Octopus AIM VCT 2 plc

# Annual Report and Accounts for the year ended 30 November 2021

## Company number: 05528235

For UK investors only

octopus investments

Octopus AIM VCT 2 plc (the "Company") is a venture capital trust ("VCT") which aims to provide shareholders with attractive tax-free dividends and long-term capital growth by investing in a diverse portfolio of predominantly AIM-traded companies. The Company is managed by Octopus Investments Limited ("Octopus" or the "Investment Manager").

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# Financial Summary

| | 30 November 2021 | 30 November 2020 |
|---|---|---|
| Net assets (£'000) | **134,854** | 104,146 |
| Profit after tax (£'000) | **18,088** | 17,762 |
| Net asset value ("NAV") per share (p) | **90.8** | 82.9 |
| Dividends per share paid in year (p) | **5.9** | 4.2 |
| Total return (%)* | **16.6** | 20.3 |
| Final dividend proposed (p)** | **2.1** | 2.1 |
| Total ongoing charges (%)*** | **1.8** | 1.9 |

*Total return is an alternative performance measure calculated as movement in NAV per share in the period plus dividends paid in the period, divided by the NAV per share at the beginning of the period.

**Subject to shareholder approval at the Annual General Meeting, the proposed final dividend will be paid on 27 May 2022 to shareholders on the register on 6 May 2022.

***Total ongoing charges is an alternative performance measure calculated using the AIC recommended methodology.

Definitions of key terms and alternative performance measures shown above and throughout this report are shown in the Glossary of Terms on page 68.

# Key Dates

| | |
|---|---|
| Annual General Meeting | 28 April 2022 |
| Final dividend payment date | 27 May 2022 |
| Half-Yearly Results to 31 May 2022 published | July 2022 |
| Annual Results to 30 November 2022 announced | February 2023 |

# Chairman's Statement

## Introduction

I am pleased to present the Annual Report of Octopus AIM VCT 2 plc for the year ended 30 November 2021. I would like to welcome all new shareholders who have joined in the year.

It has been another challenging year when the pandemic and its consequences have continued to have an impact on stock market sentiment and movements as well as on peoples' lives, jobs and the wider economy.

The year started strongly with the country emerging from lockdown in December 2020, at the same time as the first three covid vaccines were approved for emergency use and a trade agreement was finally reached with Europe, a year after Brexit. Share prices were buoyed by optimism and by the half year end, at the end of May, the Net Asset Value (NAV) had risen by 22.2% on a total return basis. The second half of the year was more challenging as the economy had to contend with supply chain and labour constraints as well as uncertainty resulting from the threat of further lockdowns towards the end of the year. Growth has generally exceeded expectations as businesses have become smarter at minimising the disruption from further covid waves but inflation has also risen faster and to higher levels than central banks first predicted with the result that further interest rate rises are now firmly on the cards in 2022. Against this background the NAV gave up some of its first half gains, finishing the year 16.6% ahead on a total return basis.

In the year under review AIM raised £8.7 billion of new capital, a substantial increase on the £5.5 billion raised in the previous year. It was really encouraging to see existing AIM companies successfully raising funds to see them through the crisis and to put them on a growth track on the other side, emphasising the advantages of a public market listing. This was also the year when the number of new issues recovered very strongly, and our Investment Manager reports a good pipeline of companies looking to float in the next six months.

## Coronavirus

I am pleased to say that in the second year of the crisis, Board meetings and other Company business continued seamlessly on the usual schedule using the by now well established medium of remote communications.

Against this background I am pleased to report another strong year of investment performance as well as an increase in the amount invested into VCT qualifying investments to £11.5 million, well ahead of the £5.3 million of the previous year.

I am sorry that it was not possible to hold an open Annual General Meeting for the second year running in 2021 because of the on-going coronavirus situation. The Board takes its shareholder communications very seriously and I hope that any shareholder who had a question was able to submit it by email as advised. A summary of the answers to questions we received was posted on the Octopus website. There was also a presentation from the Investment Manager which I hope those who attended found informative. I look forward to welcoming you to our AGM on 28 April 2022.

## Performance

The NAV on 30 November 2021 was 90.8p per share, an increase on the NAV of 82.9p per share reported at 30 November 2020. Adding back the 5.9p of dividends paid in the year, to adjust the year end NAV to 96.7p, gives a total return of 16.6%. In the same year, the FTSE AIM All Share Index rose by 14.0%, the FTSE SmallCap (excluding investment companies) Index rose by 32.3% and the FTSE All Share Index rose by 17.4%, all on a total return basis.

Once again stock specific factors had a significant impact on performance, both positive and negative, and these are covered in more detail in the Investment Manager's Review. In addition, as the year progressed, fears about inflation and the extent of likely interest rate rises increased stock market volatility and caused some rotation away from more highly rated growth stocks. Appetite for risk waned with the result that some of the earlier stage companies exposed to the new economy saw their share prices fall from recent highs. The purpose of a VCT is to provide capital for small growth companies and those companies exposed to the new economy make up a significant proportion of our investment portfolio and so these trends worked against us in the second half of the year.

## Dividends

In November 2021 an interim dividend of 2.1p and special dividend of 1.7p was paid to all shareholders. The Board is recommending a final dividend in respect of the year to 30 November 2021 of 2.1p per share, totalling 5.9p in respect of the year, all paid from special distributable reserves. Subject to the approval of shareholders at the AGM the dividend will be paid on 27 May 2022 to shareholders on the register on 6 May 2022. It remains the Board's intention to maintain a minimum annual dividend payment of 3.6p per share or a 5.0% yield based on the prior year end share price, whichever is greater. This will usually be paid in two instalments during each year. The total dividend for the year is 5.9p which is a 7.1% yield.

## Cancellation of Share Premium Account

At the last Annual General Meeting, shareholders voted to cancel share premium to create a pool of distributable reserves to the amount of £9.2 million. This is a regular occurrence to enable the continued payment of dividends and buyback of shares.

## Board Changes

I should like to welcome Brad Ormsby who joined the Board in January this year and whose election is due to be ratified by shareholders at the forthcoming AGM. Alastair Ritchie has informed the Board of his intention to retire and so will not be seeking re-election at the AGM. Alastair has been a member of this Board since the merger in 2010 and I would like to extend our thanks to him on behalf of the Board, shareholders and the Manager for all his many years working on our behalf. We wish him well in his retirement.

