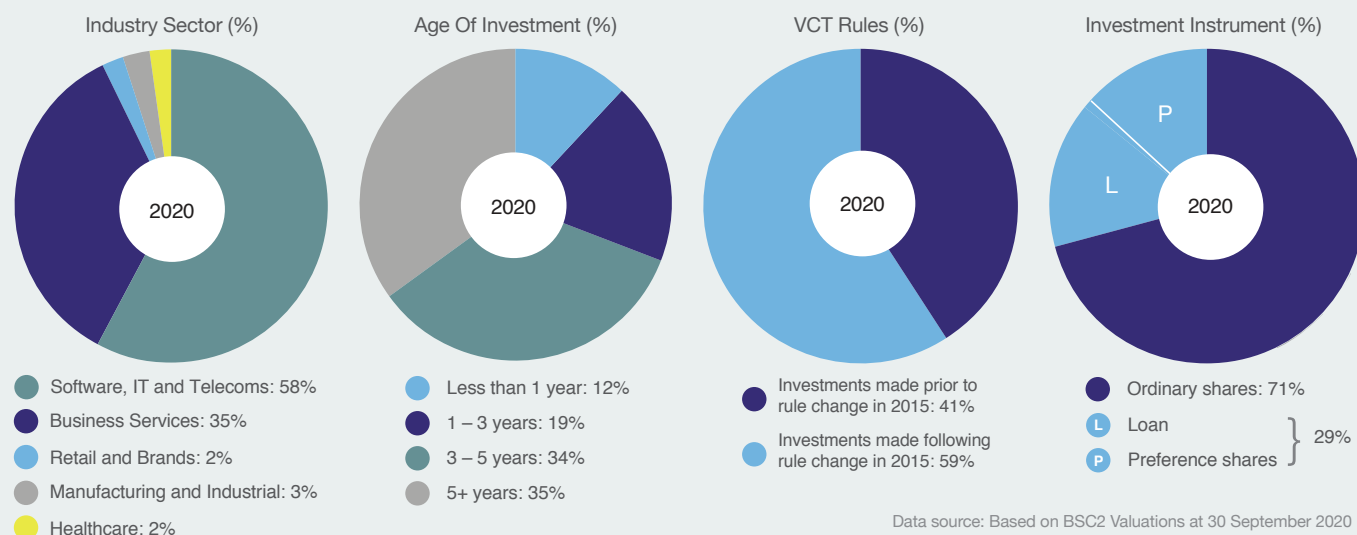
Adam Oldfield, MD of Force24

Portfolio Update

The quarter saw strong value growth, reflecting the underlying resilience of the investment portfolio. In the quarter to September, the investment portfolio delivered a gain of £4.9 million (after adjusting for additions and disposals). The Top 10 investments generated a value gain in the quarter of £3.4 million.

Company	Website	Unaudited investment valuation at 30 Jun 2020 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Unaudited investment valuation at 30 Sep 2020 £000	% of net asset value of £65.7m
Matillion Limited	matillion.com	7,431	–	–	↑ 1,464	8,895	13.5%
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	intelligentofficeuk.com	3,051	–	–	↑ 134	3,185	4.8%
ACC Aviation Group Limited	accaviation.com	5,052	(1,934)	–	↓ (58)	3,060	4.7%
Unbiased EC1 Limited	unbiased.co.uk	2,114	–	–	↑ 335	2,449	3.7%
Springboard Research Holdings Limited	spring-board.info	1,892	(120)	–	↑ 652	2,424	3.7%
KeTech Enterprises Limited	ketech.com	2,233	–	–	↑ 50	2,283	3.5%
Arcus Global Limited	arcusglobal.com	1,733	–	–	↑ 403	2,136	3.2%
Deep-Secure Ltd	deep-secure.com	1,479	–	–	↑ 219	1,698	2.6%
Elucidat Ltd	elucidat.com	1,477	–	–	↑ 103	1,580	2.4%
Wooshii Limited	wooshii.com	1,464	–	–	↑ 55	1,519	2.3%
Top 10 total		27,926	(2,054)	–	↑ 3,357	29,229	44.4%
Remainder of unquoted portfolio		9,139	–	–	↑ 1,543	10,682	16.3%
Total portfolio		37,065	(2,054)	–	↑ 4,900	39,911	60.7%

Portfolio at a Glance



Dividend Re-Investment Scheme

The Company's Dividend Re-Investment Scheme ("DRIS") has proved extremely effective in allowing Shareholders the opportunity to re-invest dividends in the Company and this has led to a regular and consistent re-investment by many Shareholders. Currently DRIS Shares are issued at a discount to the last reported net asset value, which provides an advantage to those Shareholders in the DRIS and slightly dilutes the value of those Shareholders not in the DRIS. In addition, all other generalist VCTs that operate a DRIS, or equivalent, issue DRIS Shares at the net asset value per ordinary share. The Directors have therefore concluded that it is appropriate for the Company to issue future DRIS Shares at the net asset value per ordinary share and notice of this change is included with this Update.

Key Dates

End of
Third Quarter

30 Sep
2020

November
2020
Third quarter
results
announced

Year End

31 Dec
2020

End of
First Quarter

31 Mar
2021

March
2021
Year end
results
announced

19 May
2021
Shareholder
Workshop

May
2021
First quarter
results
announced

Half
Year End

30 Jun
2021

For your Records - Dividends and Dates

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
Cumulative to 31 December 2010	26.0
10 June 2011	2.0
08 September 2011	2.0
22 May 2012	2.0
26 October 2012	2.5
05 June 2013	2.5
27 September 2013	2.0
30 June 2014	2.5

Date paid	Pence per share
07 October 2014	2.0
08 June 2015	2.5
28 September 2015	2.0
09 May 2016	2.5
26 September 2016	2.0
12 May 2017	1.5
29 September 2017	1.5
11 May 2018	1.5

Date paid	Pence per share
28 September 2018	1.5
15 February 2019	5.0
10 May 2019	1.5
23 September 2019	1.5
12 May 2020	2.0
21 September 2020	1.5
Cumulative to 30 September 2020	70.0

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 Fund Manager 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, the DRIS scheme and for more details on the Shareholder Workshop.

- Dividends
- DRIS
- Shareholder Workshop
- General

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