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Tax-Advantaged Investments

VCT Review

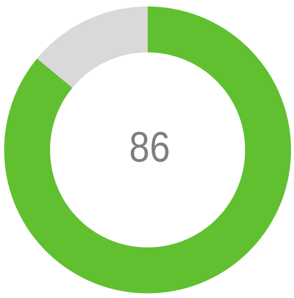
Amati VCT 2 plc

December 2017

Amati Global Investors is seeking to raise up to a total of £10 million in each of Amati VCT plc and Amati VCT 2 plc, via New Ordinary Shares, with subscriptions possible for the 2017/18 and 2018/19 tax years. Amati VCT 2 plc is raising up to a further £4 million to be allocated to the Dividend Re-Investment Scheme and has an over-allotment of £10 million.

The offer is open to new and existing shareholders and launched on 30 October 2017.

Score Card



Fund Type	Evergreen
VCT Strategy	AIM
Amati VCT 2 AUM (Pre-offer)	£55.6m
Manager AUM	£192m
VCT Risk Level	Low-Medium Risk
Potential for Large Distributions	Medium
Potential for Consistent Distributions	Medium

Investment

Minimum individual subscription	£4,000*
Maximum investor subscription	£200,000
Early bird discount	No

*Minimum subscription is £4,000 per VCT or £2,500 each if applying for shares in both VCTs

Contents

Closing Dates

2017/18 tax year	4 Apr 2018
2018/19 tax year	31 Aug 2018

Risk Warning for VCT Schemes

Individuals should always read and bear in mind the risk warning notices that are included within providers' investment offer literature/documentation, including prospectuses, information memorandums, securities notes, brochures and other related marketing literature. Whilst the following list is not exhaustive, some of the main risks to be aware of include:

- Investments are in small, unquoted companies and should be considered as high risk;
- An investment in a VCT should be viewed as a long-term investment and should only be considered if you can afford to tie up capital for long periods;
- Legislation, along with the nature and level of tax relief is subject to change. There can be no certainty that investments will be eligible or remain eligible for VCT Relief;
- Historic investment performance may not be a guide to future performance, and any given investment may fail completely causing you to lose the full amount invested;
- Managers of VCTs will have inherent conflicts of interest as a result of *inter alia* existence of legacy holdings, investments in other funds managed by the same manager, the potential to earn performance related fees and the existence of different schemes with identical or very similar mandates;
- VCT investments should only be undertaken by sophisticated investors who understand, and have given careful consideration to, the underlying investment strategy and associated risks. For help in determining potential investment suitability, professional advice should be sought;
- There can be no certainty that VCTs will continue to pay out their current level of income or indeed any income;
- Investors will usually not be eligible for compensation if things go wrong;
- Although VCTs are listed there is generally little or no secondary market for the shares and investors are likely to be reliant on share buybacks to get their money back;
- In order to retain the tax benefits shares need to be held for a minimum of five years. Investors who are not able to commit to a five-year investment could consider investing through the secondary market which generally trades at a discount.

Executive Summary

Offer: Amati Global Investors Limited ("Amati" or "the Manager") is seeking via New Ordinary shares to raise up to a total of £10 million in each of Amati VCT plc ("VCT 1") and Amati VCT 2 plc ("VCT 2"). Amati VCT 2 plc is raising up to a further £4 million to be allocated to the Dividend Re-Investment Scheme and has an over-allotment of £10 million. The Offer launched on 30th October 2017.

Manager: Amati is a fund management business specialising in UK-listed small and mid-sized companies. Amati recently sold 49% of the business to Mattioli Woods, with an option for the wealth management and employee benefits company to purchase the remaining 51% at a future time. Amati's products include the VCT reviewed in this report, another similar Amati VCT plc ("VCT 1"), an AIM IHT Portfolio Service, as well as an Open Ended Investment Company ("OEIC"). As of September 30, 2017, Amati had total assets under management ("AUM") of roughly £192 million, increasing two-fold since 2015. The Manager notes this has been partly due to a result of strong performance across funds and an effective sales approach.

Product: The VCT invests predominantly in AIM-quoted companies. The focus is on building/maintaining a diversified portfolio of small and medium-sized businesses with strong prospects for capital growth. The VCT holds between 55 and 60 stocks on average and as at November 2017, it had 61 holdings. The portfolio is constructed via a bottom-up stock picking approach. Sector exposures are a by-product of this process. Roughly, 8.7% of the total assets of the VCT is invested in the OEIC, the TB Amati UK Smaller Companies Fund ("the Fund"), which is also run by the Manager.

Summary Opinion: Amati is a consistently profitable organization staffed by a highly experienced team in managing both UK small company investment portfolios and operating in the tax-advantaged space. They have a detailed and thorough investment process in place. The move to shift the portfolio away from less liquid holdings and more towards those investments which are not only more liquid but in which the Manager has experienced more success, should serve to increase the chances of maintaining regular dividends. In addition, the recent decision to allocate a large portion of the non-qualified segment of the portfolios to the TB Amati UK Small Companies portfolio, as opposed to investing in one-off ideas from the Fund, will increase diversification and synergies among the VCTs and the TB Amati Small Companies Fund as detailed in the report.

Given the lack of a clear difference in investment strategy between the two VCTs, the Manager is considering to merge the two VCTs in 2018. The VCT performance ranked in the first quartile, it has achieved a respectable return and has been able to generate a consistent dividend stream over the last few years. The Manager expects to fully raise the target amounts and to be able to invest the proceeds reasonably promptly.

At the Manager level:

- Dr Paul Jourdan, CEO and Portfolio Manager, has extensive experience in managing funds in both UK Small Company sector (since 2000) and in the tax-advantaged space (since 2005);
- There exists some alignment of interests between the firm employees and investors, as each portfolio manager has invested in the various products;
- The team displays a high degree of continuity, which allows a greater emphasis to be placed on historical performance. The full investment management team has been together for the last five years while two members, Paul and Douglas, have worked together since 2009;
- The products are managed "as a team" although Paul Jourdan is the main portfolio manager. Whilst there are sector specialists, each portfolio manager has a generalist skill-set across all sectors and can serve as "shadow" back-up thus reducing potential "key man" risk issues;
- The firm is well capitalised, consistently profitable and has a stable cost base;
- The 49% stake of Mattioli Woods has allowed Amati to gain access to experienced board directors and central services to plc grade. While, the day-to-day operations of the Manager remain the same;

- Despite their small size, the proprietary information technology and marketing collateral are of institutional quality;
- Client service is highly responsive, the Portfolio Managers are highly approachable, and accessible if requested;
- The Manager has made a concerted effort to be transparent in all interactions.

At the Product level:

- The decision to move away from investing at the lower end of the liquidity spectrum , such as unquoted shares and convertible loan notes, will not only reduce the overall liquidity risk in the fund but will place more emphasis on the sector of the portfolios where the Manager has enjoyed more success. This should improve the potential for regular dividends to be paid;
- Using a majority of the non-qualifying portion of the portfolios for an investment in the TB Amati Small Companies Fund should increase overall portfolio diversification, expose the VCTs to the top performing Fund, and increase the overall synergies among the two products;
- Dividends have been paid consistently and above target, whilst the NAV per share has risen significantly since 2008;
- Investing in AIM listed shares means there is greater transparency in the NAV per share than for a VCT investing in unlisted securities.

Issues to consider

At the Manager level:

- The firm's assets under management are low and the number of products managed is small. Consequently, revenues are highly concentrated on the small number of products which leaves Amati highly exposed to any redemptions and/or changes in tax legislation;
- Mattioli Woods acquired a 49% stake in Amati, which was a sound business proposition to allow Amati to further grow and access Mattioli Woods' resources. However, investors should be aware that, as with any merger, there is a risk of a clash of cultures which could lead to a high turnover of staff;
- As a result of the firm's small size, there is no independent risk management function.

At the Product level:

- Given there is no clear distinction in investment strategy amongst the two VCTs, with the sole differences being in the legacy holdings, it is difficult for investors to pick between the two products which could lead to regret risk if one outperforms the other up to the point of merging;
- Risk management seems to be limited to diversification and position sizing, which could leave the VCT overexposed to certain sectors;
- Although there are a large number of positions, the largest holdings represent more than 5% of each VCT which means there is significant stock specific risk;
- The VCTs are exposed to the AIM market, which can be highly volatile. Since dividend targets are based on the NAV this may in turn lead to changes in dividend payouts;
- The investment in an in-house OEIC creates inherent conflicts of interest, which may not be managed fairly in the best interests of the VCT. However, the VCTs receive a full rebate on the management fee charged by the OEIC, and the non-qualifying investment policy gives the Boards plenty of scope to ask for a different strategy to be adopted if they so choose.

