

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 June 2020.

Performance

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 below 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 two subsequent quarters.

£000	31 Dec 2019	First Quarter	31 Mar 2020	Second Quarter	30 Jun 2020
TMT *	34,865	(4,400)	30,465	3,681	34,146
Travel	11,834	(3,110)	8,724	117	8,841
Business Services	6,537	(1,180)	5,357	568	5,925
Retail & Hospitality	5,107	(3,204)	1,903	(981)	922
Manufacturing	1,249	(1,029)	220	16	236
Other	1,266	(7)	1,259	(40)	1,219
	60,858	(12,930)	47,928	3,361	51,289
In Realisation	7,179	(6,749)	430	(430)	-
Total	68,037	(19,679)	48,358	2,931	51,289

* Technology, media and telecommunications

By far the largest element (67 per cent at 30 June 2020) of the portfolio is invested in the TMT sector; this was heavily impacted in the 31 March 2020 valuations, but the trading resilience of our investee companies and the sector was reflected in the 30 June valuation with 84 per cent of the value recovered. Particularly notable movements in the last quarter were gains in the value of Matillion (£1.27 million), Springboard (£0.96 million), Arcus Global (£0.94 million) and Intelligent Office (£0.51 million). The two sectors most directly impacted by the Covid-19 pandemic are travel and retail & hospitality. The Company's travel sector portfolio comprises two investments (ACC Aviation and Traveltek). The valuation reduction in this sector occurred entirely in the first quarter of 2020, with valuations stabilising in the second quarter of the year. Underlying trading has been stronger in both businesses than originally forecast at the end of March 2020 and both are well funded. The travel market has begun to open up in the current quarter (i.e. since the 30 June valuation date above), and although there may be an element of volatility in trading as quarantine restrictions are introduced or relaxed, there are signs of a normalisation of trading again in this sector.

The retail & hospitality sector has been the most directly impacted in the six months to 30 June 2020. This is reflected in the valuation changes over the six months to 30 June 2020 where the first quarter saw a reduction of £3.20 million and the second quarter a further reduction of £0.98 million. The residual value at 30 June 2020 is now only £0.92 million. There are three investments in this sector; Tonkotsu (a ramen restaurant chain), Friska (a Bristol and Manchester chain of food-to-go outlets) and Frescobol Carioca (a beachwear retailer). All three have funding through

to 2021 - Tonkotsu is continuing home delivery and has fully re-opened 11 out of its 12 restaurants; Friska is undertaking home delivery and Frescobol Carioca is servicing its wholesale and online business, having now permanently closed its three stores. Whilst their valuations have been impacted in the short-term all three operate with minimal or no leverage and are beginning to build trade to deliver a contribution and have plans and funding that extend beyond the end of the Government's various initiatives. We have included Tonkotsu as one of the lockdown stories on page 2.

Covid 19 - Investment Activity & Dealflow

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 to focus their efforts on managing through the crisis. The dialogue with those businesses continues with a view to resumption of these processes.

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 enlarged YFM team has continued to see new investment opportunities and is actively rebuilding the pipeline of potential new deals. We have one opportunity in exclusivity and this has demonstrated to us some of the efficiency gains to be achieved through the use of remote working tools, allowing YFM and the prospective chairman to spend significantly more time with the target management team through virtual meetings scheduled around their normal business activities than might otherwise have been possible. There are eight further businesses that are under consideration, with a total investment requirement from your Company of £15 million.

With respect to further investments into the portfolio, there has been one further investment of £131k into Ncam in the quarter. A number of businesses in the portfolio are looking to accelerate their growth at this time and we are in active discussions to make follow-on investments to support their plans. There has been one realisation in the quarter; RMS, which delivered £1.45 million of proceeds.

In summary, whilst the Covid-19 pandemic has been disruptive, and is by no means over, we have adapted our processes, expanded the team and are building a pipeline of investment opportunities.

Thank you again for your continued support of BSC.

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 VCT plc may go down as well as up and you may not get back the full amount invested.

