

BRITISH SMALLER COMPANIES VCT PLC & BRITISH SMALLER COMPANIES VCT2 PLC

TARGET MARKET, PRICE ASSESSMENT & DISTRIBUTION STRATEGY (EXTERNAL DISTRIBUTION)

MARCH 2024

1. TARGET MARKET ASSESSMENT

NOTES: Each financial instrument must have an identified target market. The level of granularity of the target market definition should be proportionate to the nature of the financial instrument and distribution strategy. An assessment as to whether the risk/reward profile of the financial instrument is consistent with the target market and the business model must be driven by good client outcomes.

Firms must ensure each product or service is designed:

- meet the identified needs, characteristics and objectives of customers in the identified target market
- so that it does not adversely affect groups of customers in the target market, including groups with characteristics of vulnerability to avoid causing foreseeable harm to customers in the target market

Category	Description of target market criteria	Rationale for target market criteria
Type of investors product is applicable to	Retail Customers	The product is applicable to Retail customers because it is a fund recognised for distribution to Retail customers.
Knowledge and experience	<p>Basic Investor</p> <p>Investors having the following characteristics:</p> <ul style="list-style-type: none"> • basic knowledge of relevant financial instruments (a basic investor can make an informed investment decision based on the regulated and authorised offering documentation or with the help of basic information provided by point of sale); • no financial industry experience, i.e. suited to a first-time investor. 	The product or service is considered appropriate for this type of investor because its features, including risks and costs are relatively simple. The product has a simple investment objective, and does not use complex investment structures.

Financial situation/ capacity for loss	Compatible with customers who do not need capital guarantee. No capital guarantee nor protection. 100% capital at risk.	The features of the product or service mean 100% of capital is at risk.
Risk tolerance	Medium/Moderate The product is compatible with investors with a moderate approach to investment – i.e., investors who value reducing risks and enhancing returns equally. This investor is willing to accept modest risks to seek higher long-term returns. A Moderate investor may endure a short-term loss of principal and lower degree of liquidity in exchange for long-term appreciation.	The product or service is compatible with investors with a moderate approach to investment. The product has a long term investment horizon, and although the shares will be admitted to the Official List and are traded on the LSE, the secondary market for VCTs has limited liquidity.
Client objectives and specific needs	Clients looking for: <ul style="list-style-type: none"> • Tax efficient investing • Portfolio diversification • Investments which provide income • Supporting British innovation & the economy <p>Minimum recommended holding period The minimum recommended holding period in years is five years.</p>	This product is VCT qualifying and therefore offers tax efficient investing, alongside the opportunity for income in the form of dividend payments.
Negative target market	Investors who do not meet the criteria set out above fall into the negative target market. Specifically:	Those types of investors listed are unlikely to achieve good outcomes, and should not invest.

	<ul style="list-style-type: none"> • Require access to the capital within the next five years • Do not have UK tax liabilities • Limited ability to bear capital loss • Those with less than £6,000 to invest 	
Distribution approach	<p>Execution Only</p> <p>The Firm will only arrange for the investor to invest in the product; it will not provide investment advice to the investor, nor will it assess the appropriateness of the product to the investor.</p>	This product is a readily realisable security whose features, structure and costs are relatively simple.

2. MANUFACTURER RESPONSIBILITIES

Manufacturer collaboration	The Firm is not considered a co-manufacturer of the product or service. It is the sole manufacturer.
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3. PRICE AND VALUE ASSESSMENT

<p>NOTES: The specific focus of the price and value outcome rules is on ensuring the price the customer pays for a product or service is reasonable compared to the overall benefits (the nature, quality and benefits the customer will experience considering all these factors). Value needs to be considered in the round and low prices do not always mean fair value. We expect firms to think about price when assessing fair value but not at the expense of other factors.</p>	
Price and costs of the product	<p>Financial Costs:</p> <p>Entry fee: 3% (3.5% for direct applications & 5% for execution only)</p> <p>Management fee: 1% of surplus cash, 2% of other net assets</p> <p>Performance fee: BSC: 20% of gains above the lower of dividends and total return once both have achieved an RPI-linked hurdle; BSC2: 20% of gains achieved above a share price total return high water mark.</p> <p>There are no exit fees payable.</p>

	<p>Non-Financial Costs: The customer will need to invest some time into reading the prospectus and ensuring they fully understand the product. We consider the time commitment is reasonable when compared to the benefits of the product. We do not “use” the customers data for example by selling their data to third parties.</p>
Distributor costs:	We do not specify or set the final price paid by the customer.
Benefits of the product	<ul style="list-style-type: none"> - Upfront income tax relief - Tax free dividends - Capital gains tax exemption on disposal - Exposure to high growth potential companies - Investment portfolio diversification - Potential for regular income - Highly experienced investment team - Long track record - Strong levels of deal flow - Active and engaged investment team - Opportunity to invest alongside a people focussed business - Supports British innovation and the economy - Backing the next generation of UK entrepreneurs - Direct access to YFM investor relations via phone or email - Product has a natural life of five years in order to maintain tax benefits, therefore investor inertia risk is lower
Limitations of the product	<ul style="list-style-type: none"> - The fund will expose investors to market risk, including loss of capital - Tax legislation is not guaranteed and may be subject to change - There are no guarantees all the potential benefits of the product will be achieved
Costs incurred	<p>The typical costs of managing the product are as follows:</p> <ul style="list-style-type: none"> - Fund Manager management charge to fund operational expenses e.g. salaries, software, legal & accounting fees, office space - Depositary fee - Accounting & secretarial fee - VCT Director fees - Broker fees - Transaction costs e.g. legal, professional advisers, due diligence

