

Product

**British Smaller Companies VCT &
British Smaller Companies VCT 2**

Tax Status

Venture Capital Trust

Fund Group

YFM Equity Partners LLP

Risk Warning

This communication is provided for informational purposes only. This information does not constitute advice on investments within the meaning of Article 53 of the Financial Services and Markets Act (Regulated Activities) Order 2001. Should investment advice be required this should be sought from a FCA authorised person.

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Tax Efficient Review Ltd
35 The Park
London
NW11 7ST

Tel: +44 (0)20 8458 9003
www.taxefficientreview.com

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Table of Contents

RISK WARNINGS AND DISCLAIMERS	4
GENERAL RISK WARNINGS	4
ADDITIONAL RISK WARNINGS	4
Summary	5
Disclaimer	5
TER classification	6
Review based upon	6
'Sunset' Clause	6
The Offer	7
Track record	8
Manager	12
Costs	14
Conclusion	16

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GENERAL RISK WARNINGS

Your attention is drawn to the following risk warnings which identify some of the risks associated with the investments which are mentioned in the Review:

Fluctuations in value of investments

The value of investments and the income from them can go down as well as up and you may not get back the amount invested.

Suitability

The investments may not be suitable for all investors and you should only invest if you understand the nature of and risks inherent in such investments and, if in doubt, you should seek professional advice before effecting any such investment.

Past performance

Past performance is not a guide to future performance.

Legislation

Changes in legislation may adversely affect the value of the investments.

Taxation

The levels and the bases of the reliefs from taxation

may change in the future. You should seek your own professional advice on the taxation consequences of any investment.

ADDITIONAL RISK WARNINGS

Venture capital trusts

1. An investment in a VCT carries a higher risk than many other forms of investment.
2. A VCT's shares, although listed, are likely to be difficult to realise.
3. You should regard an investment in a VCT as a long term investment, particularly as regards a VCT's investment objectives and policy and the five year period for which shareholders must hold their ordinary shares to retain their initial income tax reliefs.
4. The investments made by VCTs will normally be in companies whose securities are not publicly traded or freely marketable and may therefore be difficult to realise and investments in such companies are substantially riskier than those in larger companies.
5. If a VCT loses its Inland Revenue approval tax reliefs previously obtained may be lost.
6. No investment can be made by the VCT in a company whose first commercial sale was more than 7 years prior to date of investment, except where previous State Aid Risk Finance was received by the company within 7 years (10 years for a 'knowledge intensive' company) or where a turnover test is satisfied; and
7. No funds received from an investment by the VCT into a company can be used to acquire another existing business or trade.

Factsheet

British Smaller Companies VCT & VCT2

Type	Generalist VCT with track record
Size	£415m AUM across both VCTs and is seeking £50m with this launch in aggregate across the two VCTs with a £25m over-allotment facility
Manager	YFM Private Equity Limited ("YFM")
Sponsor	Howard Kennedy Corporate Services LLP
Registrars	The City Partnership
Receiving Agent	The City Partnership
Focus	To generate tax free capital gains and regular dividend income for its shareholders through a diversified portfolio of VCT qualifying investments across a broad range of sectors
Promoter	RAM Capital
Funds initially invested	Cash deposits, fixed income securities, money market funds and other securities
Minimum investment	£6,000 per tax year, including initial adviser charges
Initial Closing Date	28th March 2025 unless fully subscribed before
Issue costs	3% of amount subscribed, 3.5% for direct applicants
Annual costs	1% of surplus cash, 2% of other assets
Initial advisor charges	If charged, these will be facilitated by the VCT on subscription.

Summary

Table 1: Tax Efficient Review summary of offering Pros and Cons

PROs	CONs
The performance of the BSC VCTs has been good over 3, 5 and 10 years and they have performed well against their generalist VCT peer group. The level of dividends paid to shareholders total 180.9p per share since launch for BSC and 87.75p per share since launch for BSC2	The BSC VCTs often use ordinary shares with a participating preference to take a priority return in the event of an investment company trade sale. This does not in any way guarantee a return but it can help to mitigate risk and it does make their initial performance more static when compared to VCT managers with normal equity
There have been 5 profitable exits generated by the British Smaller Companies VCTs since the start of 2023, which is impressive given the general lack of exits from VCTs over that time	Although the largest holding of Matillion has dropped from 12% of the NAV to 9%, the BSC VCTs current top 5 holdings total £101m (24.5%) of the total £415m, which is fairly high
The British Smaller Companies VCTs have always had a strong regional focus to their investments	As expected in a venture capital portfolio of this size, there have also been write downs of recent investments, which include Arcus, Wooshii and Relative Insight

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TER classification

TER classifies this VCT as a “Generalist VCT with track record” and YFM are experienced fund managers within the VCT market. The first British

Smaller Companies VCT was launched in the 1996/7 tax year.

Review based upon

TER always meet/have an internet call with fund managers prior to a review. This review is based on those meetings, the prospectus for the offer,

(British Smaller Cos VCT & VCT2 prospectus (reference 17 October 2024) and data provided by YFM Private Equity Limited.

The VCT scheme sunset clause

A condition of the European Commission’s State Aid approval of the UK’s VCT scheme in 2015 was the introduction of a retirement date for the current scheme at midnight on 5 April 2025. This was passed into UK law through the Finance (No 2) Act 2015.

If the relevant legislation is not renewed or replaced with similar or equivalent legislation before this date, investors issued with new VCT shares (whether through an offer or through a dividend reinvestment scheme) after 5 April 2025 would not be able to claim upfront VCT income tax relief in respect of such shares and further this may have an adverse impact on the continuation of a company as a VCT or it being able to raise further funds and/or meet its objectives in the future.

After a series of statements by the UK Government in the course of 2022 and 2023 of its intention to extend the VCT scheme beyond 5 April 2025, it was formally announced by the Chancellor in the Autumn Statement on 22 November 2023 that the VCT scheme would be extended by secondary legislation for a further ten years to 5 April 2035. Finance Act 2024 includes provision for the VCT scheme to be extended to 5 April 2035.

This will be subject to a Treasury Order being laid following EU approval being obtained for the continuation of the VCT scheme. It was recently announced that the European Union have granted approval for the continuation of the VCT scheme.