## Dividend Reinvestment Scheme

In common with a number of other VCTs, the Company has established a Dividend Reinvestment Scheme (DRIS) following approval at the AGM in 2014. Some shareholders have already taken advantage of this opportunity. For investors who do not need income, but value the additional tax relief on their reinvested dividends, this is an attractive scheme and I hope that more shareholders will find it useful. In the course of the year 1,716,026 new shares have been issued under this scheme, returning £1.6 million to the Company. The final dividend referred to above will be eligible for the DRIS.

## Share Buybacks

During the year to 30 November 2021 the Company continued to buy back shares in the market from selling shareholders and purchased 5,472,527 ordinary shares for a total consideration of £4,973,000. We have maintained a discount of approximately 4.5% to NAV (equating to a 5.0% discount to the selling shareholder after costs), which the Board monitors and intends to retain as a policy which fairly balances the interests of both remaining and selling shareholders. Buybacks remain an essential practice for VCTs, as providing a means of selling is an important part of the initial investment decision and has enabled the Company to grow. As such I hope you will all support the appropriate resolution at the AGM.

## Share Issues

On 20 August 2020, a prospectus offer was launched alongside Octopus AIM VCT plc to raise a combined total of up to £20 million with a £10 million over allotment facility. This prospectus closed to further applications on 30 November 2020. 10,527,955 shares were issued in the current period, raising £8.8 million after costs. During the current year 16,064,510 shares were issued under the fundraise that launched on 19 August 2021 and closed on 13 September 2021 raising £15.5 million after costs.

## Liquidity

The issue of liquidity within investment funds has remained a topic of discussion this year. Shareholders may be interested to know that at the year end 26.1% of the Company's net assets were held in cash or collective investment funds providing short-term liquidity, 68.9% in individual quoted shares and 5.0% was held in unquoted single company investments. Shareholders should be aware that a proportion of the quoted securities may have limited liquidity owing to the size of the investee company and the overall proportion held by the Company.

## VCT Status

PricewaterhouseCoopers LLP provides the Board and Investment Manager with advice concerning continuing compliance with HMRC regulations for VCTs. The Board has been advised that the Company is in compliance with the conditions laid down by HMRC for maintaining approval as a VCT. From 1st December 2020 a key requirement is to maintain at least an 80% qualifying investment level, up from the previous level of 70%. As at 30 November 2021, 93.8% of the Company's portfolio was in VCT qualifying investments.

## Annual General Meeting ("AGM")

The AGM will take place on 28 April 2022 at 11.00am. Further information can be found in the Directors' report and Notice of Annual General Meeting on pages 28 and 70 respectively.

We will also be hosting a virtual shareholder event prior to the AGM, on 20 April 2022 at 11:00am. This will enable shareholders to receive an update from the Investment Manager and provide an opportunity for questions to the Board and the Manager. There will not be a presentation from the Investment Manager at the AGM itself.

Formal notices will be sent to shareholders by their preferred method (e-mail or post) and shareholders are encouraged to submit their votes by proxy. We always welcome questions from our shareholders at the AGM, please send these via email to **AIMVCT2AGM@octopusinvestments.com** by 5.00pm on 25 April 2022. At the AGM a resolution will be proposed to extend the life of the Company until 2027.

## Outlook

Concerns about how long the current inflationary environment will remain and how far interest rates will have to rise have unsettled the stock market despite some encouraging trading updates from companies. Analyst forecasts for growth in 2022 look quite modest, reflecting some caution about the challenges companies still face dealing with a strong bounce back in demand and well documented supply chain issues. This should leave scope for them to be upgraded as the year progresses.

The portfolio now contains 94 holdings across a range of sectors with exposure to some exciting new technologies in the environmental and healthcare sectors. Many of these have been able to raise funds for growth in the past two years leaving them well positioned to achieve their ambitions. The balance of the portfolio towards profitable companies remains, and the manager expects to find good opportunities to invest the cash as the high economic growth we are currently experiencing feeds through to an increased demand from companies for more growth capital.

Keith Mullins
Chairman
21 February 2022

# Investment Manager's Review

## Introduction

It has been another volatile year as the country negotiated the disruption of a further lockdown followed by growing optimism based on the successful roll out of vaccines. The economy bounced back very strongly in 2021 although this fuelled inflationary pressures caused by constraints on supply chains and the availability of labour. This has tempered investors' appetite for risk and has led to a weakness in some of the more highly rated shares in the portfolio despite an on-going trend to upgrade forecasts and resulted in the NAV giving up some of its earlier gains in the second half of the year. More encouragingly, despite the year under review ending with a further rise in coronavirus cases as the Omicron variant emerged, it is apparent that businesses are becoming better at coping with disruption and so the impact of each wave has been less than the original shutdown of March 2020.

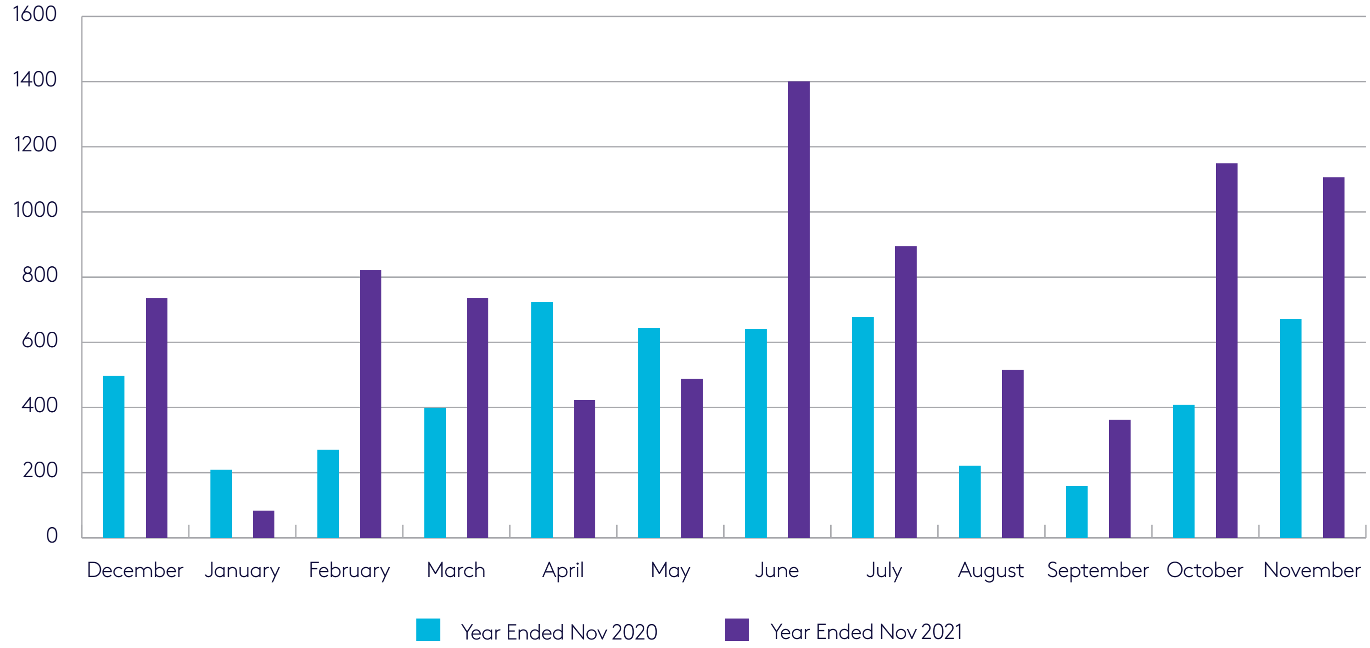
In the year to 30 November 2021 AIM once again excelled itself in successfully raising capital for its constituents across the market capitalisation range. For portfolio companies this has left many well financed for future growth plans and has particularly helped many in the healthcare and technology sectors to raise money to develop new treatments and products. New issues have also returned with the pandemic highlighting the attractiveness of a public market listing for accessing growth capital.

