

British Smaller Companies VCT2 plc (BSC2)

INVESTOR UPDATE

Dear Shareholder

I would like to welcome you to the Spring 2016 edition of the BSC2 Investor Update.

Overview

We have been working hard on building the investment pipeline since the new rules governing VCT investments came into force in November last year. The long awaited draft guidelines have just been published this month and we are all working our way through these to understand the new processes. We have a number of attractive investment opportunities, with discussions well advanced.

As previously reported we will only complete investments where we have obtained advanced assurances from HMRC. The granting of these advanced assurances for new investments is progressing much more slowly than previously experienced, with the preparation of submissions taking longer and to date we are still awaiting the first clearance. It is to be hoped that following the publication of the guidelines and as the dust settles on the new procedures that clearance will return to previously seen timescales. Since the publication of the Finance Bill this has continued to hold back the rate of investment completions. I expect the level of investment will build gradually over the rest of the year, but this will require swift implementation of the guidelines and a clearance process operating in a manner that we have been used to over recent years.

Highlights

The quarter saw the total return increase to 111.6 pence per share. After payment of the final dividend of 2.5 pence per share on 9 May cumulative dividends paid now stand at 50.5 pence per share. The annual dividend has now been consistent at 4.5 pence per share for a number of years, representing an average cash yield of 6.9 per cent over the five years to 31 March 2016.

There were 31 unquoted investments at the end of March, of which 26 had a value of £0.5 million or more and 19 were held flat or grew in the quarter.

We completed an additional follow-on investment of £0.2 million into Immunobiology as we support the first human trials of the vaccine and also realised the investment in Callstream for £0.7 million, a profit on cost of £0.4 million.

Fundraising

The Company pleasingly raised the maximum permitted of £3.5 million (£5 million) by way of the non-prospectus top up in January. I was delighted that the offer was fully subscribed from existing shareholders within fifteen days of its launch.

Common Reporting Standard ("CRS")

The Government has recently introduced legislation enacting the CRS, which requires companies to report to HMRC on shareholders based outside the UK and the Company's registrar has started writing to shareholders impacted by this to confirm their details. Applicants for future fundraisings will be required to provide their taxpayer reference numbers and their country of residence for tax purposes.

Communications

The latest Investor Workshop was held on 17 May and I was pleased that so many of you were able to attend. As ever, we do really value your feedback, so if there is anything you would like to see added to the Workshops, this Update or any other communication you receive from us please do let us know.

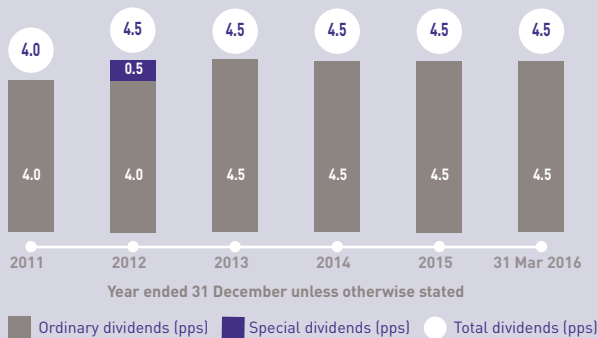
Thank you again for your continued support for BSC2.

David Hall
Managing Director,
YFM Equity Partners



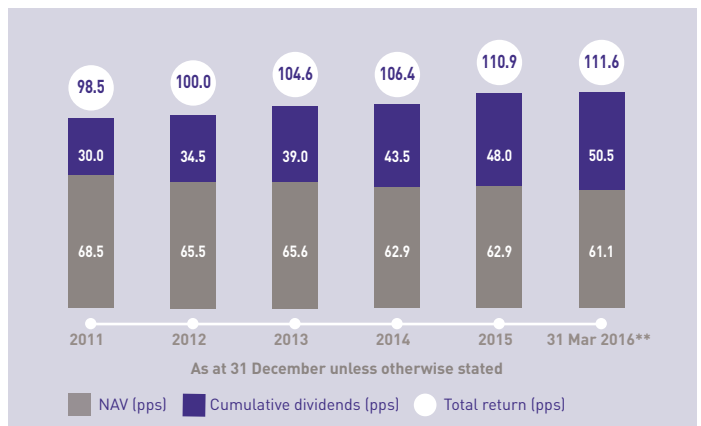
DIVIDENDS PAID

Representing an average cash yield of 6.9% over 5 years*



*Based on the average dividend over 5 years to 31 March 2016 expressed as a percentage of the last reported NAV being 31 March 2016.

TOTAL RETURN



** Adjusted for the 2.5 pence dividend paid on 9 May 2016.

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GTK



“With YFM Equity Partners’ support, we will continue to develop bespoke products for our clients as well as offering a full turnkey solution. We expect to see continued demand for our manufacturing capabilities in the UK and internationally.”