Lockdown stories from the Portfolio

As highlighted in the Welcome section, the portfolio and investment team at YFM have been working particularly closely with the companies that make up the British Smaller Companies VCT portfolio. Some companies and sectors have been less or more impacted by Covid-19. Below are two short lockdown stories from Tonkotsu and SharpCloud, which sit in two completely different sectors – retail & hospitality and TMT respectively.

Case study: Tonkotsu

What do they do and why did we invest?

A Japanese ramen noodle restaurant chain which at the point of investment had 12 sites. The investment was made for growth and predominantly to roll out five more sites.

Impact of Covid-19

After a short period operating as delivery-only, the decision was taken to close restaurants on 23 March 2020 to protect employees from potential exposure. As the lockdown gradually started easing, management re-opened five restaurants for delivery-only during May. Openings gradually continued and by the beginning of August all but one restaurant was open for delivery and dine-in, in order to take advantage of the Eat-Out-To-Help-Out scheme. Refurbishments, and work on a new site, will be

delayed until management has better visibility over trading after re-opening all stores.



Actions taken

All staff were originally furloughed with the shutdown. Now that 11 out of the 12 restaurants have been fully re-opened, 85 per cent of the workforce has been un-furloughed. The team has also been successfully negotiating rent deferrals/holidays with the site landlords to help with cash management during this period. In addition, they have used this time to review their menu and operational processes with a view to improving margins and creating efficiencies. This is in order to support an ambitious roll-out plan over the longer term, as more normality returns to the market.



Opportunities

Unlike many other restaurant chains, which have taken on significant leveraged PE investment and are heavily indebted, Tonkotsu is largely debt free which has been key to navigating a course through the current challenges. We are seeing significant competitive capacity taken out of the market and Tonkotsu will be well placed to take advantage of this.

Case study: SharpCloud

What do they do and why did we invest?

SharpCloud is a sector agnostic software product that converts data from multiple sources into visual information in one place in real-time, resulting in faster evidence-based decision making.



progress has been made with sales processes, although new business continues to be slow.

Actions taken

Management has taken this time to undertake a restructuring exercise, review processes and preserve cash; and now believe it has the best team and an improved model to deliver some growth in the second half of the year.

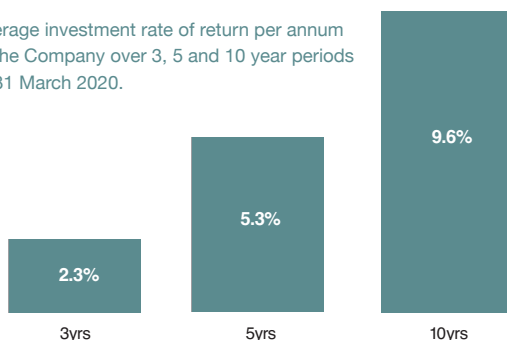


Opportunities

We remain of the view that SharpCloud has a strong product proposition and a long-term market opportunity which will be exploited through further expansion of the sales and marketing resource.

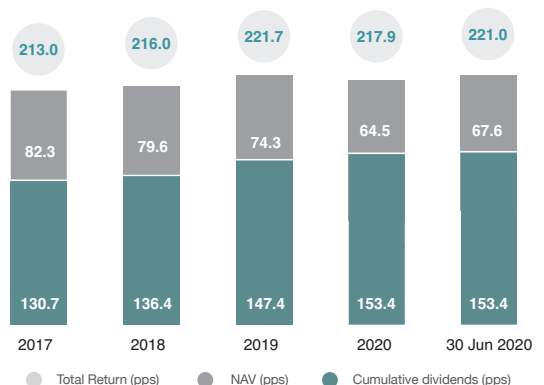
BSC Investment Rate Of Return

Average investment rate of return per annum of the Company over 3, 5 and 10 year periods to 31 March 2020.