## The Alternative Investment Market

AIM trailed the other major UK indices in 2021, a reversal of the situation in 2020 when its performance had outshone the wider market. Its higher exposure to growth stocks in the software, technology and healthcare sectors counted against it as sentiment moved against highly rated growth stocks as inflationary pressures intensified, particularly in the second half. In the 12 months to November 2021 the AIM Index returned 14.0% compared with 32.3% for the FTSE Smaller Companies index (excluding investment companies) and 17.4% for the FTSE All Share Index on a total return basis. Although VCTs have additional constraints on what they can invest in, the AIM index is considered to be the most appropriate broad equity market index for comparative purposes, given the nature of the underlying investments. The FTSE Smaller Companies and All Share indexes provide wider market context. There were some quite sharp movements away from growth and momentum driven shares as investors sought value in more traditional sectors.

The graph below shows total fundraising by AIM companies each month throughout the year to 30 November 2021.

**Funds raised on AIM (£m): December 2020-November 2021**




Source: London Stock Exchange.

In the interim report we highlighted the success of AIM in raising new capital for its existing members and a resurgence in the number of companies looking to float on the market. The bar chart shows that the monthly figures were stronger than the previous year in every case. In the year to 30 November 2021 AIM raised £6.8 billion of new capital for existing companies which compares to a figure of £5.1 billion the previous year.

It was really encouraging to see AIM raise a further £1.9 billion for new listings, a huge advance on the figure of £0.4 billion in each of the previous two years. Anecdotally we are still hearing about a healthy pipeline of new issues from brokers and we hope that the current buoyant state of the market continues despite some more volatile market conditions. VCTs play a significant part in the funding process and we identify below the companies we have invested in during the year, which include many that are developing technologies to help solve the climate and healthcare problems that face us.

## Performance

Adding back the 5.9p of dividends paid in the year, the NAV total return increased by 16.6%. This compares with a rise in the FTSE AIM All Share Index of 14.0%, the FTSE SmallCap (excluding investment companies) of 32.3% and in the FTSE All Share Index of 17.4% on a total return basis. It was a year characterised by individual months of significant market volatility as investors reacted to unfolding events. The first half was generally positive as bounce-back growth in the economy exceeded expectations and was generally accompanied by upgrades to what were very conservatively set forecasts against the background of another lockdown at the beginning of the period. The second half of the year was much more difficult as investors confronted rising inflationary and interest rate expectations as global economies responded to unprecedented growth in demand with all the resulting pressures on supply chains. The consensus moved from inflation being transitory to a longer term issue particularly as a steep rise in energy costs emerged as an additional factor. There was a growing acceptance that interest rates would have to rise sooner and faster than had been expected earlier in the year. This resulted in a fall in the NAV in the second half of the year as some of the higher rated shares in the portfolio came under pressure, even though the tone of statements has continued to be positive helped by a background of rapid economic growth. More details on the performance of individual holdings can be seen on pages 8-11.

Among the holdings in the pharmaceutical and healthcare sectors Ergomed had another outstanding year with analysts upgrading profits several times. It has a range of services it can offer large pharmaceutical companies including the monitoring of drugs for regulatory purposes and the conducting of drugs trials for very rare diseases. We expect the strong organic growth to continue in the current year although we did take some profits in the shares into rising prices in order to manage the overall size of the holding. EKF Diagnostics continued on its recent upgrade cycle having started 2021 with very modest forecasts in place. Other healthcare stocks had a more mixed performance as investors tempered their previous enthusiasm for the sector and became more risk averse. Renalytix and Maxcyte which had both successfully raised money on Nasdaq and seen their shares reach new highs earlier in the year suffered in the second half as a result of the de-rating of US healthcare stocks. We had taken some profits in the holding in Renalytix and both made positive contributions to performance for the year as a whole. Animalcare also performed well with the recent improvements to the business made by management enhanced by a strong demand for veterinary products.

The biggest driver of performance continued to be companies exceeding expectations resulting in upgrades to forecasts. SDI Group benefitted from repeated orders of PCR DNA amplifiers used in testing for Covid-19 and other similar diseases and its shares reached new highs in the year. Also in scientific instruments, Judges Scientific performed very well as customer ordering resumed. In on-line consumer facing businesses Sosandar and Popsa (an unquoted investment) outstripped growth expectations and Popsa closed a new round of funding at a significantly increased valuation around the year end. On-line clothing retailer Sosandar's tie-ups with M&S, John Lewis and Next have been going well, advancing the point of profitability. Gear4Music had started the year well but disappointed at the end of the period as a result of disruption to its supply chain. Among more traditional businesses Breedon and Vertu Motors were examples of companies whose businesses bounced back very strongly as the economy opened up with cautious forecasts significantly upgraded as a result.

Next Fifteen and TPX Impact Group have been buoyed by the need for companies and government institutions to embrace change and new ways of doing things in the light of covid challenges and Learning Technologies successfully raised money to acquire GP Strategies. The shares performed well in the year although investors have not yet factored in the potential for upgrades following the deal.

