

# VCT RESEARCH REPORT

## BRITISH SMALLER COMPANIES VCTs

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ANALYSIS

**Generalist**  
Generalist VCTs  
primarily invest  
in unquoted  
companies in a  
wide variety of  
sectors and stages  
of development.

**This report is not a substitute for reading the prospectus, and any decision to invest must be made purely on the basis of the prospectus.**

### Risk factors

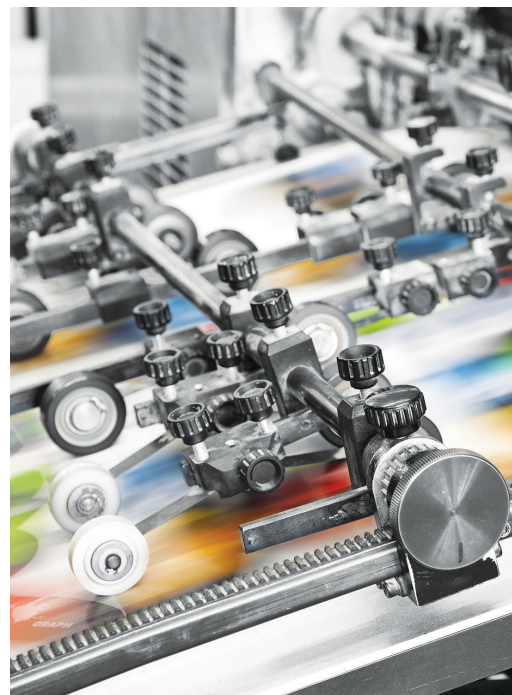
VCTs are substantially higher risk than mainstream equities. They invest in smaller companies, which can be prone to failure. VCT shares are difficult to buy and sell – the market price may not reflect the value of the underlying investments.

The value of the shares will fluctuate, income is not guaranteed and investors could lose money. Tax and VCT rules can change and tax benefits depend on individual circumstances. If a VCT loses its qualifying status investors may have to repay any tax rebate. The prospectus will give fuller details of the risks.

### Their place in a portfolio

VCTs must be held for five years in order to retain the tax relief, but a ten-year view would be better as dividends are the primary source of returns as the VCT portfolio matures.

VCTs are sophisticated, long-term investments only suitable for inclusion in significant portfolios. The general view is that they should account for no more than 10% of an equity portfolio. It is difficult to access the capital invested in the short term, and anyone considering an investment should ensure they are comfortable with this, and all other risks. We assume investors will make their own assessment of their expertise and the suitability of a VCT for their circumstances. Those with any doubts should seek expert advice.



### OUR VIEW

These are high-calibre generalist VCTs managed by a strong and experienced team. They back a diverse range of businesses across a number of industry sectors, focusing on profitable and established companies. The portfolios are reasonably mature and the team continues to see plenty of new opportunities. There could be the potential for early dividends from existing investments as successful companies are sold, while investors are also getting access to new and exciting investments.

### WHAT ARE GENERALIST VCTs?

Generalist VCTs are relatively broad-based, usually investing in a range of unquoted companies across a wide variety of sectors. Some target companies which are already established and profitable, while others have a bias towards very small businesses at an early stage of their development. Most aim to provide steady dividends to investors with the potential for higher payments if and when they sell successful investments. They also aim to maintain or steadily grow capital over the long term.

### OFFER SUMMARY

Funds	British Smaller Companies VCT (BSC) & British Smaller Companies VCT 2 (BSC 2)
Amount seeking	£30 million
Minimum investment	£6,000
Split	Investors can choose, but if no choice is specified on the application the split will be 60:40 (BSC:BSC 2)

## In June 2014 the team invested £2.1 million in the MBO of Macro Art Limited

Investors should ensure they are comfortable with an individual VCT's approach before investing. We believe building a portfolio of different VCTs is sensible as the diversification reduces risk. Starting by selecting those focusing on more mature, established companies; and then adding higher risk VCTs targeting early-stage companies to an already diverse portfolio could be wise. While the VCT must be held for five years to benefit from the tax relief, we believe 10 years plus is a more realistic time horizon.

### PHILOSOPHY

A business with a great product or service and a talented, ambitious management team can do well regardless of wider economic conditions. The team aims to blend companies operating in traditional industries with those that offer opportunities in the development and application of new products and services.

### COMPANY CASE STUDY

The majority of investments are management buy outs (MBOs), where the VCTs provide funds to help existing management buy all or part of the company from the current owner. Development capital is also provided to

smaller businesses looking to expand and / or finance acquisitions.