Table 2: **Funds under management as at 30 June 2024**

Product Name	Net assets	Annual Management fee	Still to be invested
VCT funds			
British Smaller Companies VCT plc	252.5	2.0%*	96.6
British Smaller Companies VCT2 plc	162.9	2.0%*	55.9
NON VCT funds that can co-invest with VCT Funds			
YFM Equity Partners Growth Fund I**	10	2.00%	0
YFM Equity Partners Buyout Fund I***	45.9	2.00%	3.9
YFM Equity Partners Growth Fund II***	10	2.00%	0.2
YFM Equity Partners Buyout Fund II***	80.4	2.00%	16.2
YFM Equity Partners Growth Fund III	10	2.00%	3.5
YFM Equity Partners Buyout Fund III	95.5	2.00%	62.5
TOTAL	£504.3m		£182.9m

*2% per annum, which is reduced to the extent that cash exceeds £7.5m for BSC and £5m for BSC2, with a fee of only 1% charged on

**Fully invested

*** no new investments, follow-on only

Source: YFM Equity Partners LLP

Consumer Duty

The FCA's Consumer Duty comes into force from 31 July 2023 for existing products and services. One of the main purposes of this new legislation is that it seeks to ensure customers receive "fair value" and that fund management firms provide evidence that these outcomes are being met.

The assessment carried out by each firm is to ensure that its products provide fair value to retail customers in the target markets for those products; and that it has carried out a value

assessment of its products which they review on a regular basis (appropriate to the nature and duration of the product).

Each firm being reviewed by TER has created their own "Confirmation of Value" assessment, which are available directly from the fund manager. Please note that in each TER report, there is a Fees section which compares the costs of the offer being reviewed against its peer group.

The Offer

This review is for the new British Smaller Cos VCT fund raising which is launching on 17th October 2024. In a similar style to a few other VCTs the prospectus is being launched on 17th October, but the offer will not be accepting applications until 24th October 2024.

It is planned that there will be two allotments for this offer, with the first allotment of shares in January 2025. For early investors in this new VCT offer there will also be an incentive in the form of additional shares added to their allotment.

Applicants who subscribe for the first £25m in the fundraising will receive additional shares equivalent to 0.125% of their application amount, the costs of which will be met by the Manager. In addition, to the extent possible, Applicants will receive additional New Shares equivalent to receiving a 3.35 per cent per annum rate of return on funds awaiting allotment (this rate is set by the BSC VCTs' receiving agent's banking provider and is subject to change), calculated by reference to the number of days between receipt of cleared funds and the date of allotment

The British Smaller Companies (BSC) VCT was launched in 1996 and has £252m in assets under management; and the British Smaller Companies VCT2 (BSC2) was launched in 2000 and has £163m in assets under management.

The current offer is seeking to raise approximately £50m in aggregate with a potential £25m over-allotment, though the exact amounts raised by each VCT will depend on investors preferences, which have historically been around 60% for BSC and 40% for BSC2 in line with how the companies invest. Investors can allocate their investment

between the two VCTs in whatever ratio they choose.

The investment strategy of each VCT is to create a portfolio of UK companies operating across a broad range of sectors 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.

There has been an increasing level of homogeneity across the two VCTs. Each VCT will invest in UK businesses across a broad range of sectors including but not limited to Data, Tech-enabled Services, New Media, Business Services, Application Software, Retail & Brands, Cloud & DevOps and Advanced Manufacturing. Details of the values in each Sector at 30 June 2024 are given below.

These investments will primarily be in unquoted UK companies which meet the definition of a Qualifying Investment, in order to maintain each VCT's Venture Capital Trust status. It is anticipated that the majority of these businesses will be re-investing their profits for growth and the investments will, therefore, comprise mainly equity instruments.

The BSC VCTs seek to build a broad portfolio of investments in early stage companies focused on growth with the aim of spreading maturity profiles and maximizing return as well as ensuring compliance with the VCT guidelines in this regard. The offer builds on the existing diversified portfolio of unquoted investments covering a large number of sectors.

Between them the two BSC VCTs had liquid funds as at 30 June 2024 totalling £178m (after the receipt of £87m from the 2023/24 fundraising in April 2024). Since 30 June 2024 the VCTs have invested £19.2m; paid gross dividends of £6.0m, with a further gross dividend of £4.2m to be paid on 1 November 2024.

The VCTs have also utilised £0.5m for three months of management fees and other net operating costs. The expectation is that at the end of the 2024/25 tax year the cash before any funds from this offer will be around £110m.

This seems a high level of cash across the two VCTs with £415m of AUM between them. But YFM say that this is necessary for their favoured follow-on investment strategy and this year, between the two VCTs, around £40m per annum is normally utilised for the share buy-back scheme, net operating costs and dividends (net of amounts reinvested from the Dividend Re-investment Scheme).

The two VCTS have made investments totaling £82.4 million in the 24 months to 30 September 2024, of which £39.2m has been invested over the past 12 months.

The two British Smaller Companies VCTs operate similar investment strategies. Therefore, they also have a similar split of investments across different sectors, which is broken down as follows:

Sector	BSC	BSC2	Total
Data	27%	29%	28%
Application Software	26%	25%	25%
Tech-enabled Services	18%	18%	18%
New Media	9%	8%	9%
Cloud & DevOps	9%	9%	9%
Business Services	6%	5%	5%
Retail & Brands	4%	4%	4%
Advanced Manufacturing/ Other	1%	2%	2%
Total	100%	100%	100%

Examples of recent investments made by the British Smaller Companies VCTs include:

- **Spotless Water** - an ultra pure water distribution network - £3.6m
- **DrDoctor** - a patient engagement software platform - £5.9m
- **AutomatePro** - an automated software testing company - £3.7m
- **Fuuse** - an electric vehicle charging point management system - £5.0m

The similarities between the VCTs continue when looking at the top holdings for the VCTs, which can be seen in Table 5. Whilst the largest holding in both by a considerable margin is still Matillion Limited, it has seen a reduction in the percentage of NAV from 12% to 9% for BSCVCT and from 16% to 12% for BSCVCT2. This is still a high concentration for one holding, but it's good to see that it's reduced its influence over the portfolio in the past year. This reduction has arisen both from the VCTs taking profits from this company via a partial sale in 2021, as well as a reduction in its valuation since then. YFM point out that it remains a large and well-funded company.