Excluding DRIS and benefits of all tax reliefs

BSC Total Shareholder Return



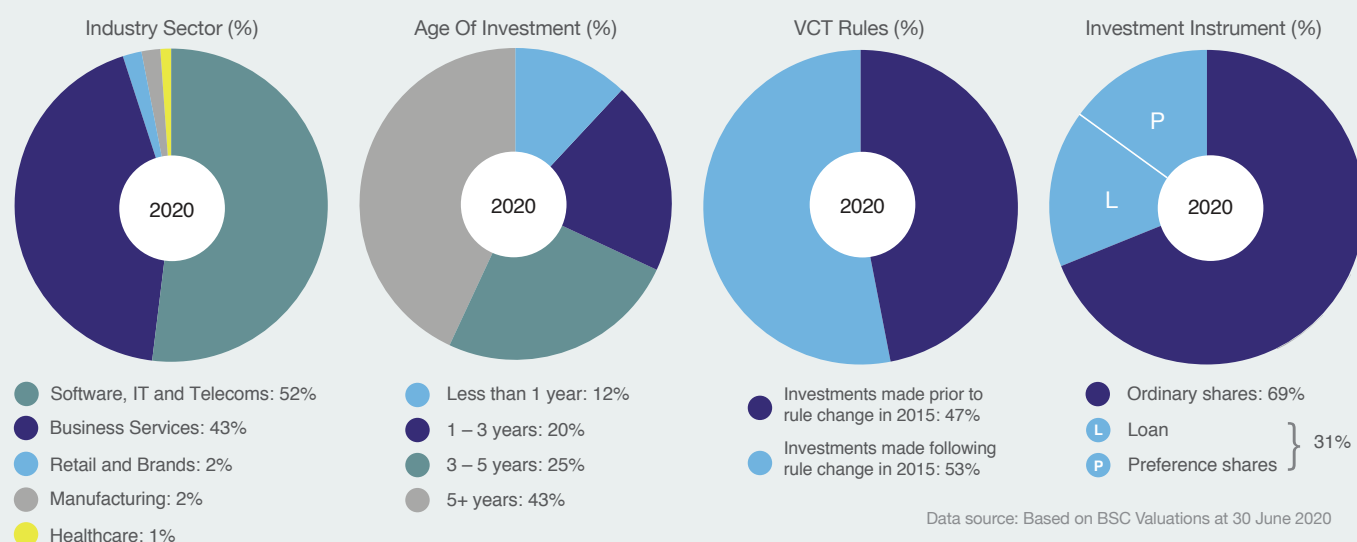
As at 31 March unless otherwise stated

Portfolio Update

As well as the realisation of the Company's residual investment in RMS Holdings Limited the quarter saw strong value growth, reflecting the underlying resilience of the investment portfolio. In the quarter to June, the investment portfolio delivered a gain of £3.2 million (after adjusting for additions and disposals) plus a further £1.0 million realised profit from RMS. The Top 10 investments generated a value gain in the quarter of £4.5 million.

Company	Website	Unaudited investment valuation at 31 Mar 2020 £000	Proceeds £000	Additions £000	Valuation gains (losses) including profits on disposal £000	Unaudited investment valuation at 30 Jun 2020 £000	% of net asset value of £92.76m
Matillion Limited	matillion.com	7,015	–	–	↑ 1,266	8,281	8.9%
ACC Aviation Group Limited	accaviation.com	7,521	–	–	↑ 47	7,568	8.2%
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	intelligentofficeuk.com	4,066	–	–	↑ 510	4,576	4.9%
Unbiased EC1 Limited	unbiased.co.uk	3,033	–	–	↑ 138	3,171	3.4%
Deep-Secure Ltd	deep-secure.com	2,599	–	–	↑ 357	2,956	3.2%
Springboard Research Holdings Limited	spring-board.info	1,877	–	–	↑ 960	2,837	3.1%
Arcus Global Limited	arcusglobal.com	1,662	–	–	↑ 938	2,600	2.8%
KeTech Enterprises Limited	ketech.com	2,197	–	–	↑ 36	2,233	2.4%
Elucidat Ltd	elucidat.com	2,148	–	–	↑ 68	2,216	2.4%
Wooshii Limited	wooshii.com	2,065	–	–	↑ 131	2,196	2.4%
Top 10 total		34,183	–	–	↑ 4,451	38,634	41.7%
Remainder of unquoted portfolio		14,175	(1,446)	131	↓ (205)	12,655	13.6%
Total portfolio		48,358	(1,446)	131	↑ 4,246	51,289	55.3%