The biggest detractor from performance in the year was Ixico which we wrote about in the interim statement. It unfortunately lost a multi-million pound contract when a Phase 3 drugs trial in Huntingdon's disease was stopped. It will take time for it to re-build its credibility. The other large detractor was Trackwise Designs which had risen to new highs on the back of a large contract from an electric bus manufacturer. The shares fell on the news that production was delayed and this meant that it had to call on investors for further funding to cover the costs of the delay. We had taken some profits but it was still one of the larger holdings when the news broke.

In the Style, an influencer led on-line fashion retailer had a disappointing profits warning towards the end of the year as it was caught up in difficulties sourcing stock in an expensive and delayed supply chain. The founder has now passed the operating reins to a new chief executive with sector experience and a more recent Christmas trading update was in line with expectations. Two other recent investments, Spectral MD and Glantus have performed in line with expectations at the time of float but their shares have been languishing in the aftermarket.

GB Group was another detractor from performance after many years of positive contributions to the movement in the NAV. It made the strategically important acquisition of US based Acuant, adding to its ability to detect identity fraud, raising £305 million in equity as well as debt to pay for it. The equity was raised at a discount and investor caution about highly rated shares has meant that they have struggled to perform since. We expect the situation to change given time and results showing the benefit of the acquisition.

Among the smaller and earlier stage companies many of them gave up earlier strong gains as the year progressed and appetite for risk waned. We had taken profits in some of these when we had considered that the share price had run too far in the short term but we recognise that many of them will take time to demonstrate progress and will only be rewarded by share price gains when they do so. The majority are well funded and so will have the chance to develop their technologies, many of which aim to solve climate and healthcare challenges.

Investing for a VCT involves backing companies when they are small and still at an early stage of development and share price progress depends on them being noticed by a wider circle of investors as they produce results and develop their businesses over time. This quite often takes longer than expected and they remain potentially vulnerable until they achieve profitability.

Our fear two years ago was that the pandemic would make raising enough finance to achieve this much harder. To the credit of AIM investors this has not turned out to be the case and even those companies that faced more difficult trading conditions have had the chance to strengthen their balance sheets.

## Portfolio Activity

Having made twelve qualifying investments at a total cost of £5.3 million in the first half of the year, we added four new qualifying investments totalling £4.4 million as well as four further investments totalling £1.8 million in the second half. This made a record total investment of £11.5 million in qualifying investments for the year, a significant increase on last year's £5.3 million, reflecting a busy AIM market for fundraisings and the resumption of new issues. Post the year end we have invested a further £4.2 million in four new qualifying companies, three of which were new issues.

Of the twelve first half investments, two were follow-ons into Cloudcall Group and The British Honey Company and four; Abingdon, In The Style, Parsley Box and Glantus, were new entrants to the AIM market. Oberon Group was admitted to the AQSE Growth market, having reversed into a fully listed cash shell. In addition we made three new qualifying investments into Evgen Pharma, Polarean and Crimson Tide, all existing AIM companies whose progress we had been watching for some time.

We invested in four new issues in the second half of the year. We invested £1.4 million into LungLife AI, a diagnostic company focused on the early detection of lung cancer from a simple blood draw enhanced by artificial intelligence. The Company has completed a pilot study to evaluate LungLB® and is now gearing up to proceed to a larger multi-center validation study ahead of seeking FDA approval for the test using the funds raised. In the same sector, we also invested £0.8 million in GENinCode. It has a portfolio of genetic tests for heart conditions which it has commercialised in Europe and is looking to take to America. The tests use artificial intelligence to predict the risk of apparently healthy individuals developing serious cardiac disease, something which is not currently available and would potentially save lives as well as healthcare costs. The third investment in that sector into a new issue was of £1.4 million into SpectralMD, a healthcare business which has developed a proprietary machine which allows practitioners to accurately determine within minutes whether a wound is likely to heal on its own, or whether treatment such as a skin graft is required. The current standard of care is often simply a visual judgement made by the practitioner. The funds raised at IPO will be deployed on a second application in diabetic foot ulcers.

The final investment in a new issues was made into a company addressing green energy solutions. We invested £0.8 million into Gelion which has developed zinc bromide batteries that are cheaper, more robust and safer than lithium-ion batteries. They are initially being targeted as a replacement for diesel generators and for green energy storage although they have many potential uses. The company has also developed some performance additives which can improve the safety and longevity of lithium-ion batteries which if they can be commercially adopted will have widespread attraction as attention focuses on the shortage of raw materials for the anticipated demand as the world electrifies. We have also made smaller follow-on investments into Ilika, Engage XR, Popsa and a larger follow-on investment into Feedback totalling £1.8 million combined.

Post period end the Company has made three further qualifying investments in AIM new issues Libertine, Strip Tinning and CPH2 as well as an investment in Velocys, an existing AIM company totalling £4.2 million. During the year we took profits into rising share prices and sold part of the holdings in Ergomed, PCI Pal, Renalytix AI, Intelligent Ultrasound, GB Group, Access Intelligence and Trackwise Communications. We also sold the entire holding in Parsley Box at a loss after a series of profit warnings as well as the entire holding of C4X Discovery after a strong performance in the shares. Vectura was subject to a successful cash takeover bid. In all disposals made a £4.0 million profit over original cost and generated £6.1 million of cash proceeds.

Non-qualifying investments are used to manage liquidity while awaiting new qualifying investment opportunities. Although we still hold some existing non-qualifying AIM holdings where we see the opportunity for further share price progress, we continued to reduce some of these holdings in the year under review. In the year we increased our holdings in the FP Octopus Micro-Cap and the FP Octopus Multi-Cap Income Fund as well as adding a small new holding in the FP Octopus Future Generation Fund. This strategy is designed to obtain a better return on funds awaiting investment than the very low rates available on cash. In the year under review £1.7 million was invested into the FP Octopus Multi-Cap Income Fund, £0.7 million was invested into FP Octopus Micro-Cap Fund and £0.2 million into the FP Octopus Future Generation Fund.

## VCT Regulations

There have been no further changes to the VCT regulations since publication of the previous set of audited accounts. As a reminder, the key requirements are that 30% of any funds raised should be invested in qualifying holdings within 12 months of the end of the accounting period in which the shares were issued, and the Company has to maintain a minimum of 80% of the portfolio (at cost) invested in qualifying holdings. We are determined to maintain a threshold of quality and to invest where we see the potential for returns from growth. At present there has been only gradual change to the profile of the portfolio, as we continue to hold the larger market capitalisation companies, in which we invested several years ago as qualifying companies, or which we bought in the market prior to the rule changes where we see the potential for them to continue to grow.