YFM ideally likes to see at least £1m of sales in the last 12 months, increasing commercial traction and seeks to make investment of a size commensurate with each businesses addressable market.

Dividend and Share Buy-Back Policy

Both VCTs aim to pay a consistent annual dividend but this is dependent on the level of investment income and realisations that can be achieved in any one period and cannot be guaranteed. As covered above we think investors should no longer expect a regular smooth “yield” although distributable reserves will still allow VCTs to smooth dividends for a time.

There is also a dividend reinvestment scheme available to shareholders. Cumulative dividends to date of 180.9p (including a 2p dividend paid on 26 July 2024) and 87.75p have been paid from BSC and BSC2 respectively. BSC2 has declared a dividend of 1.5p, to be paid on 1 November 2024.

Table 3: Generalist VCT provider 3,5 & 10 year performance comparison

VCT manager (alphabetical order)	VCT name	Data as at	Annual return over last 3 years	Annual return over last 5 years	Annual return over last 10 years
ALBION	Albion VCT	30/06/2024	0.7%	1.3%	5.3%
	Albion Technology & General VCT	30/06/2024	3.6%	4.2%	5.2%
	Albion KAY VCT	30/06/2024	4.7%	6.4%	7.5%
	Albion Development VCT	30/06/2024	6.2%	7.7%	9.2%
	Albion Crown VCT	30/06/2024	3.7%	5.1%	7.2%
	Albion Enterprise VCT	30/06/2024	7.0%	8.1%	9.8%
BARONSMEAD	Baronsmead Second Venture Trust	31/07/2024	-4.3%	2.5%	2.7%
	Baronsmead Venture Trust	31/07/2024	-3.7%	2.3%	2.8%
BERINGEA	ProVen Growth & Income New	31/05/2024	1.1%	1.5%	2.5%
	ProVen VCT	31/05/2024	0.7%	1.2%	3.9%
CALCULUS	Calculus VCT plc New Ord share	30/06/2024	1.9%	0.4%	
FORESIGHT	Foresight Enterprise VCT	31/03/2024	9.4%	6.9%	1.9%
	Foresight VCT	31/03/2024	13.0%	10.3%	5.9%
MAVEN	Maven Income & Growth VCT 5	31/08/2024	0.9%	3.7%	4.5%
	Maven Income & Growth VCT	31/08/2024	1.2%	2.0%	3.5%
	Maven Income & Growth VCT 4	30/06/2024	0.3%	2.4%	2.7%
	Maven Income & Growth VCT 3	31/08/2024	0.4%	2.9%	3.5%
MERCIA	Northern 2 VCT	30/06/2024	-0.5%	4.7%	4.5%
	Northern Venture Trust VCT	30/06/2024	-1.6%	4.6%	4.6%
	Northern 3 VCT	30/06/2024	-0.6%	4.8%	4.8%
MOBEUS	Mobeus Income & Growth VCT	30/06/2024	0.5%	9.5%	6.1%
	Income & Growth VCT	30/06/2024	0.4%	10.5%	5.9%
MOLTEN	Molten Ventures VCT	31/03/2024	3.8%	1.6%	3.0%
OCTOPUS	Octopus Titan VCT	30/06/2024	-11.9%	-1.9%	2.2%
	Octopus Apollo VCT	31/01/2024	8.3%	8.4%	3.3%
PEMBROKE	Pembroke VCT B share	30/06/2024	-0.4%	3.7%	
PUMA	Puma VCT 13	31/05/2024	4.9%	12.3%	
	Puma Alpha VCT	31/05/2024	-0.1%		
SENECA	Seneca Growth Capital VCT B shares	30/06/2024	-12.3%	-5.5%	
TRIPLE POINT	Triple Point Venture VCT Venture shares	31/05/2024	1.8%	1.9%	
YFM	British Smaller Companies VCT 2	30/06/2024	5.4%	10.1%	6.4%
	British Smaller Companies VCT	30/06/2024	6.3%	11.6%	6.8%

Source: Tax Efficient Review calculation based on dividend and Net Asset Value data from public accounts

Calculation: (Closing period NAV less Opening period NAV plus dividends paid in the period) divided by number of years in the period

Figures do not include tax relief

Report produced 15/10/2024

Table 4: **Provider results comparison**

PROVIDER	AVERAGE SCORE BASED ON PLACE IN PEER GROUP (lower is better)
YFM	5
FORESIGHT	9
ALBION	10
MOBEUS	11
MERCIA	18
MOLTEN	18
MAVEN	19
OCTOPUS	19
BERINGEA	21
BARONSMEAD	24

Calculation as at 15/10/2024 and based on results in Table 3 for providers with ten year performance. In order to reduce the data down to one figure, each VCTs' position in the Table 3 results is scored from 1 (first in the year) to the total number of VCTs in the analysis for the period (lower numbers are better), added together and then averaged over the three periods being measured

Table 5: **YFM Equity Partners LLP VCT unquoted analysis of sector (% of original cost) as at 30 June 2024**

Sector name	%
Data	16%
Application Software	14%
Tech-enabled services	10%
Cloud & DevOps	5%
New Media	5%
Business Services	3%
Retail & Brands	2%
Advanced manufacturing/other	1%
Other current assets	1%
Cash etc	43%
TOTAL	100%

Source: YFM Equity Partners LLP

Table 6: **YFM Equity Partners LLP VCT unquoted portfolio analysis of investment stage (% of original cost) as at 30 June 2024**

STAGES	%
Growth (revenue £1m-£5m):	35%
Scale up (revenue over £5m):	65%
TOTAL	100%

Source: YFM Equity Partners LLP

Table 7: Realisation analysis including write-offs - last three years to 30 June 2024