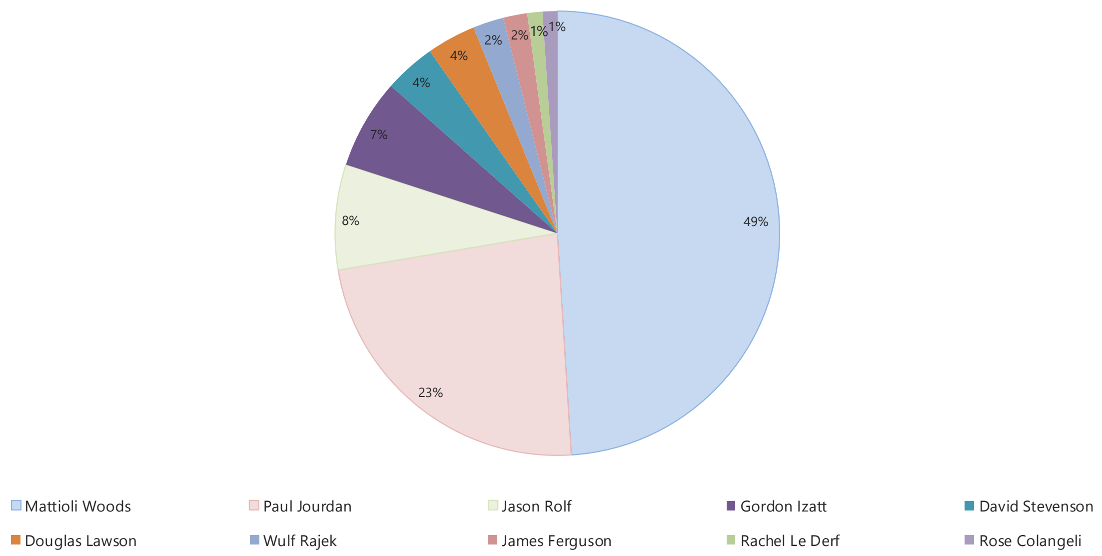
Manager Quality

Manager Profile

Amati Global Investors Limited ("Amati" or "the Manager") was established in January 2010, when Amati Global Partners LLP (set-up by the VCTs' lead fund managers, Paul Jourdan and Douglas Lawson) acquired the Amati VCTs' former fund manager, Noble Fund Managers Ltd ("NFM"). NFM was subsequently renamed Amati. In February 2017, Mattioli Woods purchased 49% of Amati for £3.3 million in a mixture of cash and shares, with an option to purchase the remaining 51% over the following two years.[1] Total assets under management amounted to approximately £215 million as of December 2017, increasing sharply from £116 million in the previous year.

CHART 1

AMATI GLOBAL INVESTORS LIMITED OWNERSHIP BREAKDOWN AS AT NOVEMBER 2017



Source: Amati Global Investors Limited

Amati's products include the VCT reviewed in this report, namely Amati VCT 2 plc ("VCT 2"), Amati VCT plc ("VCT 1"), an Open Ended Investment Company ("OEIC"), namely TB Amati UK Smaller Companies Fund, and the Amati AIM IHT Portfolio Service. In 2011, the Manager launched a quantitative futures fund, The Amati Systematic Trend Fund. The latter was liquidated in 2013 as the strategy proved to be not viable during an extended period of central bank quantitative easing and hence did not perform as expected.

The TB Amati UK Smaller Companies Fund (£95.3 million in AUM) has been managed by Dr. Paul Jourdan since 2000, and co-managed with Douglas Lawson since 2009 and David Stevenson since 2012. Its aim is to provide long-term capital growth through investment in a diversified portfolio of UK smaller companies[2].

The Amati AIM IHT Portfolio Service (£5.5 million in AUM) is a single Model Portfolio of BR-qualifying AIM stocks, which provides the template for the discretionary management of portfolios held by clients of wealth managers and other intermediaries. The stocks chosen for the Model Portfolio are those the Manager believes most likely to qualify for BR.

Although Amati is a relatively small firm, they have been in the tax-advantaged space for a significant period of time. The firm has been managing their VCT products since inception while Paul, the CEO, has been involved in this space since the original launch of VCT1, while at First State Investments in 2005. The firm

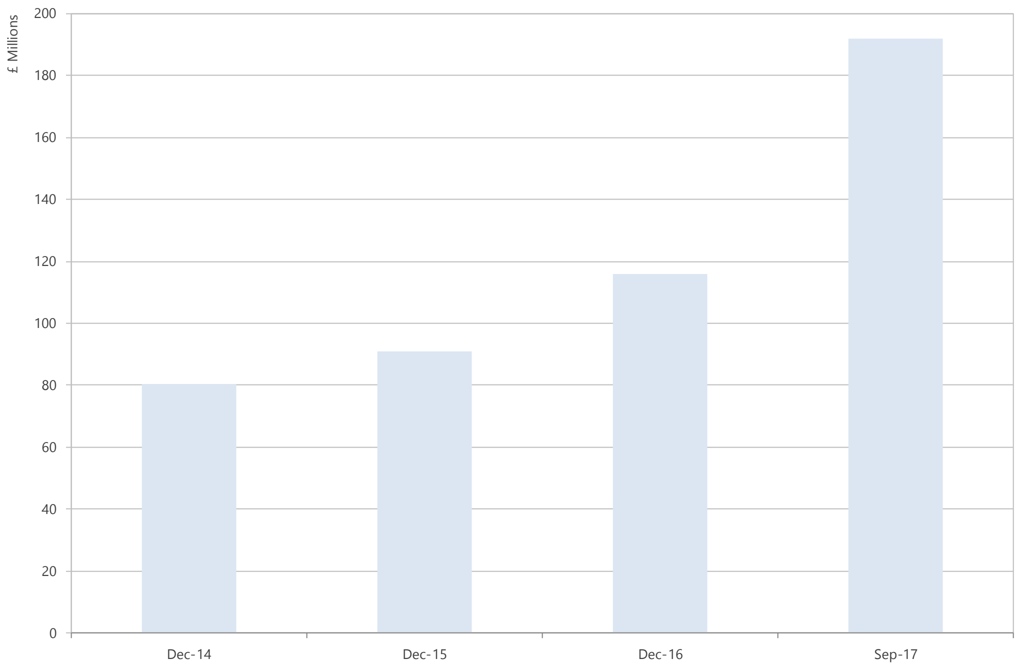
1 For more information, see https://www.mattioliwoods.com/latest-news/mattioli-woods-in-new-3-million-stakeholder-deal
2 The Fund is managed in accordance with the IMA sector classification, which requires that 80% of the portfolio be invested in the bottom 10% by value of listed companies domiciled in the UK. Its target universe includes the Alternative Investment Market ("AIM") and fully listed constituents of the Small Cap and Mid 250 indices

remains committed to this sector and intends to continue to focus on the growth of their VCT and IHT products.

Paul Jourdan is recognised in the industry for his expertise in UK smaller company investment, which is Amati's core specialty. The firm and the investment team have received numerous accolades for their performance of the Amati UK Smaller Companies Fund over the years, which is notable. Going forward, Amati intends to remain focused on their current product offering, leveraging their current team, infrastructure, and skill-set, although there is the possibility of a related specialist product, which might be launched in the long-term future.

The two VCTs have a considerable overlap in investment strategy and are only differentiated by the portfolio's legacy holdings; it is highly likely that both VCTs will merge at some point in 2018, although we review them both separately.