In order to qualify, companies must:

- Have fewer than 250 full time equivalent employees; and
- have less than £15 million of gross assets at the time of investment and no more than £16 million immediately post investment; and
- be less than seven years old from the date of its first commercial sale (or 10 years if a knowledge intensive company) if raising State Aided (i.e. VCT) funds for the first time; and
- have raised no more than £5 million of State Aided funds in the previous 12 months and less than the lifetime limit of £12 million (or since 6th April 2018 £10 million in 12 months £20 million lifetime limit if a knowledge intensive company); and
- produce a business plan to show that the funds are being raised for growth and development.

## Coronavirus

Although the pandemic and its consequences remained a very real problem for individuals, companies and the economy it was noticeable in 2021 that many of them had learned to live with the challenges posed by repeated lockdowns, and more latterly the stress of sudden bounceback in demand and we have been struck by the resilience shown by the companies during what has been a particularly challenging two years. The shock of the coronavirus pandemic led many companies to concentrate on increasing the efficiency of their operations and to embrace technology. Additionally the majority of investee companies are business rather than directly consumer facing, and many have recurring revenues. When the pandemic struck, forecasts were withdrawn in many cases and then only cautiously reinstated. The result has been that expectations have been upgraded significantly as visibility has improved, supporting share prices in 2021.

## Long-term Responsible Investing

The investment team have always been invested as long-term responsible shareholders and supported businesses in the process of improving the corporate governance structure. As part of the investment process, the team is incorporating a material risk review depending on the exposure of the underlying business where appropriate. These risks span from environmental (emissions, energy management, waste, ecological impact), social (privacy, security, product quality, selling practices), human (labour, health and safety, diversity), business model (product design, supply chain, material sourcing) to leadership (ethics, competitive behaviour, regulatory, critical incidents and risk management). The team assess the exposure and how well the company is managing these material risks. The team believes that assessing these factors allows for informed investment analysis and it forms part of the investment strategy. The Investment Manager takes its duty as a shareholder seriously and acts as a steward of capital. This includes regular engagement with the independent non-executive members of boards. The team's stewardship and engagement policy can be found here (**https://media.octopusinvestments.com/m/519bad6a06ce2d77/original/Octopus-Quoted-Smaller-Companies-Engagement-Policy.pdf**).

## Outlook and Future Prospects

The increased volatility that we had begun to see at the year end has continued. After a long period when the stock market was driven by growth and momentum, investors have started to rotate into less highly rated sectors such as banks and energy as protection against rising inflation and the prospect of rather higher interest rates. This has caused the retreat of some of the more highly rated shares on AIM and contributed to the recent underperformance of the AIM Index after a very strong two years. Some individual companies have been caught out by the challenge of managing stretched supply chains and staff shortages against the background of very strong growth as the global economy has bounced back from the pandemic. More recently rapidly rising energy costs have been an additional obstacle to manage. However, for many of the already established companies in your portfolio a background of economic growth is helpful to meeting and exceeding forecasts which appear to be set conservatively at this stage of the year, particularly for those able to pass on increased costs.

The volatility we have already seen in the market since the year end has resulted in many shares now being priced well below their recent peaks and valuations are further supported by the prospect of upgrades to come. The ability of companies to raise growth capital during the pandemic has supported the case for public markets and the strong flow of AIM fundraisings in 2021 looks as though it is continuing in 2022 despite the more challenging investment backdrop. A more cautious market should provide opportunities to invest the VCT's cash at attractive valuations. The portfolio now contains 94 holdings with investments across a range of sectors including both domestic and international exposure and the balance towards profitable companies remains.

The Octopus Quoted Companies team
Octopus Investments Limited
21 February 2022

## Investment Portfolio

| Investee Company | Sector | Book cost as at 30 November 2021 £'000 | Cumulative change in Fair Value £'000 | Fair Value as at 30 November 2021 £'000 | Movement in Year £'000 | % Equity held by Octopus AIM VCT 2 plc | % Equity held by all funds managed by Octopus | Fair Value as a % of Octopus AIM VCT 2 NAV |
|---|---|---|---|---|---|---|---|---|
| **Quoted Investments** | | | | | | | | |
| Ergomed plc | Pharmaceuticals and Biotechnology | 784 | 5,523 | 6,307 | 2,183 | 0.99% | 3.24% | 4.65% |
| Learning Technologies Group plc | Software and Computer Services | 701 | 4,472 | 5,173 | 915 | 0.39% | 5.36% | 3.81% |
| Breedon Group plc | Construction and Materials | 573 | 4,062 | 4,635 | 816 | 0.28% | 5.10% | 3.42% |
| GB Group plc | Software and Computer Services | 337 | 3,876 | 4,213 | (412) | 0.22% | 5.22% | 3.11% |
| Craneware plc | Health Care Providers | 479 | 3,522 | 4,001 | 406 | 0.44% | 1.04% | 2.95% |
| EKF Diagnostics Holdings plc | Medical Equipment and Services | 864 | 2,421 | 3,285 | 452 | 0.95% | 3.53% | 2.42% |
| SDI Group plc | Electronic and Electrical Equipment | 119 | 2,931 | 3,050 | 1,756 | 1.46% | 3.65% | 2.25% |
| Animalcare Group plc | Pharmaceuticals and Biotechnology | 824 | 2,098 | 2,922 | 1,304 | 1.46% | 4.56% | 2.15% |
| Sosandar plc | Retailers | 1,235 | 1,501 | 2,736 | 1,167 | 3.64% | 12.86% | 2.02% |
| IDOX plc | Software and Computer Services | 356 | 2,222 | 2,578 | 731 | 0.84% | 1.92% | 1.90% |
| Judges Scientific plc | Electronic and Electrical Equipment | 209 | 2,345 | 2,554 | 706 | 0.53% | 1.33% | 1.88% |
| Maxcyte Inc | Pharmaceuticals and Biotechnology | 689 | 1,649 | 2,338 | 988 | 0.33% | 1.42% | 1.72% |
| TPXimpact Holdings plc | Software and Computer Services | 653 | 1,641 | 2,294 | 618 | 1.00% | 4.07% | 1.69% |
| Ilika plc | Electronic and Electrical Equipment | 706 | 1,306 | 2,012 | 535 | 0.90% | 3.10% | 1.48% |
| Intelligent Ultrasound Group plc | Medical Equipment and Services | 1,220 | 757 | 1,977 | 180 | 4.43% | 11.07% | 1.46% |
| Brooks Macdonald Group plc | Investment Banking and Brokerage Services | 610 | 1,353 | 1,963 | 768 | 0.45% | 15.75% | 1.45% |
| Trackwise Designs plc | Technology Hardware and Equipment | 1,289 | 660 | 1,949 | (1,285) | 3.85% | 9.63% | 1.44% |
| Next Fifteen Communications Group plc | Media | 344 | 1,471 | 1,815 | 997 | 0.18% | 14.34% | 1.34% |
| Gear4music Holdings plc | Leisure Goods | 353 | 1,347 | 1,700 | (76) | 1.21% | 3.02% | 1.25% |
| ENGAGE XR Holdings plc | Software and Computer Services | 1,253 | 392 | 1,645 | 163 | 3.54% | 15.02% | 1.21% |
| Access Intelligence plc | Software and Computer Services | 501 | 1,117 | 1,618 | 622 | 0.89% | 2.13% | 1.19% |
| Netcall plc | Software and Computer Services | 356 | 1,178 | 1,534 | 462 | 1.44% | 3.47% | 1.13% |
| LungLife AI, Inc | Pharmaceuticals and Biotechnology | 1,386 | 110 | 1,496 | 110 | 3.09% | 7.73% | 1.10% |
| PCI-Pal plc | Software and Computer Services | 732 | 565 | 1,297 | 446 | 3.10% | 7.74% | 0.96% |
| Ixico plc | Pharmaceuticals and Biotechnology | 697 | 573 | 1,270 | (1,643) | 5.17% | 12.92% | 0.94% |
| Quixant plc | Technology Hardware and Equipment | 391 | 840 | 1,231 | 42 | 1.28% | 3.19% | 0.91% |
| Renalytix plc | Health Care Providers | 228 | 981 | 1,209 | 361 | 0.25% | 0.57% | 0.89% |
| Vertu Motors plc | Retailers | 777 | 359 | 1,136 | 562 | 0.52% | 1.67% | 0.84% |