Company	Activity	Date of investment	Date of exit	Total invested	Total Proceeds	Multiple
Deep-Secure Ltd (2009 - 2021)	Software, IT & Telecommunications	09/12/2009	13/07/2021	£1,928,751	£12,364,310	6.4
Harris Hill Holdings Limited (2007 - 2021)	Business Services	01/06/2009	05/07/2021	£600,000	£431,183	0.7
Friska Limited (2016 - 2021)	Retail	13/07/2017	05/07/2021	£3,500,000	£0	0.0
Matillion Limited (2016 - 2021)	Data & Analytics	25/11/2016	06/10/2021	£1,210,203	£13,017,075	10.8
Tissuemed Limited (2000 - 2021)	Health Care Equipment & Services	01/08/2000	14/12/2021	£322,337	£624,496	1.9
Intelligent Office UK (via IO Outsourcing Limited) (2014 - 2022)	Business Services	07/05/2014	30/09/2022	£4,890,000	£12,590,013	2.6
Springboard Research Holdings Limited (2014 - 2022)	Data & Analytics	24/10/2014	27/09/2022	£3,964,000	£16,416,489	4.1
Arraco Global Markets Limited (2020 - 2022)	Business Services	10/12/2020	30/09/2022	£4,449,702	£0	0.0
Seven Technologies Holdings Limited (2012 - 2022)	Advanced manufacturing	03/04/2012	25/11/2022	£6,974,278	£2,746,526	0.4
Vuealta Group Limited (partial 2021 - 2022)	Tech-enabled Services	22/09/2021	19/12/2022	£4,923,915	£7,668,326	1.6
Wakefield Acoustics (via Malvar Engineering Limited) (2014 - 2023)	Advanced manufacturing	01/12/2014	09/01/2023	£1,800,000	£2,624,311	1.5
Ncam Technologies Limited (2018 - 2023)	New Media	01/03/2018	09/04/2023	£4,404,520	£2,982,725	0.7
E2E Engineering Limited (2017 - 2023)	Business Services	29/09/2017	02/11/2023	£1,500,000	£3,701,047	2.5
Macro Art Holdings Limited (2014 - 2023)	Business Services	11/06/2014	16/11/2023	£2,100,000	£4,147,541	2.0
Arcus partial (2018-2024)	Application Software	11/05/2018	06/01/2024	£2,074,980	£500,000	0.2
Ketech partial (2015-2024)	Tech-enabled Services	05/11/2015	05/01/2024	£3,980,000	£8,118,723	2.0
Displayplan Holdings Limited (2012 - 2024)	New Media	11/01/2012	29/02/2024	£2,000,000	£19,172,710	9.6
TOTAL				£50,622,686	£107,105,477	2.1

Source: YFM Equity Partners LLP

The VCTs operate a share buy-back policy at a 5% discount to net asset value. In the twelve months to 30 September 2024 BSC acquired 6.8m shares at a cost of £5.4m, and BSC2 6.1m shares at a cost of £3.4m.

The manager of the British Smaller Cos VCTs says that all share buy-backs have been conducted at a 5% discount to the prevailing NAV per share, and that the share buy-backs are usually processed at

the end of each quarter.

Non-Qualifying Investments

The initial proceeds of the Offer may be invested in a portfolio of equities, fixed income and other securities, including money-market funds and cash deposits.

Tax Efficient Review Strategy rating: 29 out of 30

Track record

Our approach to comparing track records between providers is to use 3, 5 & 10 year measures of the annual increase in total return (calculated as closing net asset value less opening net asset value plus dividends paid during the period).

The results are in Table 3 and consist of results for each provider and their VCTs over a 3, 5 and 10 year period. As can be seen in this table, the 3, 5 and 10 year annual returns for the BSC VCTs are some of the best over each of the time periods under analysis.

In order to reduce the data down to one figure we score each VCT's position in the results from 1 (top position) to the total number of VCTs in the analysis, sum them and take an average over the three periods being measured. Thus lower numbers are better and are in Table 4.

The analysis in Table 4 shows that YFM's performance places it first out of the list of generalist VCT managers.

This performance is something that investors have come to expect from the British Smaller Cos VCTs, and it's good to see that there have been profitable exits to back up this performance.

Recent exits include:

- **Macro Art** - 2.0x - makers of large print displays for shops and points of sale
- **e2E** - 2.5x - consultancy business
- **Wakefield Acoustics** - 1.5x - makers of noise cancellation equipment for large manufacturing machines and processes
- **Displayplan** - 9.6x - one of the older MBO

investments which made point of sale displays for clients such as Lego

- **KeTech** - 2.0x - a partial realisation of this company which provides passenger information technology for large transport providers

Despite most of these exit multiples being fairly low by historical standards within the VCT community, they are still very welcome indeed given the difficult trading period VCTs and EISs have endured over the past 3 years.

Since the last fund raising closed, there have been seven follow-on investments totalling £19.7m made by the British Smaler Cos VCTs, as well as £14.3m split across 3 new investments.

Valuing unquoted venture capital backed companies can be a nightmare of interpretation and analysis. The way the BSC VCTs structure their investments is with a high degree of reliance upon preference shares (which confer some form of "liquidation preference") within the structure of the investment. To be clear, this is not a debt structure, but as the name suggests, it does give the investor in the preference shares a preference (or priority) on returns in the event of a sale.

Preference shares can be Participating (known as "hard" preference) or non-Participating (known as "soft" preference). Participating refers to whether after recouping any funds in preference to other shares, the shares continue to share in any funds still available.

For example, a Venture Capital investor may invest £5m into a company as non-participating preference shares with a 1x liquidation preference which have a priority on the first £5m (driven

by the 1x preference) in the event of the sale of that company to a trade purchaser. So (assuming no other share class has a priority position) if the company is sold for only £5m, the investor will get their investment back but the other equity holders will get nothing. But if the company were sold for, say £15m, then the preference shareholder would receive their £5m preference first and then the remaining £10m would be split across all shareholder(s) as a normal equity participation.

Clearly, there are many, many ways in which preference shares can be structured in terms of the rights and return profile they give the investor/shareholder, and it's part of the negotiation of an investor when they come to put money into a Venture Capital/Private Equity company.

But TER would like to point out that these preference share structures do not provide any form of safety net or guarantees. If a company with preference shares in its equity structure folds with a nil value, then there is no recourse to take any preference on any remaining value.

Why is this important for the performance of comparing BSC VCTs to other VCTs which might not use preference shares? Well the preference shares mean that the BSC VCTs performance would be more "static" compared to others which do not use preference shares.