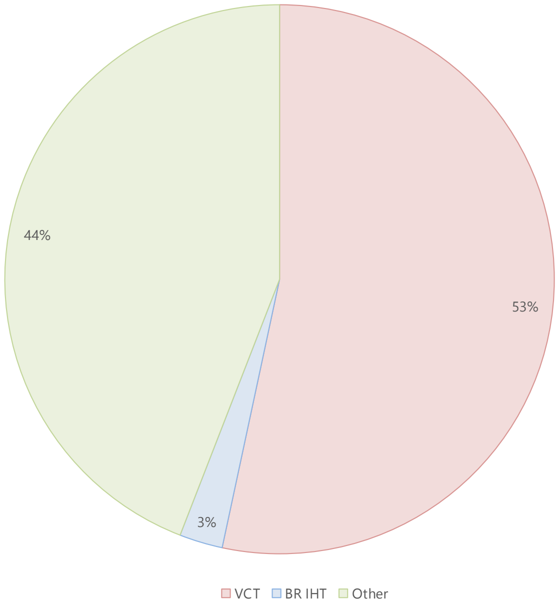
CHART 2:
FIRM AUM AS AT SEPTEMBER 30, 2017



Source: Amati Global Investors Limited; AllenbridgeIQ

The overwhelming majority of Amati's assets are represented by the two VCTs (£115 million or 53%) with the TB Amati UK Smaller Companies Fund representing the bulk of the remainder (£95 million or 44%). It is important to recognise, however, that both VCT 1 and VCT 2 are investors in the TB Amati Smaller Companies Fund, with a total of £10.4 million combined.

CHART 3:
ASSETS UNDER MANAGEMENT BREAKDOWN AS AT OCTOBER 31, 2017



Source: Amati Global Investors Limited; AllenbridgeIQ

Within the VCT universe, Amati ranks as one of the more established managers. If one takes into account the fact that Paul originally managed this VCT during his time at First State, the track record goes back even further. In terms of size of assets, within a universe of 99 VCT products tracked by Allenbridge, VCT 1 ranks just within the first quartile and VCT 2 ranks in the second quartile (although VCT 2 has performed more strongly overall in recent years).

Investor communication and reporting appear to be on par with the industry. Amati produces monthly factsheets for all funds, which are easily accessible on the company website. The site also contains access to various other items such as interim and annual reports, top 10 holdings and sector weightings by fund, as well as their Governance and Sustainability issues statement among others. In addition, Amati produces a quarterly newsletter that contains general performance information along with details highlighting certain portfolio companies. The investor relations/client servicing team has expanded since the last review growing from two to four people. This team is responsible for the sales and marketing function, responding to investor enquiries and to any feedback regarding the products or services of the firm.

Amati maintains a thorough policy for the handling of complaints if and/or when they arise. All complaints received are investigated immediately, reviewed by the CEO, and results are reported to the Amati Board. According to the Manager, they have received no reportable complaints as defined by the FCA and that there has also been none in respect of the VCTs. However in advance of MiFID II compliance, the Manager records every expression of dissatisfaction, no matter how trivial and regardless whose fault it is. There have been 12 such events over the last 12 months, which were classified as "lower level". There have been no referrals to the Financial Ombudsman Service.

Financial & Business Stability

Amati has been profitable since inception. Its net profit margins have been in the 20% range over the last 2 fiscal years. The revenues for the firm are comprised almost exclusively of management fees for the various funds. Consequently, the relative AUM of the various products as detailed below dictates the allocation of those fees. The VCTs contribute the majority to this revenue stream (77% of the total income) with the TB Amati UK Smaller Companies Fund coming next.

The revenues in 2014 included a one-time performance fee of £1.2 million. The performance fee had been in place, since 2010, but it was only in January 2014 that the NAV had increased to a sufficient size to trigger the fee. Administration expenses in 2014 included a charge for the one-off performance fee, the majority of which was distributed up to the parent company by way of a management charge. Under an inter-company agreement, management fees can be charged by the parent company to the subsidiary company. Hence, the profit margin remained in the 30% range after taking into account the performance fee and its associated charge. It is important to note that since 2014, the performance fee has been eliminated and consequently this was a one-off event.

Expenses comprised of trail commissions, back-office, and secretarial have remained constant at roughly £250,000 per annum. It is worth noting that whilst profit margins are reasonably strong they have been declining since 2013 although these numbers will not reflect the benefits of the strong fund raise in 2016. The balance sheet is strong with cash and cash equivalents ranging between £900,000 and £1.2 million over the last three years. The firm has no leverage or borrowings.

The Manager informed us that they take a conservative approach to forecasting when planning for firm financials. They assume no growth in AUM and often a decline in equity markets over a one-year time horizon. Under this scenario, they would make their planning decisions so as the year-end firm performance would be no worse than flat.

At the time of writing, Amati had 14 employees with the head office based in Edinburgh. The Manager is seeking to relocate to a larger office space within Edinburgh and plans to increase headcount by 3–5 people within the next three years. Since our last review, the Manager had closed the Tunbridge Wells office, as only one person was using the facility. Plans for new products remain under review, but currently there are no plans to increase the product offering. The product offering will remain VCT 1, VCT 2, TB Amati UK Small Companies Fund, and the IHT product.

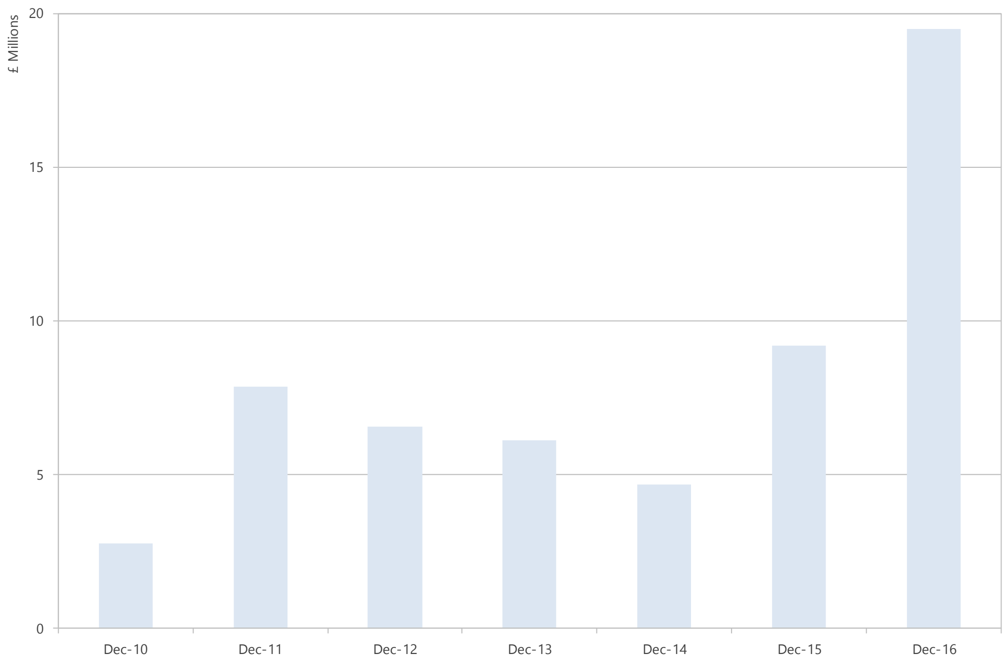
As discussed, in February 2017, a stake of 49% of Amati was purchased by Mattioli Woods on a "try before you buy" basis, with an option for the remaining 51% over the subsequent two years. While there has been no real change in day-to-day operations, although with possible access to plc-level central services when needed, there is a number of possible outcomes, from Mattioli Woods exercising their right to purchase the other 51%, to remaining a minority partner, or seeking to sell their stake.

TABLE 1:
KEY FINANCIAL METRICS SUMMARY

(£'000)	2016	2015	2014	2013
Revenues	1,758	1,567	2,861	1,506
Net income	391	433	952	572
Profit Margin	22%	28%	33%	38%
Total Balance Sheet Assets	1,033	760	801	614
Debt to Assets	nil	nil	nil	nil

Source: Amati Global Partners Limited annual reports, for the year ending December 31, 2016 (note the 2017 annual report was unavailable at the time of publishing)

CHART 4:
FUNDRAISING TRACK RECORD



Source: Amati Global Investors Limited; AllenbridgeIQ

Quality of Governance and Management team

The firm is governed by a Board of Directors comprised of Paul Jourdan (Chairman), Douglas Lawson, and Gordon Izatt, as well as the three new non-executive Mattioli Woods directors (Ian Mattioli, Simon Gibson, Mark Smith), who have joined the Board since their stake was finalised. The Board meets quarterly and its responsibilities include areas such as regulatory, compliance, personnel, and trading oversight.