## Investment Portfolio (continued)

| Investee Company | Sector | Book cost as at 30 November 2021 £'000 | Cumulative change in Fair Value £'000 | Fair Value as at 30 November 2021 £'000 | Movement in Year £'000 | % Equity held by Octopus AIM VCT 2 plc | % Equity held by all funds managed by Octopus | Fair Value as a % of Octopus AIM VCT 2 NAV |
|---|---|---|---|---|---|---|---|---|
| ReNeuron Group plc | Pharmaceuticals and Biotechnology | 990 | 96 | 1,086 | 276 | 2.03% | 5.06% | 0.80% |
| Feedback plc | Medical Equipment and Services | 1,000 | 74 | 1,074 | 54 | 5.04% | 12.75% | 0.79% |
| Creo Medical Group plc | Medical Equipment and Services | 981 | 78 | 1,059 | (212) | 0.43% | 1.97% | 0.78% |
| RWS Holdings plc | Industrial Support Services | 99 | 956 | 1,055 | 106 | 0.04% | 3.90% | 0.78% |
| Glantus Holdings plc | Industrial Support Services | 1,200 | (188) | 1,012 | (188) | 3.11% | 7.93% | 0.75% |
| Advanced Medical Solutions Group plc | Medical Equipment and Services | 495 | 459 | 954 | 188 | 0.14% | 12.20% | 0.70% |
| Beeks Financial Cloud Group plc | Software and Computer Services | 302 | 651 | 953 | 398 | 1.07% | 6.22% | 0.70% |
| Spectral MD Holdings Ltd | Health Care Providers | 1,410 | (502) | 908 | (502) | 1.76% | 7.69% | 0.67% |
| The British Honey Company plc | Retailers | 840 | 31 | 871 | 12 | 4.64% | 11.59% | 0.64% |
| Diaceutics plc | Health Care Providers | 620 | 237 | 857 | (220) | 0.97% | 2.47% | 0.63% |
| Verici Dx plc | Pharmaceuticals and Biotechnology | 305 | 670 | 975 | 243 | 0.93% | 2.33% | 0.72% |
| Gamma Communications plc | Telecommunications Service Providers | 183 | 628 | 811 | 44 | 0.05% | 6.12% | 0.60% |
| Gelion plc | Electronic and Electrical Equipment | 760 | 16 | 776 | 16 | 0.49% | 1.25% | 0.57% |
| Gooch & Housego plc | Technology Hardware and Equipment | 281 | 461 | 742 | (52) | 0.28% | 12.74% | 0.55% |
| Cambridge Cognition Holdings plc | Health Care Providers | 400 | 297 | 697 | 383 | 1.83% | 4.59% | 0.51% |
| Fusion Antibodies plc | Health Care Providers | 497 | 186 | 683 | 119 | 2.34% | 5.84% | 0.50% |
| Adept Telecom plc | Software and Computer Services | 502 | 165 | 667 | (36) | 1.43% | 3.14% | 0.49% |
| GENinCode plc | Medical Equipment and Services | 800 | (155) | 645 | (155) | 1.90% | 4.74% | 0.48% |
| Restore plc | Industrial Support Services | 171 | 450 | 621 | 149 | 0.09% | 11.17% | 0.46% |
| Synairgen plc | Pharmaceuticals and Biotechnology | 98 | 470 | 568 | 331 | 0.14% | 0.35% | 0.42% |
| Evgen Pharma plc | Pharmaceuticals and Biotechnology | 700 | (210) | 490 | (210) | 3.18% | 7.96% | 0.36% |
| Oberon Investments Group plc | Investment Banking and Brokerage Services | 320 | 160 | 480 | 160 | 1.94% | 7.88% | 0.35% |
| Clinigen Group plc | Pharmaceuticals and Biotechnology | 469 | (4) | 465 | (40) | 0.06% | 5.63% | 0.34% |
| Polarean Imaging plc | Medical Equipment and Services | 458 | (38) | 420 | (38) | 0.36% | 0.91% | 0.31% |
| Mattioli Woods plc | Investment Banking and Brokerage Services | 101 | 302 | 403 | 53 | 0.09% | 5.39% | 0.30% |
| MyCelx Technologies Corporation | Oil, Gas and Coal | 980 | (611) | 369 | 217 | 2.79% | 15.82% | 0.27% |
| In The Style plc | Retailers | 667 | (330) | 337 | (330) | 0.63% | 7.49% | 0.25% |
| Crimson Tide plc | Software and Computer Services | 378 | (50) | 328 | (50) | 1.92% | 4.79% | 0.24% |
| Cloudcall Group plc | Software and Computer Services | 624 | (305) | 319 | (263) | 1.42% | 3.54% | 0.24% |
| DXS International plc | Software and Computer Services | 200 | 113 | 313 | 150 | 5.18% | 12.95% | 0.23% |