Portfolio at a Glance

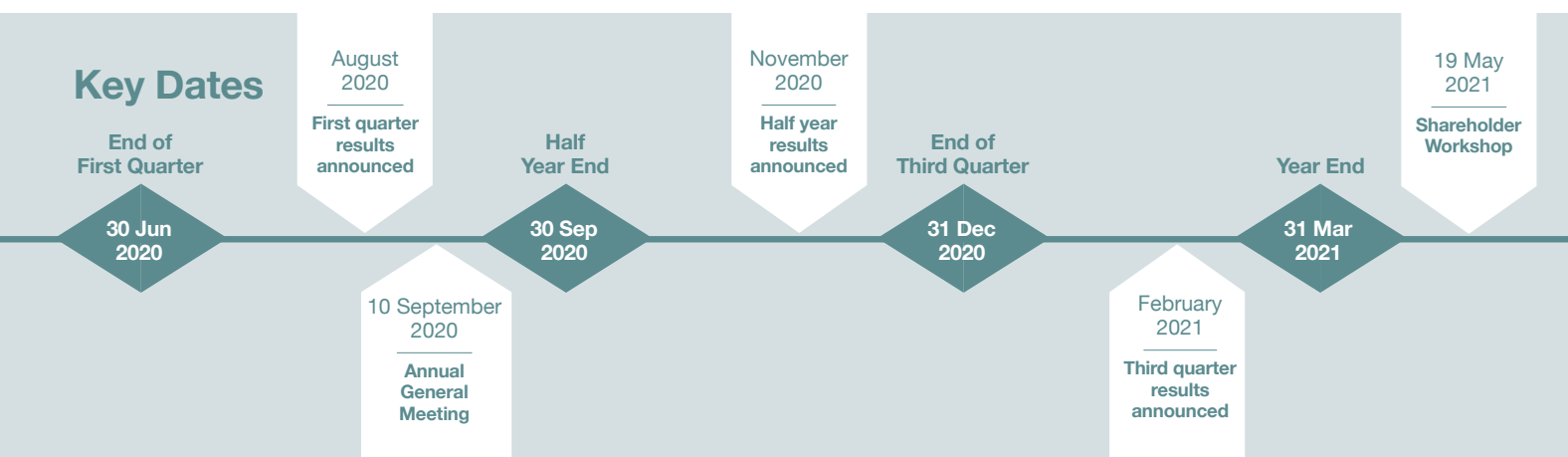


Annual General Meeting

The AGM is being held on 10 September 2020 at 9.30 am and it is our intention to allow shareholders to attend the AGM via the Zoom Webinar platform. A letter is enclosed with this Update which provides more detail and instructions on how to join. If you haven't yet returned your proxy vote, please do so. The easiest way is to go to www.signalshares.com. Start typing British Smaller Companies into the Company name box and follow the steps. You will need your investor code. Tracey, whose details are on the back page, can help you with this.

2021 Shareholder Workshop

In light of the continuing uncertainty around limitations on gatherings, it has been decided to rearrange the Shareholder Workshop with a provisional date of 19 May 2021. We intend to hold the Workshop at the original venue, One Great George Street, London. Please put a marker in your diaries for now and an invitation will follow in due course. You will see that the AGM will be held via the Zoom Webinar platform and shareholders will be able to ask questions at that event.



For your Records - Dividends and Dates

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
Cumulative to 31 March 2012	79.20
17 August 2012	3.00
14 January 2013	2.00
13 August 2013	4.50
21 March 2014	2.00
1 August 2014	3.50
7 January 2015	2.00
2 March 2015	2.50

Date paid	Pence per share
4 August 2015	3.50
7 September 2015	3.50
15 January 2016	2.00
11 March 2016	1.00
5 August 2016	2.00
5 August 2016	3.50
18 January 2017	16.50
26 May 2017	5.75

Date paid	Pence per share
18 May 2018	4.00
15 February 2019	7.00
12 June 2019	4.00
20 March 2020	2.00
Cumulative to 30 June 2020	153.40
31 July 2020	2.00
5 October 2020 (proposed)	2.00

Important notice

i 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 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, and for more details on the Annual General Meeting and Shareholder Workshop.

- Dividends
- AGM
- Shareholder Workshop
- General

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