As a MiFID II Investment Firm managing VCTs, an OEIC and an IHT Service, Amati are in scope for MiFID II, MiFIR and PRIIPs. The Manager has undertaken a comprehensive implementation programme and are on track to implement the new rules in advance of MiFID II and PRIIPs going live on 3 January 2018. We are pleased to see this advanced planning from a small asset manager and Amati note that they are ahead of their peers with regards to this. In addition, compliance with GDPR is well under way with Gordon Izatt appointed as the Data Protection Officer.

Andrew Lynn has recently taken on the role of Compliance Officer and attends board meetings. At the same time, Paul Jourdan relinquished his compliance role,thus segregating the compliance function from the executive. We are pleased to see that there is an independent compliance function. At the time of writing, Amati had met all FCA requirements and there had been no breaches, errors, nor compliance issues. Rosanna Colangeli, the Head of Finance & Operations, now works remotely in England but will be replaced in 2018, with her replacement already identified.

Amati strives to incorporate best practices into each area of their business. They have a risk management system in place to monitor and manage risks including a detailed compliance manual, which incorporates items such items as their conflicts of interest policy. All staff are required to read the material upon joining the firm.

Amati holds monthly management meetings and quarterly board meetings. Compliance with the standards they have set forth are monitored. Staff are reviewed regularly to assess competence. All marketing material is reviewed for compliance adherence and conflicts of interest are reviewed prior to making investments.

Amati makes use of their own internally developed portfolio management and execution system, which has pre and post-trade checks built in.

Given the size of the organisation, there are currently no additional oversight committees such as risk or compliance. In addition, Amati engaged National Regulatory Services (NRS), an Edinburgh-based compliance specialist firm, for advice in these matters.

Product Quality Assessment

Investment Team

The investment management team, led by Paul Jourdan, has extensive experience in the sector. Paul has been involved in global equity investing since 1998. He has been managing the TB Amati UK Smaller Companies Fund since 2000. Since 2009, Paul Jourdan and Douglas Lawson have co-managed that Fund receiving a number of accolades and awards along the way. A third portfolio manager, David Stevenson, joined the team in February of 2012 so the full team has been in operation for over five years. Prior to joining Amati, David has experience in UK equities investing at a boutique investment management firm he co-founded as well as managing the UK Opportunities small/midcap fund at SVM, which ranked in the top decile amongst its peers for the 5-year period from inception to late 2005.

In recent months, Douglas Lawson has taken the decision to move to a part-time position on the Investment Team in order to dedicate some of his time to a software services start-up, which is based on his ideas. He will continue to work on the VCT team and will devote 40% of his time to the role. An additional resource- a senior fund manager who is very experienced in AIM companies is due to join the team in February, on a full-time basis, thereby increasing the overall resources dedicated to the VCT in the aggregate.

The Manager has informed us that the VCTs are managed as a team. All decisions for investments to proceed must have a majority view at minimum, with the ideal being a consensus view. Each PM maintains a sector specialty based on prior work experience and associated skill-set acquired – Paul (Financials, Natural Resources, Healthcare), David (Chemicals, Industrials, Support Services, Utilities, Telecoms), and Doug (Consumer Goods and Services, Technology, Healthcare). While sector specialty is important, each PM does have "shadow cover" in their respective area in the event they need to be absent for any reason.

Investment Strategy & Philosophy

Amati VCT 2 plc was formed as a result of the merger of two of the Manager's smaller VCTs: ViCTory VCT (originally named Singer & Friedlander AIM VCT 3) for which it took over responsibility in March 2010 and Amati VCT 2 (formerly named Invesco Perpetual AIM VCT) which it took over in February 2011. The merger occurred on 8 November 2011. The strategy for VCT 1 and VCT 2 is broadly similar, with approximately 86% to 92% cross-holdings as both VCTs have co-invested pro rata according to NAV since 2010.

VCT 2 is invested solely in AIM-quoted companies. Although its mandate allows for an element of investing in pre-IPO companies, the manager has not been doing so over recent years. The manager aims to make long-term investments in innovative companies, which have the potential to become attractive AIM-quoted stocks. As the best of the investee companies grow, the portfolio naturally evolves to be biased towards the most successful companies, as those that have risen the most in value become the largest holdings. This long-term approach has allowed the manager over time to construct a well-diversified portfolio of small and medium-sized businesses with strong prospects for capital appreciation. The portfolio is constructed using a bottom-up approach driven primarily by fundamental analysis. Sector exposure is determined ex-post resulting from the team's investment decisions. Consequently, potential sector concentration could result.

The Manager looks to build the portfolio towards profitable growth companies. Due to the new rules on VCT-qualifying investments, there is an acknowledgement that new investments are more likely to be in pre-profit companies, albeit the team like to see a revenue history before considering investing in a company. Initial investments tend to be around £1.2-2.5 million, making a typical initial investment worth between 1% and 2% of the £120m combined NAVs of the Amati VCTs.

Opportunities are assessed on the basis of a scalable market opportunity with a foreseeable earnings potential, married to a management team that is both credible and has retained considerable equity in the business in order to demonstrate commitment to growing the business further. The team keeps an eye on companies' Price-Earnings Growth Ratio ("PEG") and hopes to maintain the discipline and selectivity to invest at a reasonable price on this basis. The Manager makes a point of distinguishing itself from some competitors on the basis of restricting the amount of money raised, so that pressure to make new investments does not compromise its commitment to discipline and value, and so that the existing holdings are not excessively diluted.

Despite the high valuations in the AIM market, at the time of writing - due in part to large amounts of IHT BR money pushing valuations higher- the Manager does still see some pockets of premium growth, even in the event of a possible slowing economy. The Manager has consciously looked to "run its winners", with the top 20 holdings accounting for 80% of the value of the portfolio, but frequently monitors and back tests its investments on the same basis of prospective investments to make sure that they still prove value, but looks to trim for diversification reasons if any one holding gets into double digits. Given that AIM listed companies are, by their nature subject to significant operational risks, such a high level of exposure to individual stocks is something that could lead to high volatility.

Since 2014, the non-qualifying part of the portfolio has been invested in the Smaller Companies OEIC in order to help achieve both diversification, dividend yield, and added returns. As of December 2017, this amounted to approximately 10% of the VCT's total assets, with the ideal being somewhere between 10-15% held in the fund in order to provide liquidity while also putting cash to work. It is important to note, Amati rebates the management charges from the OEIC to the VCTs in full.

In addition, as the investments initially made for the VCT mature, increase in profitability, and grow over time, they potentially become suitable candidates for the Smaller Companies Fund. The Manager, having analysed and monitored this company over the course of its life-cycle, will arguably be in a better position to evaluate its potential to add-value to the Smaller Companies Fund. One of the limitations of investing the qualifying portion of the VCT is that the Manager is restricted to primary market actions of the targeted company. To the extent that the investment performs well and continues to be viewed favourably by the portfolio manager, they are unable to increase the allocation. In this instance, the TB Amati UK Smaller Companies Fund provides the appropriate vehicle for this transaction. The VCT is then able to benefit from the investment both at the earlier risky phase of the company's life-cycle as well as later when the company has matured and de-risked somewhat. Hence, the resulting synergies should help enhance the overall VCT performance. The Manager informed us that 9.7% of the Smaller Companies Fund are holdings in common with the VCT.

The VCT is targeting a dividend yield of between 5%-6% per annum. Investing almost exclusively in quoted equities, the Manager does not have a stated target for the level of total return.

At present, the VCT is not employing the use of leverage and nor does it have any borrowing facilities in place.

In an effort to ensure liquidity in the Ordinary Shares, the VCT pursues an active discount management policy. More specifically, the VCT buys back those Ordinary Shares, which Shareholders wish to sell, currently at a discount of 6% to 9% to the prevailing NAV per share subject to having sufficient distributable reserves and available cash. Over its 12-year life, the VCT has always maintained distributable reserves and cash sufficient to be able to buy back all shares that have been offered.

Pipeline/Prospects and Current Portfolio

As of October 31, 2017, VCT 2 comprised assets of £55.6m. The bulk of the VCT is invested in listed equities primarily classified as maturing small companies (market cap £50 million–£250 million), profitable growth companies (market cap under £50 million), and pre-profit quoted equity holdings (market cap under £50 million) in decreasing order. The combined three segments comprise roughly 70% of the overall allocation in the two portfolios. The VCT contains 62 holdings.