## Investment Portfolio (continued)

| Investee Company | Sector | Book cost as at 30 November 2021 £'000 | Cumulative change in Fair Value £'000 | Fair Value as at 30 November 2021 £'000 | Movement in Year £'000 | % Equity held by Octopus AIM VCT 2 plc | % Equity held by all funds managed by Octopus | Fair Value as a % of Octopus AIM VCT 2 NAV |
|---|---|---|---|---|---|---|---|---|
| Cordel Group plc | Software and Computer Services | 296 | (59) | 237 | 39 | 1.16% | 2.89% | 0.17% |
| Falanx Group Limited | Industrial Support Services | 600 | (380) | 220 | 48 | 3.80% | 9.50% | 0.16% |
| Rosslyn Data Technologies plc | Software and Computer Services | 286 | (69) | 217 | (83) | 1.68% | 4.21% | 0.16% |
| DP Poland plc | Travel and Leisure | 678 | (472) | 206 | (24) | 0.51% | 1.27% | 0.15% |
| KRM22 plc | Closed End Investments | 454 | (272) | 182 | 23 | 1.70% | 4.25% | 0.13% |
| Velocity Composites plc | Aerospace and Defense | 533 | (376) | 157 | 50 | 1.73% | 4.32% | 0.12% |
| WANdisco plc | Software and Computer Services | 96 | 51 | 147 | (98) | 0.09% | 0.23% | 0.11% |
| XP Factory plc | Travel and Leisure | 659 | (512) | 147 | 61 | 0.33% | 0.83% | 0.11% |
| TP Group plc | Aerospace and Defense | 452 | (316) | 136 | (85) | 0.47% | 1.15% | 0.10% |
| Trellus Health plc (Restricted) | Health Care Providers | 109 | 27 | 136 | 27 | 0.17% | 0.50% | 0.10% |
| Abingdon Health plc | Medical Equipment and Services | 347 | (213) | 134 | (213) | 0.30% | 0.74% | 0.10% |
| Genedrive Plc | Pharmaceuticals and Biotechnology | 241 | (131) | 110 | (50) | 0.33% | 0.82% | 0.08% |
| Osirium Technologies plc | Oil, Gas and Coal | 900 | (798) | 102 | (22) | 2.11% | 23.27% | 0.08% |
| Enteq Upstream plc | Travel and Leisure | 687 | (588) | 99 | 3 | 1.00% | 2.49% | 0.07% |
| Tasty plc | Software and Computer Services | 336 | (278) | 58 | 21 | 0.79% | 1.85% | 0.04% |
| LoopUp Group plc | Support Services | 197 | (158) | 39 | (126) | 0.20% | 0.51% | 0.03% |
| Mears Group plc | Software and Computer Services | 51 | (17) | 34 | 6 | 0.02% | 0.13% | 0.03% |
| 1Spatial plc | Pharmaceuticals and Biotechnology | 200 | (172) | 28 | 12 | 0.06% | 4.67% | 0.02% |
| Diurnal Group plc | Electronic and Electrical Equipment | 88 | (62) | 26 | 4 | 0.03% | 0.07% | 0.02% |
| Microsaic Systems plc | Industrial Materials | 922 | (898) | 24 | (45) | 0.28% | 0.71% | 0.02% |
| Haydale Graphene Industries plc | Pharmaceuticals and Biotechnology | 395 | (387) | 8 | 5 | 0.05% | 0.12% | 0.01% |
| Midatech Pharma plc | Software and Computer Services | 400 | (398) | 2 | – | 0.01% | 0.02% | 0.00% |
| Location Sciences Group plc | Pharmaceuticals and Biotechnology | 509 | (508) | 1 | – | 0.01% | 0.02% | 0.00% |
| **Total Quoted Investments** | | **44,933** | **48,393** | **93,326** | **14,030** | | | |
| **Unquoted Equity Investments** | | | | | | | | |
| Airnow plc | | 838 | (838) | – | (167) | 0.29% | 0.75% | 0.00% |
| The Food Marketplace Ltd | | 200 | (40) | 160 | (40) | 4.40% | 11.00% | 0.12% |
| Hasgrove plc | | 153 | 2,898 | 3,051 | 610 | 2.53% | 14.31% | 2.25% |
| Popsa Holdings Ltd | | 1,060 | 1,808 | 2,868 | 1,190 | 5.14% | 12.86% | 2.11% |
| Rated People Ltd | | 236 | (205) | 31 | 7 | 0.08% | 0.34% | 0.02% |
| Eluceda Limited | | 200 | – | 200 | – | 1.64% | 4.10% | 0.15% |
| **Total Unquoted Equity Investments** | | **2,687** | **3,623** | **6,310** | **1,600** | | | |

## Investment Portfolio (continued)

| Investee Company | Sector | Book cost as at 30 November 2021 £'000 | Cumulative change in Fair Value £'000 | Fair Value as at 30 November 2021 £'000 | Movement in Year £'000 | % Equity held by Octopus AIM VCT 2 plc | % Equity held by all funds managed by Octopus | Fair Value as a % of Octopus AIM VCT 2 NAV |
|---|---|---|---|---|---|---|---|---|
| **Loan Notes** | | | | | | | | |
| Osirium Technologies plc | | 400 | – | 400 | – | N/A | N/A | 0.29% |
| **Total Loan Notes** | | **400** | **–** | **400** | **–** | | | |
| **Current Asset Investments** | | | | | | | | |
| FP Octopus UK Micro Cap Growth Fund P Class | | 3,740 | 2,997 | 6,737 | – | N/A | N/A | 4.97% |
| FP Octopus UK Future Generations Fund | | 240 | (10) | 230 | – | N/A | N/A | 0.17% |
| FP Octopus UK Multi Cap Income S Acc | | 4,118 | 908 | 5,026 | – | N/A | N/A | 3.71% |
| **Total Current Asset Investments** | | **8,098** | **3,895** | **11,993** | **–** | **N/A** | **N/A** | **8.84%** |
| **Total Fixed and Current Asset Investments** | | | | 112,029 | | | | |
| Money Market Funds | | | | 3,487 | | | | |
| Cash at Bank | | | | 19,915 | | | | |
| Debtors less Creditors | | | | (577) | | | | |
| **Total Net Assets** | | | | **134,854** | | | | |