In June 2014 the team invested £2.1 million in the MBO of Macro Art Limited, a wide-format digital printer which has printed building wraps for the likes of Selfridges and Harrods. It also holds the Guinness World Record for the largest printed movie poster. The money will be used to invest in new staff and equipment, enabling the company to expand and take advantage of increased demand for printing services across the UK and Europe.

The majority of investments are normally in a combination of ordinary shares and yielding instruments, typically a combination of preference shares and loan stock. Structuring investments in this manner produces an income for the VCTs from interest, dividends and redemptions. In addition, the preference shares and loan stock rank ahead of the ordinary shares in the event the business fails.

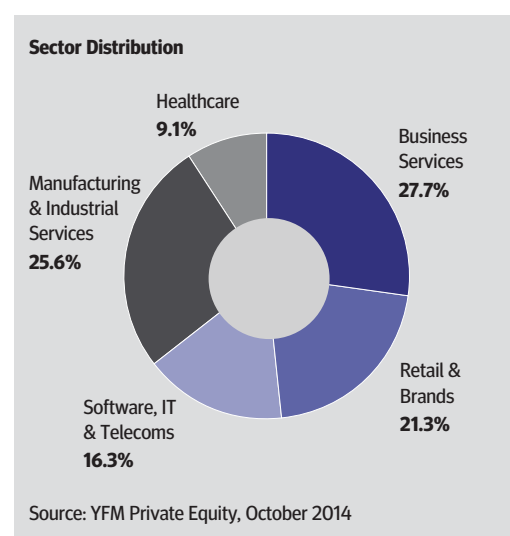
## PORTFOLIO CONSTRUCTION

Broadly speaking the team is looking for businesses with good growth potential. They believe the key to this is to back great businesses with quality management teams. After making an investment they become actively involved in setting strategy and strengthening the management team, while a member of the team often joins the board. They aim to help companies grow, by developing a brand or retail concept, exploiting a proprietary technology or becoming a leader in their market niche.

BSC and BSC 2 were launched in 1996 and 2001 respectively. Since December 2005 they have been managed using the same approach and the portfolios are gradually becoming more aligned. Collectively,

Sector	BSC	BSC2
Business Services	29.1%	24.8%
Retail & Brands	24.3%	15.1%
Software, IT & Telecomms	13.3%	22.7%
Manufacturing & Industrial Services	26.7%	23.1%
Healthcare	6.6%	14.3%

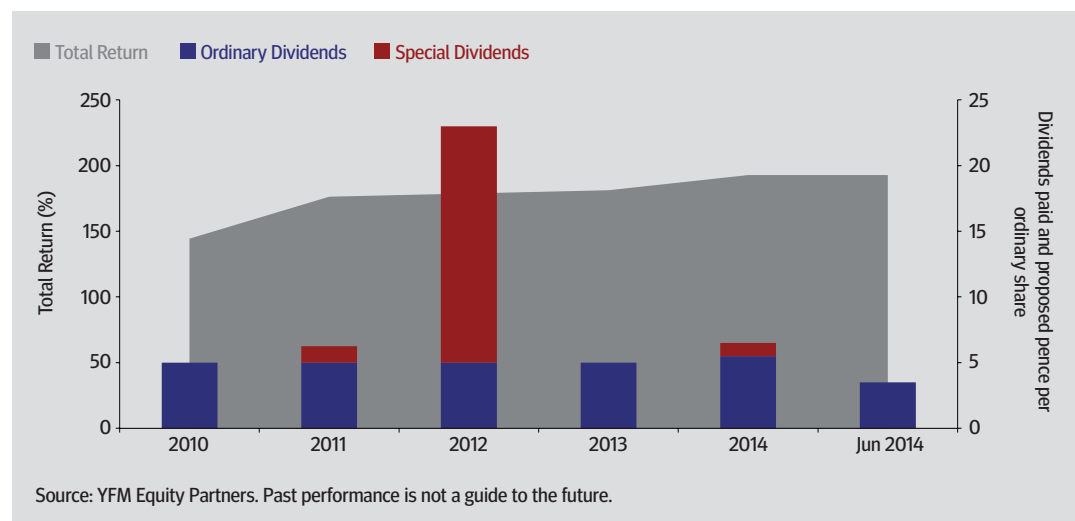
the two portfolios contain 39 companies. We believe splitting an investment between the two could be sensible to benefit from the additional diversification. The table below shows the sector distribution of each VCT and the chart shows the distribution for investors subscribing to both:-