Whilst preference shares typically help to give a priority recoupment on a sale of a company, they also can have a reduced upside in exchange for this priority return. Table 8 has a column indicating the type of shares held by the VCTs: 31 were in participating shares, 3 in non-participating and 5 in just "naked" equity.

Prior to 2015, the structuring of investments with the use of secured loan stock/and or preference shares enabled the VCTs to generate more revenue income than, say, other VCTs which use external gearing. In addition, however, dividends can also clearly come from realised capital profits, and like many other VCT managers YFM has regard to a "total return" of longer term performance when advising the Boards on setting their dividend policy.

The balance of investment from 2015 has seen a heavier weighting towards TMT (Technology, Media and Telecoms), with a strong emphasis on Data, Tech-enabled Services, New Media, Application Software and Cloud & DevOps, in

total 28 investments have been made in these sectors of which 29 were still in the portfolio.

As at 30 June 2024 there were 42 investments in the portfolio, with BSC holding 41 unquoted investments valued at £135m and BSC2 holding 40 unquoted investments valued at £96m.

Despite this level of diversification, there is still a heavy reliance on the top 5 holdings within the portfolio. This is not an accusation at BSC VCTs in isolation as many VCTs are concentrated on the top 10 holdings. It is natural for VCT managers to undertake follow on investment rounds in their better performing companies. But one holding in particular, Matillion Ltd is held at £44m which represents approximately 11% of the Net Asset Value, even after a couple of top-slicing sales.

But within the BSC VCTs the current top 5 holdings total £101m (24.5%) of the total £415m of AUM, (reduced from 30.8% previously). The top 10 holdings equate to £143m (34.4%, reduced from 42.1%), and the top 15 holdings equate to £173m).

Table 7 shows the exits achieved over the past 3 years. Within the 17 exits achieved, 11 of them have been profitable and at considerable margins to comfortably outweigh the losses with an average return multiple of 2.1x.

The exits, alongside the performance of the remaining portfolio, have helped to drive a healthy level of dividends across the two VCTs. The average dividends paid over the last 5 and 10 years to 30 June 2023, as well as the level of cumulative dividends to date are shown in the two tables below:

British Smaller Companies VCT

- Average over last 5 years: 5.5p
 - Average over last 10 years 8.8p
 - Cumulative since launch: 178.9p*
- * 180.9p after the 2p dividend paid on 26 July 2024.

British Smaller Companies VCT 2

- Average over last 5 years: 4.6p
 - Average over last 10 years 4.6p
 - Cumulative since launch: 87.75p*
- * excludes a 1.5p dividend to be paid on 1 November 2024

Tax Efficient Review Track Record rating: 34 out of 40

Manager

In 2022 YFM celebrated its fortieth anniversary and has now realised over 150 investments. The investment manager has also developed relationships with CEOs and NEDs of these businesses as well as their advisors across the UK regions.

The investment team has grown over time and now comprises 40 investment/portfolio directors/associates. This is one of the largest VCT teams in the UK and gives a substantial presence in each region giving the manager a larger reach than most. YFM says that this gives access to investment opportunities that many others do not see and which are not the subject of private equity auctions.

YFM has five offices providing national coverage and local presence and through which deals can be sourced. Over the last few years most deals have been sourced through the YFM network and from the network of Chairmen and CEO's that they work with on a regular basis. The local offices see proprietary deal flow from local banks and intermediaries.

There has also been a recent expansion of the London office to a new location near Goodge Street for the expanding London team, as well as new offices in Leeds.

Not only must an investment manager obtain deal flow but it must have a team resourced to invest at the correct rate to satisfy the VCT rules. The 30% and 80% investment rules require that by the end of the first accounting period after launch that 30% of the fundraised must be invested and by the end of the third accounting period, and in every accounting period thereafter, the VCT must have at least 80% of its funds invested in qualifying holdings. In this case both VCTs have a preferred investment level of around 85% or more.

As well as VCTs, YFM manages a number of Limited Partnership Funds, details of which are included in Table 2.

The growth capital funds, that invest alongside the VCTs, are dedicated to providing the replacement capital element of the transactions which the VCTs are unable to provide. The funds invest on the same economic terms as the VCTs. The buyout funds provide funding where the VCTs are completely precluded;

focusing on supporting entrepreneurs, owners and management teams of small businesses throughout the UK.

The VCT position as to funds needing investing by the team is as follows.

Prior to the raising of these monies, the liquid funds of the two VCTs at 31 March 2025 are forecast to total c.£110m. The initial offer, assuming the full over allotment facility is utilised, will raise around £72m after costs making a total of £182m.

With a NAV post fundraise of £487m this equates to approximately 37% of the NAV in liquid funds at 31 March 2025. In considering the deployment of cash, it should be noted that buybacks have recently been at historical lows, but in 2024 there has been a step towards levels more commensurate with longer term trends, and it would not be unreasonable for future annual levels to increase by c.£5m. In addition, with an enlarged portfolio there is likely to be increased demand for further investments into this portfolio, which may increase the annual investment deployment envisaged of c. £45m.

The VCTs will likely always retain a level of cash of 15-20% of NAV or around £73m-£97m. This would leave cash to invest of £85m-£109m from 31 March 2025 onwards.

Between the two VCTs around £35m per annum is currently utilised for the share buy-back scheme, net operating costs and dividends (net of amounts reinvested from the Dividend Re-investment Scheme). This would leave a net £50m-£74m to invest. This compares to investments (new and follow-on) of £82.7m in the 2 years to 20 September 2024, of which £39.2m has been invested in the past 12 months. (figure supplied by YFM).

The LP funds position as to funds needing investing by the team is as follows:

The LP funds work differently. YFM tell us that generally they would seek to invest 75-80% of the fund total over a three year period.

Growth Funds I and II are closed for new investment and Growth Fund III is nearing the end of its investment period and is anticipated to invest £2m over the next year. £7.8m has been invested to date. YFM tell us that the

Growth Funds might undertake small follow-on investments alongside the VCTs.

Buyout Fund I has approximately £4m, and Buyout Fund II £16m available for further investments into the current portfolio. For Buyout Fund II, of the total fund of £95.5m, the amount for new investment is £72m-£76m of which £33m has been invested to date, so YFM have £43m to invest over 2 years.