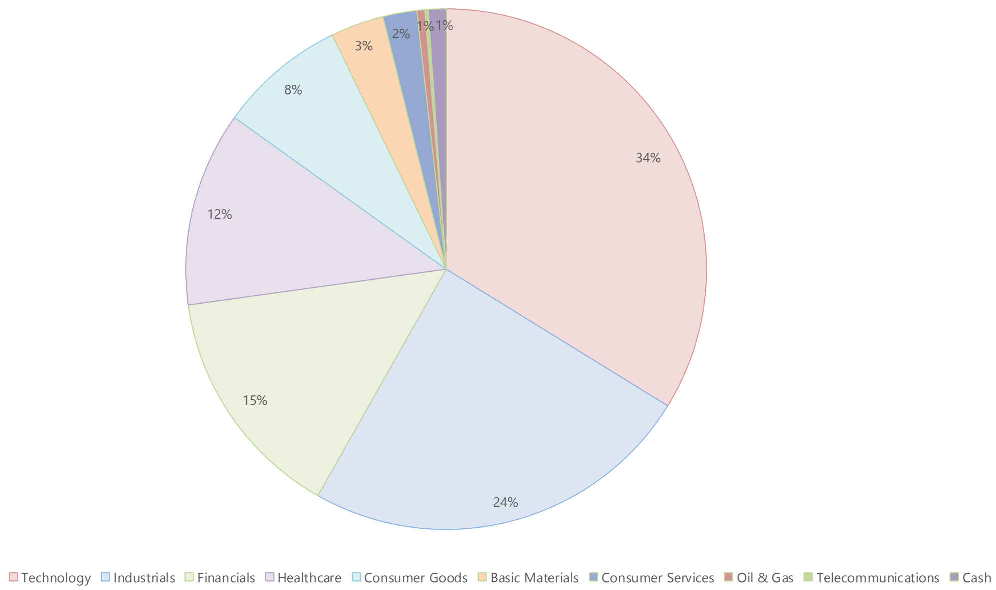
As mentioned above, the Manager is in the process of fundraising for both of their VCT products. There are 86% to 92% cross-holdings between the two VCTs as the Manager has been working to align their positions over time.

Although the two portfolios are very similar, there are a few differences in the top 20 holdings, which are significant. Amati VCT has holdings in Craneware and Sprue Aegis, which are not in Amati VCT 2, and Amati VCT 2 has holdings in Accesso and Brooks Macdonald, which are not in Amati VCT. All of these are well-established profitable AIM quoted companies.

In terms of sector weightings, both VCTs maintain significant exposure to Technology and Industrials. These two sectors account for approximately 56% of the overall allocation. As at 31 October 2017, VCT 2 held 1.1% in cash and its largest investment allocations as a proportion of total assets were as follows:

CHART 4:

AMATI VCT 2 PLC PORTFOLIO SECTOR BREAKDOWN AS AT OCTOBER 31, 2017



Source: Amati Global Investors Limited

There exists minimal differences with respect to sector weightings between the two portfolios. VCT 1 appears to be overweight industrials and underweight technology relative to VCT 2 in the amount 2% each. Sector differences are the consequence of the legacy holdings, as the VCTs co-invest with one another in the same deal.

The Manager informed us that they are currently assessing multiple potential investments in the pipeline. Given that the Manager makes almost all new investments on AIM, deals are sources from brokers, and can take the form of both IPOs and secondary placings of new shares. It is expected that the new money raised will be deployed within 12-18 months, and may include a small additional allocation the TB Amati UK Smaller Companies Fund to maintain its weighting at around 10% of NAV.

Debt to equity mix in the portfolios, as of October 2017, currently stands at 1.4% in VCT 2. The debt portion is comprised entirely a single convertible loan. As mentioned previously, this will not be a focus of the strategy going forward. Consequently, the debt portion of the fund will move to zero over time.

TABLE 2:
TOP 10 HOLDINGS OF VCT 2 AS AT JULY 31ST, 2017

Investee Company	Sector	Cost (£'000)	Valuation (£'000)
TB Amati UK Smaller Companies Fund	Financials	2,837	4,549
Keywords Studios plc	Industrials	437	4,008
Accesso Technology Group plc	Technology	221	3,615
Quixant plc	Technology	386	3,509
Frontier Developments plc	Technology	549	3,326
Tristel plc	Healthcare	439	2,195
Idox plc	Technology	239	2,075
GB Group plc	Technology	224	1,990
Brooks Macdonald Group plc	Financials	1,154	1,836
Ideagen plc	Technology	496	1,807

Source: Amati Global Investors Limited

Investment Process

TABLE 5:
INVESTMENT PROCESS DETAILED BY THE MANAGER

Investment Process	Description
Deal sourcing/origination	Ideas are generated internally through research and introduced to us by our sell-side contacts. If possible, most meetings offered are attended in order to effectively monitor companies and sectors. Following a meeting, the fund manager will carry out his own research using the following sources: company generated information such as annual reports; broker research notes; 3rd party industry sources; and internally generated models. We always like to form our own views on company management and business quality, and to use our own industry connections to sense check an investment case. We will use work done by sell side analysts of repute wherever possible, but generally ignore research from non-trusted sources. For little known companies we build our own models, and often conduct our own site visits. For larger, better-known companies we use brokers' forecasts and models as a starting point, and as a means of analysing the expectations in the market for a given company. It is often a better use of time to use the existing analysts' forecasts and extrapolate from their data rather than building models from scratch. However, while broker research can be a valuable source of information

	and opinion, it never acts as the sole determining factor in formulating our view on any given company or sector. Company meetings and conference calls are the core of our research process and we keep records of all our meetings with companies in online form. We have an extensive network of contacts among company executives, industry practitioners, analysts and brokers, and we will use this for follow up due diligence on companies that warrant the work. We adopt an approach that our research on a company is never finished, and will continually seek to learn more about the companies that we are following. We have a strong emphasis on keeping in close contact with company management, via regular updates, site visits and conference calls. We value input from the sell-side, maintaining diverse broker and analyst relationships and accumulating the knowledge of their individual strengths and weaknesses. We currently place deals through around 30 broker firms. As company meetings and conference calls are at the core of our research process, each member of the investment team will typically have contact with 30-40 companies per month, combining communication with existing investments (at least twice a year) and new opportunities. If it is a new company, we will want to gain a sound understanding of the business, its history, its funding, its management, and its shareholders. We will also assess the due diligence that has been carried out by the broker within the listing prospectus. When meeting with the management of a company, we will cover the financial position of the company in some detail, with a focus on adequate balance sheet strength. We will talk about differentiation of the company’s product or service, the competitive environment, industry dynamics, and technology development in the area. We will often ask for customer references to talk about the company with its customers, where possible. The high degree of company specific risk involved in smaller company investing means that the majority of our working time is spent on the study of the companies themselves, through management meetings, site visits and industry observation. Our aim is to find attractively priced, adequately financed and well-managed companies where the entire footprint of the business is positioned soundly on an industry poised for growth or recovery.
Deal filtering and selection	All deals are logged on Amati's proprietary 'Connex' database. The deal is allocated to the relevant fund manager, based on the company sector for initial appraisal. If the investment passes Amati's quality thresholds, a meeting with the management team will be arranged. We initially screen out companies, which we regard as too small, or inadequately financed. Thereafter, we have face-to-face meetings or conference calls with company management teams prior to investment. We carry out around 100 company meetings and conference calls per month (c.8 per manager per week). We occasionally undertake site visits. We scrutinise in detail company accounts, particularly cash flow and accounting policies, as part of our selection process. We look for

	companies that are financed appropriately for the nature, maturity and cyclicality of their business. A variety of valuation measures are used, including Market Cap and Enterprise Value based ratios, and these are compared across the peer groups and in relation to growth profile. The major third party systems we use include Fidessa for real time market data; FactSet for company analysis, screening and research; and StatPro for portfolio attribution and risk analysis.
Due diligence process	The management of the fund is team based, and the research and portfolio management functions are combined. This approach allows broader coverage of markets and stocks and enables them to develop an in-depth knowledge of a prospective investee company prior to initiating a position in the stock. Although there is inevitably some crossover, due to the collaborative nature of the process, individual fund managers assume broad responsibility for originating deals and performing the initial due diligence across the following industry sectors: Paul Jourdan: Natural Resources; Financials; Healthcare Doug Lawson: Consumer Goods; Consumer Services; Technology, Health Care David Stevenson: Industrials; Chemicals; Support Services; Telecoms; Utilities Individual managers have broad responsibility for industry sectors, and their investment conclusions are disseminated to the rest of the investment team by email and at the weekly portfolio review. Managers must present a detailed investment case and a clear rationale for their recommendation, and only when consensus is reached would approval be given for a trade to be made. Typically the fund managers will undertake the following: • review of management presentation • review of broker research • review of pathfinder document (if IPO) The managers will also perform valuation analysis by comparing the potential investment against quoted peers and comparable transactions. A financial model may also be built. The managers will frequently speak to independent industry experts and the non-executive directors of the company.