John Morath,
Managing Director, GTK UK

The business

GTK is a world-class manufacturer and provider of high-quality electronics solutions, including cable assemblies, connectors and optoelectronics

Headquartered in Basingstoke, Hampshire, with offices in Taiwan, and manufacturing affiliates worldwide

Well-established with over 25 years’ experience and a diversified customer base

The strategy

Back an ambitious management team to buyout the retiring founder and chairman

Maintain high customer retention through offering a difficult to replicate and responsive service

Invest in the expansion and innovation of core product ranges

Provide capital to pursue organic growth opportunities

Developments

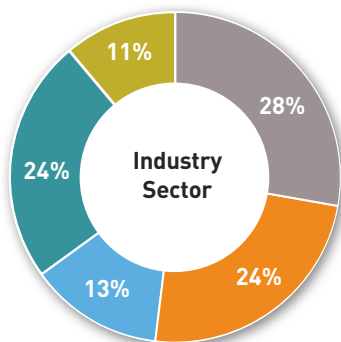
Supported expansion of UK production facility and appointment of several new sales managers in order to facilitate planned growth

Received full AS9100C accreditation in response to customer demand and to enable work on new military-specific applications

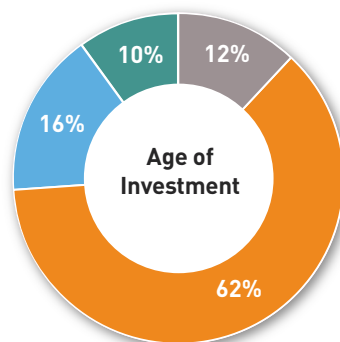
Launched new technologies and strategic partnerships with Far East manufacturing facilities

Strong sales and profit growth used to accelerate repayment of loans

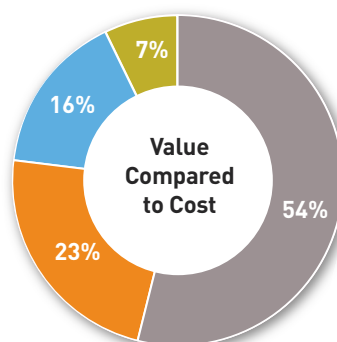
PORTFOLIO AT A GLANCE



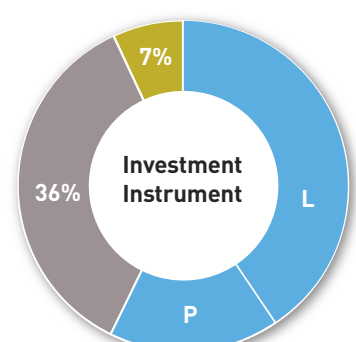
- Business Services
- Manufacturing and Industrial
- Healthcare
- Software, IT and Telecommunications
- Retail and Brands



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



- Value above cost
- At cost
- Value below cost
- Quoted companies



- Loan
- Preference shares
- Ordinary shares
- Quoted companies

FINANCIAL HIGHLIGHTS

Total Return Since Launch (p.p.s.)	111.6		
Years	1	3	5
Net Asset Value – “NAV” (p.p.s.)	62.9	65.5	68.4
Total Return (p.p.s.)	67.4	76.4	84.9
Total Growth (%)	7.2%	16.6%	24.1%
Growth Per Annum (%)	7.2%	5.5%	4.8%

We have included here a new table which demonstrates the average total return growth per annum of the Company over the 1, 3 and 5 year periods to 31 December 2015. The total return over the five year period of 84.9 pence per share is calculated by adding the total dividends paid of 22.0 pence per share since 31 December 2010 to the 31 December 2015 NAV per share of 62.9 pence per share. This equates to 24.1 per cent growth over the 31 December 2010 NAV of 68.4 pence per share, an annual rate of 4.8 per cent.

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PORTFOLIO UPDATE

In the three months to 31 March 2016 the investment portfolio (after netting off additions and proceeds) grew in value by £0.59 million. The unquoted portfolio which comprised 93 per cent of the total portfolio decreased by £0.43 million, with a value gain of £0.41 million and additional investment of £0.17 million being offset by proceeds of £1.00 million, which included £0.68 million from the sale of Callstream. The Top 10 investments were up by £0.54 million. The quoted portfolio reported a small decrease in value of £0.23 million, with a value gain of £0.19 million being offset by £0.42 million of proceeds from the sale of shares in AB Dynamics and Gamma Communications.