Between funds, this suggests the need for an average investment rate of £45-£57m per annum (£25m-£37m for the VCTs, assuming a deployment rate over 24 months of the calculated above figures of £50m-£74m of VCT cash; £22m for BFII).

YFM tell us that they invested £60m in new investments and £29m in follow-on in the 12 months October 2023 to 30 September 2024, a total of £89m.

In our view this indicates that the team are well resourced to invest the funds being sought.

The principal members of the investment team are:

- David Hall (Executive Chair, 35 years' experience, ex Enterprise plc and PwC)
- Eamon Nolan (Managing Director, 25 years' experience, ex-3i)
- David Bell (Director – Head of Portfolio, 25 years' experience, ex-3i)
- Marcus Karia (Director – CFO, 16 years' experience)

- Ian Waterfield (Director, Chief Operating Office, 22 years' experience)
- Jamie Roberts (Director, Chief Investment Offices, 21 years' experience)
- Jen Townshend (Chief Compliance & HR Officer, 15 years' experience)
- Steve Harrison (Head of Portfolio- North, 17 years' experience)
- Charlie Winward (Head of Portfolio- South 18 years' experience)

YFM continues to invest in its business, building specialisms in additional value creation roles such as a Head of Talent, Revenue Operations and an ESG & Sustainability Manager over the past 12 months. These roles have been brought in to further enhance and complement the Investment and Portfolio teams. Table 10 shows the key team members.

The VCT directors of the VCTs are:

BSC VCT

- Rupert Cook – Chair
- Adam Bastin
- Jonathan Cartwright
- Purvi Sapre

BSC VCT 2

- Barbara Anderson - Chair
- Asif Ahmed
- Roger McDowell

Tax Efficient Review Team rating: 18 out of 20

Costs

The costs for the British Smaller Companies VCT are as follows:

- Initial costs:** The Initial Application Fee is 3.0 per cent of the Application Amount and is paid by the relevant Company to the Manager. In consideration, the Manager has agreed to meet the costs associated with the Offers, save for commissions payable to execution only brokers, on behalf of the Companies and the Manager will, therefore, be responsible for all of these costs. For investors who apply direct i.e. not via a broker or advisor the initial cost is 3.5%. Applicants who subscribe for the first £25m in the fundraising will receive additional shares equivalent to 0.125% of their application amount. of their application amount, the costs of which will be met by the Manager. In addition, to the extent possible, Applicants will receive additional New Shares equivalent to receiving a c. 3.35 per cent (this rate is set by the BSC VCTs' receiving agent's banking provider and is subject to change) rate of return on funds awaiting allotment, calculated by reference to the number of days between receipt of cleared funds and the date of allotment
- Annual management fee:** 1% of surplus cash 2% of other assets. The annual fee for the twelve months to 31 March 2023 was £3,179,000, equal to 1.68 per cent of the average NAV.

The annual fee payable to the Manager is calculated as 1.0 per cent on all surplus cash, defined as all cash above £7.5 million. The annual fee on all other assets is 2.0 per cent per annum. This is calculated half yearly at 31 March and 30 September.

In the year ended 31 March 2024 annual operating expenses (including the management fee but excluding any payment of the performance incentive) were 1.85% (they are capped at 2.9% of Net Asset Value). At this level the costs are at the lower end of charges for generalist funds.

- Performance Fee:** 20% above the hurdle BSC has two hurdles, target levels of both Total Return (the "BSC Total Return Hurdle") and dividend ("BSC Dividend Hurdle"). Subject to meeting the BSC Total Return Hurdle, the Manager will receive an amount equivalent to 20% of the amount by which dividends paid per BSC share exceeds the BSC Dividend Hurdle,

multiplied by the number of shares in issue at the year end. The incentive fee in any financial year will be subject to a cap if the excess of dividends paid over the BSC Dividend Hurdle is greater than the sum of the excess of the Total Return over the BSC Total Return Hurdle divided by 1.2.

The Total Return Hurdle is increased annually by an RPI-adjusted 4.0 pence per BSC share. For the year ended 31 March 2025 the annual increase in the BSC Total Return Hurdle and the BSC Dividend Hurdle is 7.25 pence per BSC share.

No fee was paid in respect of the year ended 31 March 2024. As the Hurdles for the year ended 31 March 2025 have not been met to date, no accrual for a 2025 performance fee has been made at 30 June 2024.

The costs for the British Smaller Companies VCT 2 are as follows:

- Initial costs:** The Initial Application Fee is 3.0 per cent of the Application Amount and is paid by the relevant Company to the Manager. In consideration, the Manager has agreed to meet the costs associated with the Offers, save for commissions payable to execution only brokers, on behalf of the Companies and the Manager will, therefore, be responsible for all of these costs. For investors who apply direct i.e. not via a broker or advisor the initial cost is 3.5%. Applicants who subscribe for the first £25m in the fundraising will receive additional shares equivalent to 0.125% of their application amount. of their application amount, the costs of which will be met by the Manager. In addition, to the extent possible, Applicants will receive additional New Shares equivalent to receiving a c.3.35 per cent (this rate is set by the BSC VCTS receiving agents' banking provider and is subject to change) rate of return on funds awaiting allotment, calculated by reference to the number of days between receipt of cleared funds and the date of allotment.
- Annual management fee:** 1% of surplus cash 2% of other assets, The annual fee for the twelve months ending 31 December 2023 was £2,147,000, equal to 1.76 per cent of the average NAV.

The annual fee payable to the Manager is calculated as 1.0 per cent on all surplus cash, defined as all cash above £5 million, as the hurdle

has been met triggering a performance incentive payment. The annual fee on all other assets is 2.0 per cent per annum. This is calculated half yearly at 30 June and 31 December.

In the year ended 31 December 2023 annual operating expenses (including management fee but excluding any payment of the performance incentive) were 2.14% (they are capped at 2.9% of Net Asset Value). At this level the costs are at the lower end of charges for generalist funds.