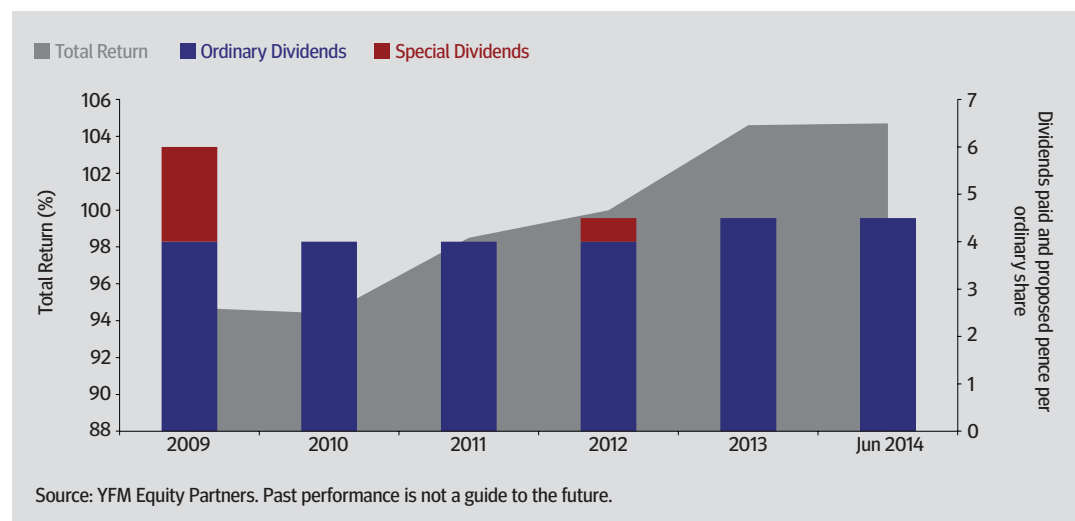
## PERFORMANCE & DIVIDENDS

In 2012 BSC shareholders received an 18p special dividend following the partial sale of GO Outdoors. Please remember dividends are not guaranteed and past performance is not a guide to the future.

The chart below shows the total return and dividends paid per share for BSC over the past five full years and the current year to 30 June 2014:-



The chart below shows the total return and dividends paid per share for BSC 2 over the past five full years and the current year to October 2014:-



## ABOUT THE MANAGER

The British Smaller Companies VCTs are advised by YFM Private Equity (YFM), who have been investing in small, growing businesses in the UK for over 30 years. They have offices across the UK and have a particularly strong presence in the North of England, which they believe helps source and secure attractive investments. The team responsible for managing the VCTs is led by

David Hall, David Bell, David Gee and Paul Cannings. The wider team is experienced and well-resourced. We believe they are capable of generating strong deal flow from the 200 plus opportunities they see every year. For example they made 9 new investments in the period from July 2013 to October 2014 and invested a total of £29.2 million.

**Hargreaves Lansdown is able to offer a discount of 2.25% off the initial charge.**

## CHARGES & FEES

The initial charge is 5%. Hargreaves Lansdown is able to offer a discount of 2.25% off the initial charge. In addition, investors who are existing shareholders in either VCT (and their spouses or civil partners) whose applications are received and accepted by 31 December 2014 will receive additional shares equivalent to 1% of the amount subscribed in each VCT. Between 1 January 2015 and 28 March 2015 they will receive additional shares equivalent to 0.75% of the amount subscribed. New investors will receive additional shares equivalent to 0.5% of the amount subscribed in each VCT from launch up to 28 March 2015. The following net initial charges therefore apply:-

	Before 31 December 2014	Between 01 Jan & 28 Mar 2015	After 28 March 2015
Existing investors	1.75%	2%	2.75%
New investors	2.25%	2.25%	2.75%

The annual management charge is 2% for both VCTs. There are also other expenses and performance fees. Full details of the charges and fees can be found in the prospectus. Investors should ensure they are comfortable with the charging structure before investing.

## SHARE BUY BACK POLICY

	BSC	BSC2
Target discount to NAV	10%	10%

Please refer to the prospectus for further details.

## HOW TO APPLY

To apply please read the prospectus for the offer and fill out the application form at the back. The prospectus is available to download from the Hargreaves Lansdown website or by calling **0117 900 9000**.

The signed application and a cheque for the amount to be subscribed should be returned to Hargreaves Lansdown. The cheque should be made payable to the VCT, as indicated in the prospectus, but the application and cheque must be returned to Hargreaves Lansdown in order to benefit from our discount.

We will acknowledge applications and share certificates and tax certificates will be sent once the shares have been allotted. Shares are allotted periodically and allotment could take up to two months following the acceptance of an application. Shares will be issued according to the most recently announced NAV per share of the VCTs, adjusted for the costs of the offer.

Dividends can be paid by cheque, into a bank account, or reinvested via the VCT's dividend reinvestment scheme. Please see the relevant section of the prospectus and application form for further details.