Company	Website	Investment valuation at 31 Dec 2015 (£000)	Proceeds (£000)	Additions (£000)	Valuation gains (losses) including profits on disposal (£000)	Investment valuation at 31 Mar 2016 (£000)	% Net asset value of £59.1m
Intelligent Office UK Limited	intelligentofficeuk.com	3,350	-	-	⬇️ (23)	3,327	5.6%
Mangar Health Limited	mangar.co.uk	2,201	-	-	⬇️ (11)	2,190	3.7%
ACC Aviation	flyacc.com	1,801	-	-	⬆️ 214	2,015	3.4%
KeTech Enterprises Limited	ketech.com	2,000	-	-	↔️ -	2,000	3.4%
DisplayPlan Holdings Limited	displayplan.com	1,735	-	-	⬆️ 51	1,786	3.0%
GTK (Holdco) Limited	gtk.co.uk	1,560	-	-	⬆️ 194	1,754	3.0%
Gill Marine Holdings Limited	gillmarine.com	1,778	-	-	⬇️ (29)	1,749	3.0%
Springboard Research Holdings Limited	spring-board.info	1,646	-	-	↔️ -	1,646	2.8%
Immunobiology Limited	imbio.com	1,311	-	150	⬆️ 25	1,486	2.5%
Business Collaborator Limited	groupbc.com	1,384	-	-	⬇️ (32)	1,352	2.3%
Top 10 total		18,766	-	150	⬆️ 389	19,305	32.7%
Remainder of unquoted portfolio		15,202	(1,005)	16	⬆️ 16	14,229	24.1%
Total unquoted portfolio		33,968	(1,005)	166	405	33,534	56.8%
Quoted portfolio		2,684	(418)	-	185	2,451	4.1%
Total portfolio		36,652	(1,423)	166	590	35,985	60.9%

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CALLSTREAM



“Callstream has expanded significantly following backing from YFM. We appreciate the practical advice, strategic guidance and support of both teams in helping us fuel our continued growth over the past five years. They have been terrific partners and played an instrumental role in helping us achieve our success.”

Mick Crosthwaite,
CEO, Callstream

The business

Leading national provider of cloud-based call management technology to the UK insurance, travel and retail markets

Customers include Virgin Holidays, Maplin Electronics and Orvis

Provides clients with cost effective management of external and internal communications

The strategy

Provide strategic and operational guidance to help facilitate expansion

Refocus the business on higher value services and increasing customer loyalty

Fast track development by both acquisition and concentrated organic growth

Develop a leading integrated telecoms group

Developments

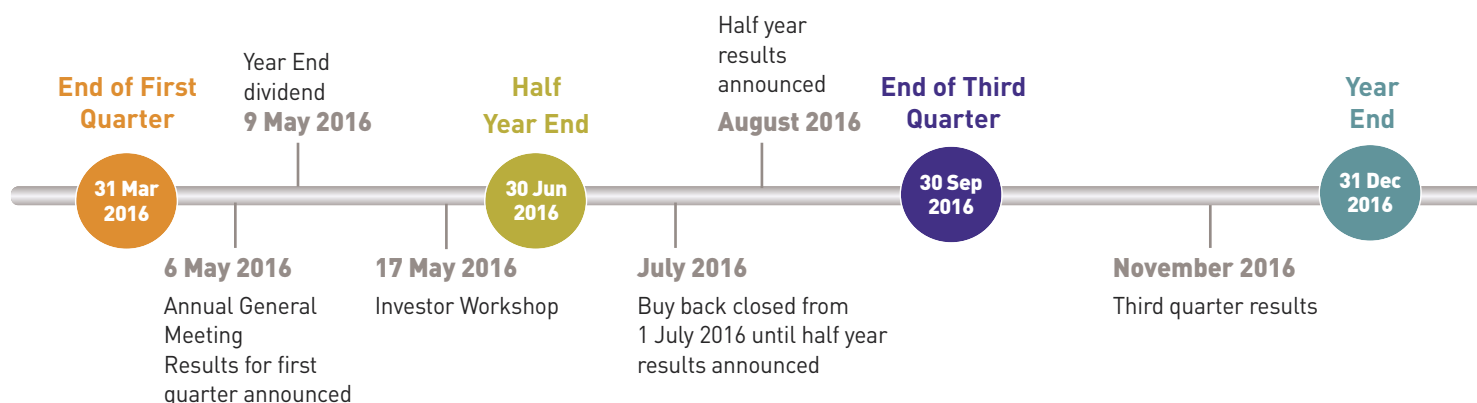
Disposed of 3,000 smaller customers to allow a strategic focus on the incoming call market from one location

Reverse takeover and acquisitions strengthened position as a market-leading provider of unified communications

Achieved transformational growth with an increase in EBITDA to £2.4 million on £10.5 million turnover, in just five years

Investment realised in full to quoted US company, j2 Global, Inc. in 2016

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
Cumulative to 31 December 2009	22.0	22 May 2012	2.0	7 October 2014	2.0
21 May 2010	2.0	26 October 2012	2.5	8 June 2015	2.5
30 September 2010	2.0	5 June 2013	2.5	28 September 2015	2.0
10 June 2011	2.0	27 September 2013	2.0	Cumulative to 31 March 2016	48.0
8 September 2011	2.0	30 June 2014	2.5	9 May 2016	2.5

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.

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