- **Performance Fee:** 20% above the hurdle BSC2 also has a hurdle but different to that of BSCVCT. It's the aggregate of cumulative dividends paid as at the last Business Day in December each year and the average of the middle market price per BSC2 Share on the five Business Days prior to that day must exceed 120 pence per BSC2 Share (the "BSC2 Hurdle"). The fee is 20% of the excess over this amount multiplied by the number of BSC2 Shares in issue and the BSC2 Shares under option (if any). Once the BSC2 Hurdle has been exceeded it is reset at that value going forward, which becomes the new BSC2 Hurdle. For the year ending 31 December 2023, the hurdle was 137.25 pence per BSC2 Share

As at 31 December 2023 the total of cumulative cash dividends paid and the Share Price was 140.75 pence per ordinary share. Consequently the Hurdle was exceeded and a performance related incentive of £1,601,000 for the year ended 31 December 2023 was payable

From 1 January 2024 an amended scheme is in force. The Hurdle for each financial year will be increased by an agreed percentage of the corresponding Share Price for each of the five years commencing with 1 per cent for the

year ending 31 December 2024 and increasing by an additional 1 per centage point per year until the year ending 31 December 2028 when the increase to the Hurdle will be 5 per cent of the corresponding Share Price. Following the changes, the Hurdle for the year ending 31 December 2024 was reset at 141.295 pence per ordinary share

No incentive fee for the year ending 31 December 2024 is accrued in the accounts of BSC2 as at 30 June 2024

In addition to the fees described above, which are paid by the VCTs, the Manager receives advisory fees in connection with new investments which are paid by the relevant investee company. In respect of each of the VCTs there is an aggregate annual cap applied to these fees for new investments of 3 per cent and for further investments of 2 per cent, with any fees above this cap being payable to the VCTs. Where expenses have been incurred and the investment does not proceed, the Manager pays any abort fees. The Manager also receives monitoring or non-executive director fees from unquoted portfolio companies. In respect of each of the VCTs these fees are capped at a maximum of £40,000 per annum for an unquoted company.

The aggregate of these fees received by the Manager in the twelve months to 31 March 2024 was £1,535,000, of which £289,000 was borne by the two BSC VCTs.

Tax Efficient Review Cost rating: 8 out of 10

Conclusion

Venture Capital Trusts have been in existence since 1996 and were introduced by the then Chancellor of the Exchequer, Kenneth Clarke. They were designed to help increase investment into earlier stage UK companies, and whilst there have been a wide number of changes to VCTs over the past 28 years, one can imagine that the Chancellor had something like the British Smaller Companies VCTs in mind when VCTs were first introduced.

The British Smaller Companies VCT first launched at the outset of the VCT market in 1996, with the second VCT following in the year 2000, and they have been a success story for VCTs. They currently have a combined level of assets under management of £415m, and have paid a total of 180.9p per share in dividends from the first British Smaller Companies VCT and 87.75p per share from the second British Smaller Companies VCT.

They have also championed regional investing over the years, with offices in Leeds, Manchester, Birmingham, Reading, as well as London. Under the stewardship of long term manager David Hall, the team at YFM have grown to over 60 people, of which 40 are responsible for sourcing and due diligencing investments.

As can be seen in the Track Record section of this report, the British Smaller Companies VCTs are one of the most consistent VCTs for delivering returns to shareholders within the generalist VCT peer group. They have also managed to achieve a number of profitable exits in the past 12 months, from investee companies such as Displayplan (£2m in 2012 to £19m return in 2024), KeTech (£3.9m in 2015 to £8.1m in 2024), MacroArt (£2.1m in 2014 to £4.1m in 2023) and e2E (£1.5m in 2017 to £3.7m in 2023). Profitable exits are welcome at any time within a VCT, but these are impressive given the general paucity of profitable exits across the VCT industry over the past 3 years.

With this new offer the British Smaller Companies VCTs are returning for a relatively conservative £50m fund raising (with a £25m over-allotment facility). The track record these VCTs have delivered for long-term shareholders, combined with the regional focus of helping the UK's SME industry mean that we expect this offer to be popular with advisers. It also means that Kenneth Clarke can most likely look back at what was instigated in 1996 with a certain level of pride, that VCTs like British Smaller Companies are still performing all these years later.

Tax Efficient Review rating: 89 for a generalist VCT with a track record.

Table 8: BSC VCTs combined unquoted holdings analysis for Tax Efficient Review as at 30 June 2024

Investee name	Amount invested	Current Value	Date of this investment	Syndicated	Lead investor	Structure of investment	Industry sector	Financing stage	Valuation method	Multiple of cost
Ketech	£20,000	£2,220,000	01/11/2015	Y	Y	Equity	Tech-enabled Services	Scale-Up	Earnings: Uplift in value, manager valuation based on earnings multiple	111.0
ACC	£365,127	£8,845,826	21/11/2014	Y	Y	Equity	Business Services	Scale-Up	Earnings: Uplift in value, manager valuation based on earnings multiple	24.2
Matillion	£3,233,822	£44,413,000	29/11/2016	Y	Y	Equity	Data	Scale-Up	Revenue: Uplift in value, manager valuation based on revenue multiple	13.7
Vuealta	£1,042,455	£4,255,711	22/09/2021	Y	Y	Hard Participating/ Loan	Tech-enabled Services	Scale-Up	Revenue: Uplift in value, manager valuation based on revenue multiple	4.1
Teraview	£753,998	£2,200,000	10/04/2017	Y	N	Hard Participating	Life Sciences	Growth	Price of recent investment	2.9
Unbiased	£9,326,998	£23,149,000	19/12/2019	Y	Y	Hard Participating	Tech-enabled Services	Scale-Up	Revenue: Uplift in value, manager valuation based on revenue multiple	2.5
Traveltek	£2,879,426	£5,921,662	18/10/2016	Y	Y	Hard Participating	Application Software	Growth	Price of recent investment	2.1
Vypr	£5,499,895	£9,909,847	07/01/2021	Y	Y	Hard Participating	Tech-enabled Services	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.8
Automate Pro	£3,708,493	£5,861,517	22/12/2022	Y	Y	Hard Participating	Cloud and DevOps	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.6
Sharpcloud	£5,961,904	£9,276,123	15/10/2019	Y	Y	Hard Participating/ Fixed Return	Data	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.6
Force 24	£6,500,154	£9,635,091	20/11/2020	Y	Y	Hard Participating/ Fixed Return	Application Software	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.5
Outpost	£9,583,333	£14,177,000	12/02/2021	Y	Y	Hard Participating	New Media	Scale-Up	Revenue: Uplift in value, manager valuation based on revenue multiple	1.5
Summize	£4,250,000	£6,233,983	24/10/2022	Y	Y	Hard Participating	Application Software	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.5
EL Support Services Limited	£1,000,000	£1,486,000	04/04/2015	N	Y	Equity/Loan	Investment Companies	Early Stage	Net assets	1.5
OC Engineering Services Limited	£1,000,000	£1,456,000	04/04/2015	N	Y	Equity/Loan	Investment Companies	Early Stage	Net assets	1.5
Elucidat	£7,100,685	£10,175,385	07/05/2019	N	Y	Hard Participating	Application Software	Scale-Up	Revenue: Uplift in value, manager valuation based on revenue multiple	1.4
Tonkotsu	£3,980,067	£5,568,249	10/06/2019	Y	Y	Hard Participating	Retail & Brands	Scale-Up	Earnings: Uplift in value, manager valuation based on earnings multiple	1.4
Workbuzz	£4,294,982	£5,929,521	20/06/2023	Y	Y	Hard Participating	Application Software	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.4
GEEIQ	£3,930,002	£4,998,645	13/09/2023	Y	Y	Hard Participating	Data	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.3
Xapien	£2,899,998	£3,529,958	31/03/2023	y	y	Hard Participating	Application Software	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.2
Biorelate	£2,599,997	£2,844,017	28/11/2022	Y	Y	Hard Participating	Application Software	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.1
Frescobol	£3,000,000	£3,440,011	20/03/2019	N	Y	Hard Participating	Retail & Brands	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.1