Comparable/similar products or services	Having reviewed the average fees of similar products available on the market, we consider the fees charged for managing these funds to be in line with our competitors
Accrued costs and/or benefits for existing or closed products	The product has generally generated income for existing investors over the long term, reflecting the minimum five year recommended hold period. Fees and costs of the fund could contribute to an erosion of capital in periods of poor performance.
Charging different prices to different groups of customer	Investors that invest directly pay an initial fee 0.5 percentage points higher than those investors that invest via a financial adviser. This fee is justified by the increased risk posed by direct investors and the additional resources needed to process applications. The VCTs offer an early bird discount; this is clear, transparent and available to all customers; further, this discount does not result in a poor outcome to other customers.
In consideration of the above factors we consider that the product offers fair value as at the date of this assessment.	

4. DISTRIBUTION STRATEGY

NOTES: The distribution strategy should be designed to favour the sale of each financial instrument to the target market. The manufacturer must make certain pieces of information available to the distributor. This includes information on the financial instrument, the product approval process, details of the target market assessment and the appropriate distribution channels.	
Distribution strategy	This product can be distributed direct to the investor, execution only (via a platform) or via an Independent Financial Advisor (IFA). However, it is the Firm's preference for customers to access the product via an IFA.
Information available to distributors	<ul style="list-style-type: none"> • Manufacturer's value assessment and distribution strategy • Target Market Assessment • Offering documents, factsheets, newsletters, presentations, KIDs

5. EUROPEAN MIFID TEMPLATE (only relevant information included)

NO	DATA	DEFINITION	CODIFICATION	FURTHER INFORMATION
32	Investor type	Investor type retail	Yes	
33		Investor type professional	Yes	
34		Investor type eligible counterparty	Yes	
35	Knowledge and/or experience	Basic investor	Yes	Investors having the following characteristics: <ul style="list-style-type: none"> • basic knowledge of relevant financial instruments (a basic investor can make an informed investment decision based on the regulated and authorised offering documentation or with the help of basic information provided by point of sale); • no financial industry experience, i.e. suited to a first time investor
36		Informed investor	Yes	Having one, or more, of the following characteristics: <ul style="list-style-type: none"> • average knowledge of relevant financial products (an informed investor can make an informed investment decision based on the regulated and authorised offering documentation, together with knowledge and understanding of the specific factors/risks highlighted within them only) • some financial industry experience
37		Advanced investor	Yes	Investors having one, or more, of the following characteristics: <ul style="list-style-type: none"> • good knowledge of relevant financial products and transactions • financial industry experience or accompanied by professional investment advice or included in a discretionary portfolio service
39	Client ability to bear losses	Compatible with clients who can not bear capital loss	No	
40		Compatible with clients who can bear limited capital loss	Neutral	The product itself has the potential for 100% capital loss however it is compatible in a portfolio of investments where limited capital loss being achieved through other

				elements of the portfolio. Moreover, 30% up front tax rebate offers a form of limited capital loss.
41		Compatible with clients who do not need capital guarantee	Yes	
42		Compatible with clients who can bear loss beyond capital	Yes	
44	Risk tolerance	Risk tolerance PRIIPS methodology	6	
49	Client objectives and needs	Return profile preservation	Neutral	The product is not designed to preserve capital however it is compatible in a portfolio of investments where capital preservation is the key objective.
50		Return profile growth	Neutral	The VCT targets investments with the opportunity for high levels of growth, but rather than increasing the value of its NAV, the VCT aims to return this investment performance back to shareholders in the form of tax-free dividends. This is consistent with most VCTs in the market.
51		Return profile income	Neutral	Part of the products strategy and objective is to pay tax free dividends over the medium term.
55		Minimum recommended holding period	L	Minimum recommending holding period: RHP in years or Very Short Term (=1Y) or Medium term (>=3Y) or Long term (>5Y) or Hold To Maturity.
57		Specific investment need	O	N – no I – Islamic banking O - other
58	Distribution strategy	Execution only	B	R – retail P – professional B – both N – neither
59		Execution with appropriateness test or non-advised service	B	
60		Investment advice	B	
61		Portfolio management	B	
100	Value for money	Outcome of value assessment or review	1	1 – product expected to provide fair value for reasonably foreseeable period 2 – review indicates significant changes required in order to provide fair value