Source: Amati Global Investors Limited; AllenbridgeIQ

Allenbridge view the investment process too be thorough and allows Amati to view plenty of AIM investments. The process has a good level of due diligence and governance around the decision-making. The Manager has informed us that all investments made have been allocated on a pari-passu basis between the two VCTs for the last four years and this will continue to be the process going forward.

Each VCT has its own board of directors. The boards meet 4 times per year where they cover administrative issues, portfolio holdings, and performance. The Manager has informed us that there is frequent informal contact with the board members and the portfolio managers like to use them to discuss ideas regarding the funds.

The decision to allocate a significant portion of the VCT into the OEIC, also managed by the Manager, raises the concern that this strategy could have been enacted as a convenient way to raise the OEIC AUM. After querying the Manager, we were informed that Chris Moorsom, an ex-Director of the board of VCT2, raised the issue when the idea was generated. Both boards reviewed the options and explored other funds but decided to invest in the OEIC. In addition, the Manager's Compliance Manual details procedures for conflicts, co-investment, and allocations.

It is important to reiterate that after conferring with the boards of the two VCTs, they have concluded that, going forward, they will be shifting the portfolio composition away from investments on the lower end of the liquidity spectrum. This includes unquoted shares, convertible loans and preferred shares in unquoted companies, pre-profit quoted equity holdings (market cap under £50 million), and convertible loans in quoted companies. The resulting portfolio will not only be more liquid but will focused on investment sectors where the Manager has had a greater level of success.

Risk Management

Given the nature of the asset class, each investment's marginal contribution to the overall portfolio risk is highly idiosyncratic in nature. The relatively long holding period of the qualifying portion of the VCT also makes any attempt to actively manage risk, in the short-term, very difficult. Consequently, the bulk of the risk management techniques used can be attributed to diversification and position sizing.

Diversification is expressed on an individual holding basis although the policy of running with winners means that the VCTs have become more concentrated than is indicated by the targeted 55 -60 positions. Because the portfolios are built using a bottom-up process, the sector weightings are a by-product of the security selection decisions.

As mentioned earlier in the report, a typical position size is £1.2-£2.5 million (1%-2% of the combined VCT AUMs) on entry. A long-term holding that has appreciated over time could account for a weighting as high as 10% of the portfolio. The Manager has informed us that they will typically look to trim a position to the extent its weighting exceeds 10%, liquidity permitting. In our view a soft limit of 10% represents a very high level of stock-specific risk given AIM-listed companies do not have the checks and balances in place that a fully listed company has.

As a guide, the top 20 holdings currently account for around 80% of the portfolio, although this will fall with funds raised under the offers. Both funds will typically hold between 55-60 stocks.

AIM-listed companies, by their very nature, can be relatively illiquid. To the extent that the Manager did conclude that an exit was necessary, there exists a significant amount of liquidity risk albeit clearly a lot less than if the holdings were unlisted. Admittedly, the overall portfolio liquidity risk is improved somewhat by the non-qualifying portion of the fund being allocated to the TB Amati UK Smaller Companies Fund.

As noted above, there are some differences in holdings amongst the two VCTs. This is a result of legacy holding differences and positive performance of those holdings. To the extent that the holding performs well, it will remain in the portfolio. This is important because these differences could potentially cause performance disparities between the two VCTs. Given that these portfolio holdings differences will persist, performance differences will also persist to varying degrees. However, the co-investment policy, the overlapping investments between the two, and the prospect of a merger in the medium-term future, should dampen down the prospects of wildly diverging performance going forward.

Due to the small nature of the team, Amati says that risk management happens "in real time", with spreadsheets being updated continuously with price data. The appropriate analyst follows each sector and will raise discussion points when needed in order to monitor sector-specific risks. Companies will also be asked about risks and how they are managed when Amati meet to discuss interim and final results. If the fund is investing into a new company, the team will engage very actively with the company's management, and sometimes perform a site visit. In terms of drug discovery opportunities (in light of biotech being such a substantial part of the portfolio), Amati will generally seek to get involved in funding Phase III clinical trials, with Phase I or II being seen generally as too early stage to be able to achieve a good enough risk/reward ratio.

Amati has a fully documented cash management policy, which includes daily monitoring of cash balances, weekly reconciliation between bank accounts and the fund's accounting records at the custodian and underlying risk assessment of the bank holding the cash by the VCT board.

Key Features

The following fees (number 1-4) describe the fees directly payable by the investors and the product fees (number 5) incurred by Amati VCT 2 plc. All fees exclude VAT.

1. Initial and Ongoing Fund Management Fee

TABLE 5:
INITIAL AND ANNUAL MANAGEMENT FEES

Initial Fees	On-Going Annual Management Fees
1% (advised) or 3% (non-advised) of gross amount invested	1.75% of NAV per annum

Source: Amati Global Investors Limited

2. Early bird fees and other discounts

Existing shareholders and those investing through an authorised financial intermediary will be entitled to a 2% discount.

3. Subscription/Application Fees

TABLE 6:
SUBSCRIPTION/APPLICATION FEES

Type of Investor	Initial Application Fee (initial commissions/initial adviser charge)	Ongoing Application Fee (ongoing commission)
Direct Application (Investors who make an application, without using a financial advisor or 'execution-only intermediary')	3% of the Investment amount	-
Application through an adviser (Investors who make an application through a registered financial adviser with an ongoing fee)	1% of the Investment amount	-
Application through an adviser (investors who make an application through a registered financial adviser without an ongoing fee)	1% of the Investment amount	-
Application through an execution-only intermediary	1% of the Investment amount	0.375% per annum

Source: Amati Global Investors Limited

4. Performance Fee

There is no performance fee.

5. Product Fees

The detailed fees are listed in the following table.

TABLE 7:
FEE DETAILS

Fees	Details
Administration Charge	0.0%
Arrangement Fee (% of deal)	0.0%
Directors' Fees	0.0%
Running Cost Cap	3.5%
Recent Running Costs	2.7%
Running Costs	£933,000

Source: Amati Global Investors Limited

Performance

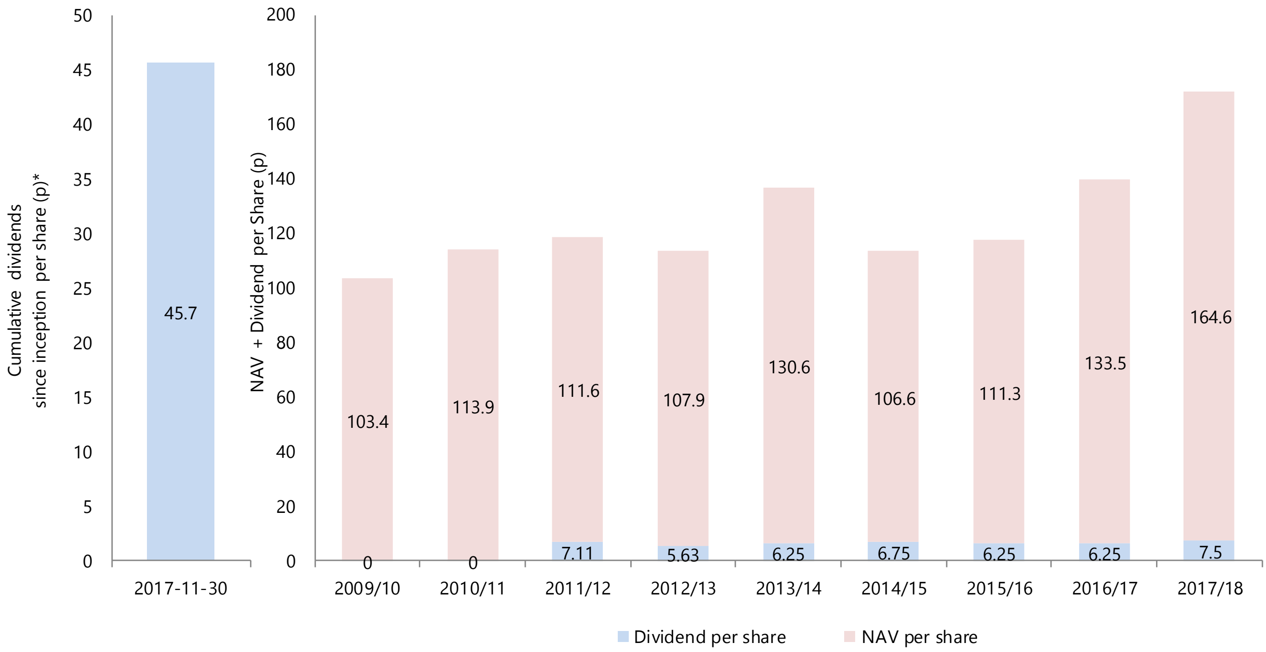
We note that since inception the manager has consistently paid bi-annual dividends. So far, in the current tax year Amati VCT 2 plc has paid two dividends: 4.25p in July 2017 and 3.25p in November 2017. This is in line with Amati's targeted dividend rate of between 5% and 6%. As seen below, amongst all the VCT managers in Allenbridge's universe (99), Amati VCT 2 plc is ranked in the first quartile for annualised IRR since inception and annualised IRR for the last seven years. This is in stark contrast with Amati VCT 2 plc, which ranked in the second quartile for both IRR metrics.