Table 8: BSC VCTs combined unquoted holdings analysis for Tax Efficient Review as at 30 June 2024

Investee name	Amount invested	Current Value	Date of this investment	Syndicated	Lead investor	Structure of investment	Industry sector	Financing stage	Valuation method	Multiple of cost
Plandek	£5,900,500	£6,738,476	14/10/2022	Y	Y	Hard Participating/ Soft Participating	Cloud and DevOps	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.1
DrDoctor	£5,942,451	£5,942,000	03/02/2023	Y	Y	Soft Participating	Application Software	Scale-Up	Revenue: Uplift in value, manager valuation based on revenue multiple	1.0
Fuuse Ltd	£4,999,993	£5,000,000	31/05/2024	Y	Y	Soft Participating	Software	Growth	Price of recent investment	1.0
Ohalo Limited	£2,775,503	£2,775,000	10/06/2024	Y	Y	Hard Participating	Software	Early Stage	Price of recent investment	1.0
Panintelligence	£2,500,029	£2,611,000	26/11/2019	Y	Y	Soft Participating	Data	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.0
Quality Clouds	£6,526,168	£6,549,000	04/05/2022	Y	Y	Hard Participating/ Soft Participating	Cloud and DevOps	Growth	Revenue: Uplift in value, manager valuation based on revenue multiple	1.0
Spotless Water Limited	£3,638,843	£3,639,000	21/06/2024	Y	Y	Hard Participating	Business Services	Growth	Price of recent investment	1.0
SH Healthcare Services Limited	£1,000,000	£1,006,000	04/04/2015	N	Y	Equity/Loan	Investment Companies	Early Stage	Net assets	1.0
NB Technology Services Limited	£1,000,000	£930,000	04/04/2015	N	Y	Equity/Loan	Investment Companies	Early Stage	Net assets	0.9
Wooshii	£7,739,208	£4,492,000	17/05/2019	N	Y	Hard Participating	New Media	Growth	Write-down 26% to 50%	0.6
Arcus	£3,050,009	£1,650,145	11/05/2018	Y	Y	Fixed Return	Application Software	Scale-Up	Write-down 26% to 50%	0.5
Relative Insight	£7,000,008	£2,479,453	25/03/2022	Y	Y	Hard Participating/ Fixed Return	Tech-enabled Services	Growth	Write down 76% to 100%	0.4
Eikon	£1,250,000	£312,213	26/03/2018	N	Y	Equity	New Media	Scale-Up	Write down 76% to 100%	0.2
Sipsynergy	£4,699,279	£1,107,402	30/06/2016	Y	Y	Hard Participating	Cloud and DevOps	Growth	Write down 76% to 100%	0.2
SP Manufacturing Services Limited	£1,000,000	£154,000	04/04/2015	N	Y	Equity/Loan	Investment Companies	Early Stage	Net assets	0.2
B2M	£3,163,502	£	14/10/2016	Y	Y	Hard Participating	Application Software	Growth	Write down 100%	0.0
Immunobiology	£2,699,039	£	01/09/2015	Y	N	Hard Participating	Life Sciences	Early Stage	Write down 100%	0.0
Intamac	£1,206,746	£	01/12/2015	Y	Joint lead	Hard Participating	Tech-enabled Services	Early Stage	Write down 100%	0.0
TOTALS	£149.02m	£230.9m								1.5

Source: YFM Equity Partners LLP

Table 11: Matrix of individual responsibilities YFM Equity Partners LLP 30 June 2024 where members spend at least 50% of their time on Deal origination and New deal doing and have at least three years involved with VCTs

NAMES	Jamie Roberts	David Wrench	Mike Clarke	Dan Freed	Roshan Puri	Adam Hart	Stephen Murray	Tiffany Young	Laura Sisson	Matt Gordon- Smith
VCT WORK										
Deal origination %	20%	30%	30%	30%	30%	30%	30%	65%	30%	30%
General enquiries %										
New deal doing %	40%	40%	40%	40%	40%	40%	40%	10%	40%	40%
Sitting on Boards/ Monitoring %	5%	5%	5%	5%	5%	5%	5%		5%	5%
Fund raising %										
Internal issues %	10%							10%		
Exits %										
NON VCT WORK										
NonVCT work %	25%	25%	25%	25%	25%	25%	25%	15%	25%	25%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Years in venture capital	12	4	8	11	8	8	3	8	4	14
Years involved with VCTs	12	4	6	6	8	6	3	3	4	14
Years with current team	12	4	6	6	4	6	3	3	4	2

Source: YFM Equity Partners LLP