BRITISH SMALLER COMPANIES VCT PLC & BRITISH SMALLER COMPANIES VCT2 PLC

TARGET MARKET, PRICE ASSESSMENT & DISTRIBUTION STRATEGY (EXTERNAL DISTRIBUTION)
SEPTEMBER 2026

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 to:

- meet the identified needs, characteristics and objectives of customers in the identified target market
- not adversely affect groups of customers in the target market, including groups with characteristics of vulnerability, avoiding 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 listed fund recognised for distribution to Retail customers.
Knowledge and experience	**Basic Investor** Investors having the following characteristics: • 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. **Informed Investor (Direct and XO)**	The product is distributed through three channels carrying different levels of investor support: Advised (a financial adviser assesses suitability), Direct (the investor applies directly with no advice given), and execution-only (a third-party platform, outside YFM's control). Knowledge and experience requirements are set accordingly: Basic Investors are expected to use the Advised channel; Direct and execution-only are intended for Informed Investors capable of assessing the product's suitability for themselves.

	Investors having the following characteristics: • Knowledge to understand the investment proposition and associated risks without the support of an adviser, since no advice or appropriateness assessment is provided in these channels.	
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	**High** The product is compatible with investors who are willing to accept a high level of risk in pursuit of higher long-term returns. This investor can tolerate material volatility and the possibility of substantial capital loss and is willing to accept a lower degree of liquidity in exchange for long-term appreciation.	The product carries a high level of risk, reflected in the KID's classification of 6 out of 7. At individual portfolio company level risk is elevated by their unquoted early-stage nature. This is tempered by the VCTs spreading capital across a diversified portfolio and the product having 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: • Tax efficient investing • Portfolio diversification • Investments which provide income • Supporting British innovation & the economy **Minimum recommended holding period**	This product is VCT qualifying and therefore offers tax efficient investing, alongside the opportunity for income in the form of dividend payments.

	The minimum recommended holding period in years is five years.	
Negative target market	Investors who do not meet the criteria set out above fall into the negative target market. Specifically: • 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	Those types of investors listed are unlikely to achieve good outcomes and should not invest.
Distribution approach	**Advised** Arranged via a financial adviser or wealth manager. The adviser assesses suitability for the client. Product should only be sold with advice to Basic Investors. **Direct** Investors apply directly to the Companies and the Receiving Agent. No investment, legal or tax advice is given by YFM, the Receiving Agent, or the Promoter through this channel. Intended for Informed Investors. **Execution-only (third-party platform)** Applications via a third-party broker or platform. YFM does not distribute through this channel directly and has no visibility of, or control over, the advice or appropriateness practices applied by the platform. YFM recommends investors seek independent financial advice.	YFM is the manufacturer of the product and does not itself distribute to retail investors. For Direct applications, the Receiving Agent processes applications without giving advice. This is consistent with the product's status as a readily realisable, non-complex security meaning no appropriateness assessment is required. Investors applying Direct are expected to be Informed Investors able to assess the product unaided. For Advised sales, the adviser is responsible for assessing suitability. For execution-only sales via third-party platforms, YFM has no role in distribution and no ability to assess or influence the investor's knowledge, experience, or receipt of advice.

2. MANUFACTURER RESPONSIBILITIES

Manufacturer collaboration	The Firm is not considered a co-manufacturer of the product or service. It is the sole manufacturer.

3. PRICE AND VALUE ASSESSMENT

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.	
Price and costs of the product	**Financial Costs:** **Entry fee**: 3% (3.5% for direct applications & 5% for execution only) **Management fee**: 1.25% of surplus cash, 2% of other net assets **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. There are no exit fees payable. **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.
Distributor costs:	We do not specify or set the final price paid by the customer.
Benefits of the product	- 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	- 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	The typical costs of managing the product are as follows: - 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 customers	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.
Having considered the above factors, we conclude 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	• 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: • 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: • 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: • 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, 20% 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