In order to achieve a more representative comparison of the track records, the 7-year performance was used. On this basis, VCT 2 generated an annualised IRR of 11.5% while VCT 1 generated 8.7%. The gap in performance since inception has widened between the two VCTs: Amati VCT 2 generated an annualised net IRR since inception of 11% compared to Amati VCT plc's 4.4%. The difference in performance between the two VCTs are entirely due to the legacy holdings. With the Manager considering to merge the two VCTs, the investor will need to carefully judge either to invest in either or both of the VCTs.

Amati VCT 2 plc was formed as a result of the merger of two of the Manager's smaller VCTs: ViCTory VCT (originally named Singer & Friedlander AIM VCT 3) for which it took over responsibility in March 2010 and Amati VCT 2 (formerly named Invesco Perpetual AIM VCT) which it took over in February 2011.

CHART 6:

ANNUAL NAV AND DIVIDEND PAYOUT FOR AMATI VCT 2 PLC BY TAX YEAR SINCE INCEPTION (AS AT 8 DEC 2017)



Source: AllenbridgeIQ

Even though the VCTs have since merged into one, it is interesting to see their respective NAVs, cumulative dividends and performance as summarised below:

TABLE 8:

KEY PERFORMANCE INDICATORS (AS AT 8 DEC 2017)

	Latest NAV per Share (pence)	Cumulative Dividends per Share since inception (pence)	Total Fund Return per Share since inception* (pence)	Bid Price (pence)	Bid Discount to NAV (%)
Amati 2 VCT plc (ex ViCTory VCT plc) (ex Singer & Friedlander AIM 3 VCT)	164.6	45.7	210.3	149.8	-9.0
Amati VCT 2 (merged with ViCTory VCT, re-named Amati VCT 2)	102.4	174.3	276.7	N/A	N/A
Amati VCT 2 (share reconstruction, merged with ViCTory VCT, re-named Amati VCT 2)	164.6	55.7	220.3	N/A	N/A
Invesco Perpetual AIM VCT plc (change of Manager, re-named Amati VCT 2)	102.4	173.7	276.1	N/A	N/A
Singer & Friedlander AIM 3 VCT plc (change of manager)	164.6	93.2	257.8	N/A	N/A
Singer & Friedlander AIM 3 VCT plc (change of manager, re-named ViCTory, then Amati VCT 2)	164.6	93.2	257.8	N/A	N/A
Singer & Friedlander AIM 3 VCT plc C Shares (merged)(C shares converted into O shares)	187.1	88.6	275.7	N/A	N/A
Singer & Friedlander AIM VCT (merged with Singer & Friedlander AIM VCT 3)	69.1	213.2	282.3	N/A	N/A
Singer & Friedlander AIM VCT 2 (merged with Singer & Friedlander AIM VCT 3)	121.5	85.3	206.8	N/A	N/A
ViCTory VCT plc (ex Singer & Friedlander AIM 3 VCT, Change of Manager)	164.6	93.2	257.8	N/A	N/A

Source: AllenbridgeIQ

** Total Fund Return = the most recent NAV per share + the Cumulative Dividends paid per share since inception*

Notes:

1. We do not adjust NAVs to take account of dividends that have become ex-dividend but not yet paid. The 'Dividends per share' column includes these dividends. Amounts are rounded to two decimal places.

2. NAVs incorporate supplementary (performance incentive) share adjustments where applicable.

3. Share prices and their discounts to NAV do not necessarily reflect the price and discount at which shares may actually be re-purchased.

4. Depending on the date of launch, some VCTs may have provided a different level of initial tax relief from that suggested in the table headings (below).

TABLE 9:

PERFORMANCE SINCE INCEPTION (AS AT 8 DEC 2017)

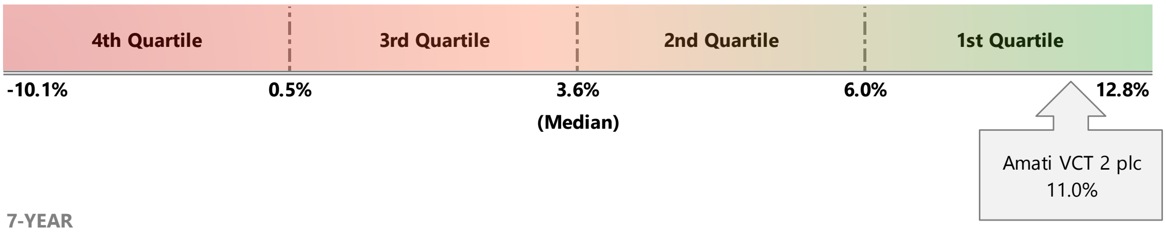
	IRR % per year (without tax relief)	IRR % p.a. assuming 20% initial income tax relief	IRR % p.a. assuming 30% initial income tax relief	IRR % p.a. assuming 40% initial income tax relief
Amati 2 VCT plc (ex ViCTory VCT plc) (ex Singer & Friedlander AIM 3 VCT)	11.0%	14.8%	17.2%	20.1%
Amati VCT 2 (merged with ViCTory VCT, re-named Amati VCT 2)	-8.3%	-6.0%	-4.6%	-2.8%
Amati VCT 2 (share reconstruction, merged with ViCTory VCT, re-named Amati VCT 2)	-1.6%	1.8%	3.8%	6.3%
Invesco Perpetual AIM VCT plc (change of Manager, re-named Amati VCT 2)	-8.3%	-6.0%	-4.6%	-2.9%
Singer & Friedlander AIM 3 VCT plc (change of manager)	-5.2%	-3.8%	-2.9%	-1.9%
Singer & Friedlander AIM 3 VCT plc (change of manager, re-named ViCTory, then Amati VCT 2)	-5.2%	-3.8%	-2.9%	-1.9%
Singer & Friedlander AIM 3 VCT plc C Shares (merged)(C shares converted into O shares)	-6.2%	-4.3%	-3.2%	-1.8%
Singer & Friedlander AIM VCT (merged with Singer & Friedlander AIM VCT 3)	-6.7%	-5.3%	-4.5%	-3.5%
Singer & Friedlander AIM VCT 2 (merged with Singer & Friedlander AIM VCT 3)	-6.5%	-5.1%	-4.3%	-3.3%
ViCTory VCT plc (ex Singer & Friedlander AIM 3 VCT, Change of Manager)	-3.9%	-1.4%	0.2%	2.0%

Source: AllenbridgeIQ

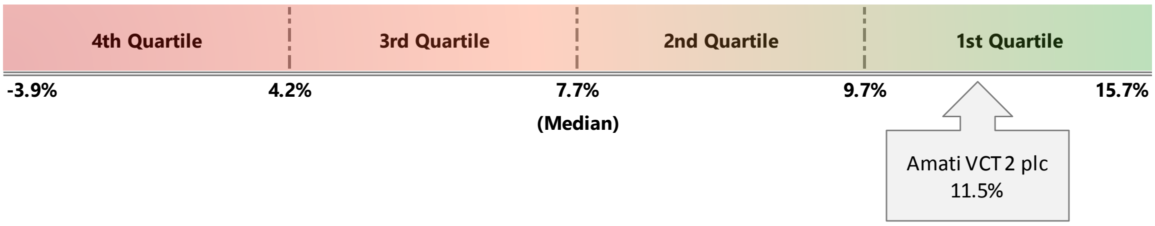
CHART 7:

MARKET POSITION RANKED BY ANNUALISED NET IRR FOR LISTED VCTS (AS AT 8 DEC 2017)

SINCE INCEPTION



7-YEAR

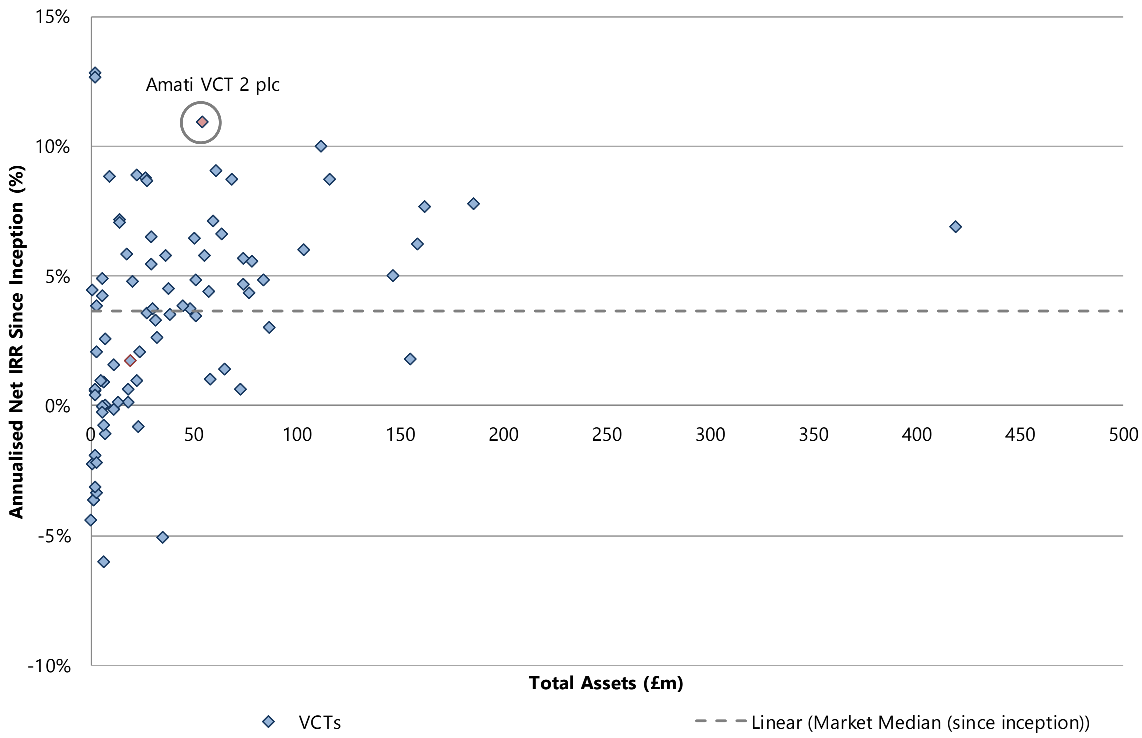


Source: AllenbridgeIQ

Please note that the above chart is based on the annualised net IRR for currently listed VCTs and is based on the most up to date information available to us at the time of writing; as such there may be a maximum lag of six month due to the timing of individual VCTs' NAV announcements.

CHART 8:

ANNUALISED NET IRR (%) SINCE INCEPTION BY SINGLE SHARE CLASS (AS AT 8 DEC 2017)



Source: AllenbridgeIQ and AIC

Please note: (i) the above chart is based on the annualised net IRR for currently listed VCTs and is based on the most up to date information available to us at the time of writing; as such, there may be a maximum lag of six month due to the timing of individual VCTs' NAV announcements. .(ii) as the net IRRs are calculated over different time periods and over different lengths of time as they are since the inception of each VCT they should not be reviewed as directly comparable (iii) Share classes are counted as separate investment vehicles.

Appendix 1: Key Personnel

Investment Team

Name	Job title	Date started with company	Biography
Dr. Paul Jourdan	CEO	01/01/2010	Dr Paul Jourdan is an award winning fund manager, with a strong track record in small cap investment. He co-founded Amati Global Investors following the management buyout of Noble Fund Managers from Noble Group in 2010, having joined Noble in 2007 as Head of Equities. His fund management career began in 1998 with Stewart Ivory, which was taken over by First State in 2000 at which time Paul became manager of what is now TB Amati UK Smaller Companies Fund. In early 2005, he launched what is now Amati VCT and he also manages Amati VCT 2 after the investment management contract moved to Amati Global Investors in 2010. In September 2014, Amati launched the Amati AIM IHT Portfolio Service, which Paul co-manages with Douglas Lawson and David Stevenson. Prior to 1998, Paul worked as a professional violinist, including a four-year period with the City of Birmingham Symphony Orchestra. He is CEO of Amati and a Director of Sistema Scotland.
Douglas Lawson	Director	01/10/2010	Douglas Lawson co-founded Amati Global Investors with Paul Jourdan. Prior to this he worked in corporate finance and private equity, initially focusing on middle market UK private equity and listed company M&A at British Linen Advisors, and latterly as an investment manager in the private equity team at Noble. Douglas has co-managed the TB Amati UK Smaller Companies Fund and Amati VCT since 2009, Amati VCT 2 since 2010 and the Amati AIM IHT Portfolio Service since 2014. Douglas started his career at Ernst & Young in London, where he qualified as a Chartered Accountant in 2002. He is a Director of Amati.
David Stevenson	Fund Manager	02/01/2012	David Stevenson joined Amati in 2012. In 2005, he was a co-founding partner of investment boutique Cartesian Capital, which managed a range of retail and institutional UK equity funds in long only and long/short strategies. Prior to that, he was Assistant Director at SVM, where he also managed equity products including the UK Opportunities small/midcap fund, which was ranked top decile for the 5-year period from inception to 2005. David started his career at KPMG where he qualified as a Chartered Accountant. He latterly specialised in corporate finance, before moving into private equity with Dunedin Fund Managers. David has co-managed the TB Amati UK Smaller Companies Fund and the Amati VCTs since 2012 and the Amati AIM IHT Portfolio Service since 2014.

Source: Amati Global Investors Limited

Fund Board of Directors – Amati VCT 2 plc

Julian Avery – (Non-Executive Chairman)

Julian is a solicitor and was chief executive of Wellington Underwriting plc until September 2004. He was non-executive director of Aspen Insurance Holdings until May 2007 and Chairman of Equity Insurance Group until its acquisition by the Australian insurance group, IAG in January 2007. He is currently a non-executive director of Warner Estate Holdings plc and Charles Taylor Consulting plc. He is a senior adviser to Fenchurch Advisory Partners and is also a Trustee of the Butler Trust and chairman of St. Michael's Hospice, Hastings.

Mike Killingley – (Non-Executive Director)

Mike is non-executive Director of AIM-quoted Falkand Islands Holdings plc. He was non-executive Chairman of Beale plc up until November 2011, a senior partner with KPMG, chartered accountants, from 1988 until retiring from the firm in 1998 and is a former non-executive Chairman of Southern Vectis plc, Conder Environmental plc, and Advanced Technology (UK) plc.

Susannah Nicklin – (Non-Executive Director)

Susannah is an investment and financial services professional with 20 years of experience in executive roles at Goldman Sachs and Alliance Bernstein in the US, Australia and the UK. She has also worked in the social impact private equity sector with Bridges Ventures and the Global Impact Investing Network, and sits on the Investment Committee of Impact Ventures UK. She is Co-Founder of Apprecie Limited and a Director of Pantheon International plc. She is a CFA charterholder and member of STEP.

This report is published by Allenbridge Limited. It is normally available to Professional Advisers by private subscription.

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NOTE:

Readers should note that investment in a VCT, BR IHT or EIS carries a greater risk than some other investments, there is unlikely to be an active market in the shares, which will make them difficult to dispose of, and proper information for determining their current value may not be available. Prospective investors are strongly advised to consult their professional adviser about the amount of tax relief (if any) they can obtain.

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