## Top ten holdings

Listed below are the ten largest investments by value, which comprise of eight quoted level 1 investments which are valued at bid price and two level 3 investments which are valued in accordance with IPEV guidelines (explained further on page 57), as at 30 November 2021:

### Ergomed plc

Ergomed provide highly specialised services to the pharmaceutical industry, operating in over 65 countries.

| | |
|---|---|
| **Initial investment date:** | July 2014 |
| **Cost:** | £784,000 |
| **Valuation:** | £6,307,000 |
| **Equity held by Octopus AIM VCT 2 plc:** | 0.99% |
| **Fair Value as a % of NAV:** | 4.65% |
| **Last audited accounts:** | 31 December 2020 |
| **Revenue:** | £86.4 million |
| **Profit before tax:** | £12.6 million |
| **Net assets:** | £52.9 million |
| **Dividends received in year:** | £nil |

### Learning Technologies Group plc

Learning Technologies provides a comprehensive and integrated range of e-learning services and technologies to corporate and government clients.

| | |
|---|---|
| **Initial investment date:** | June 2011 |
| **Cost:** | £701,000 |
| **Valuation:** | £5,173,000 |
| **Equity held by Octopus AIM VCT 2 plc:** | 0.39% |
| **Fair Value as a % of NAV:** | 3.81% |
| **Last audited accounts:** | 31 December 2020 |
| **Revenue:** | £132.3 million |
| **Profit before tax:** | £13.5 million |
| **Net assets:** | £269.1 million |
| **Dividends received in year:** | £0.02 million |

### Breedon Group plc

Breedon Group is a leading construction material group operating in Great Britain and Ireland.

| | |
|---|---|
| **Initial investment date:** | August 2010 |
| **Cost:** | £573,000 |
| **Valuation:** | £4,635,000 |
| **Equity held by Octopus AIM VCT 2 plc:** | 0.28% |
| **Fair Value as a % of NAV:** | 3.42% |
| **Last audited accounts:** | 31 December 2020 |
| **Revenue:** | £928.7 million |
| **Profit before tax:** | £46.4 million |
| **Net assets:** | £888.4 million |
| **Dividends received in year:** | £nil |

## GB Group plc

GB Group is a global technology specialist in fraud, location and identity data intelligence.

| | |
|---|---|
| **Initial investment date:** | November 2011 |
| **Cost:** | £337,000 |
| **Valuation:** | £4,213,000 |
| **Equity held by Octopus AIM VCT 2 plc:** | 0.22% |
| **Fair Value as a % of NAV:** | 3.11% |
| **Last audited accounts:** | 31 March 2021 |
| **Revenue:** | £217.7 million |
| **Profit before tax:** | £34.3 million |
| **Net assets:** | £364.3 million |
| **Dividends received in year:** | £nil |

## Craneware plc

Craneware is the market leader in software and supporting services to US hospitals so they can invest in quality patient outcomes.

| | |
|---|---|
| **Initial investment date:** | February 2010 |
| **Cost:** | £479,000 |
| **Valuation:** | £4,001,000 |
| **Equity held by Octopus AIM VCT 2 plc:** | 0.44% |
| **Fair Value as a % of NAV:** | 2.95% |
| **Last audited accounts:** | 30 June 2021 |
| **Revenue:** | $75.6 million |
| **Profit before tax:** | $13.2 million |
| **Net assets:** | $260.3 million |
| **Dividends received in year:** | £0.04 million |

## EKF Diagnostics Holdings plc

EKF Diagnostics Holdings is a global medical manufacturer of point-of-care and laboratory based diagnostic devices and reagents, for use in a wide array of tests. Its products are in regular use in over 100 countries.

| | |
|---|---|
| **Initial investment date:** | July 2010 |
| **Cost:** | £864,000 |
| **Valuation:** | £3,285,000 |
| **Equity held by Octopus AIM VCT 2 plc:** | 0.95% |
| **Fair Value as a % of NAV:** | 2.42% |
| **Last audited accounts:** | 31 December 2020 |
| **Revenue:** | £65.3 million |
| **Profit before tax:** | £15.4 million |
| **Net assets:** | £78.2 million |
| **Dividends received in year:** | £nil |

### Hasgrove plc (unquoted)

Hasgrove is the holding company for Interact, a SaaS business which provides an intranet product which focuses on the communication and collaboration requirements of large organisations.

| | |
|---|---|
| **Initial investment date:** | September 2016 |
| **Cost:** | £153,000 |
| **Valuation:** | £3,051,000 |
| **Equity held by Octopus AIM VCT 2 plc:** | 2.53% |
| **Fair Value as a % of NAV:** | 2.25% |
| **Last published accounts:** | 31 December 2020 |
| **Revenue:** | £19.9 million |
| **Profit before tax:** | £5.5 million |
| **Net assets:** | £7.0 million |
| **Dividends received in year:** | £nil |

### SDI Group plc

SDI Group plc (formerly known as Scientific Digital Imaging plc) designs and manufactures scientific and technology products for use by the life science, healthcare, astronomy, consumer manufacturing and art conservation markets through the Synoptics brands.

| | |
|---|---|
| **Initial investment date:** | November 2015 |
| **Cost:** | £119,000 |
| **Valuation:** | £3,050,000 |
| **Equity held by Octopus AIM VCT 2 plc:** | 1.46% |
| **Fair Value as a % of NAV:** | 2.25% |
| **Last audited accounts:** | 30 April 2021 |
| **Revenue:** | £35.1 million |
| **Profit before tax:** | £5.6 million |
| **Net assets:** | £26.7 million |
| **Dividends received in year:** | £nil |

### Animalcare Group plc

Animalcare Group plc is an international veterinary pharmaceutical and services business driven by a collective belief that healthy animals can have a hugely beneficial effect on their owners and society.

| | |
|---|---|
| **Initial investment date:** | December 2007 |
| **Cost:** | £824,000 |
| **Valuation:** | £2,922,000 |
| **Equity held by Octopus AIM VCT 2 plc:** | 1.46% |
| **Fair Value as a % of NAV:** | 2.15% |
| **Last audited accounts:** | 31 December 2020 |
| **Revenue:** | £81.6 million |
| **Profit before tax:** | £0.2 million |
| **Net assets:** | £9.1 million |
| **Dividends received in year:** | £nil |

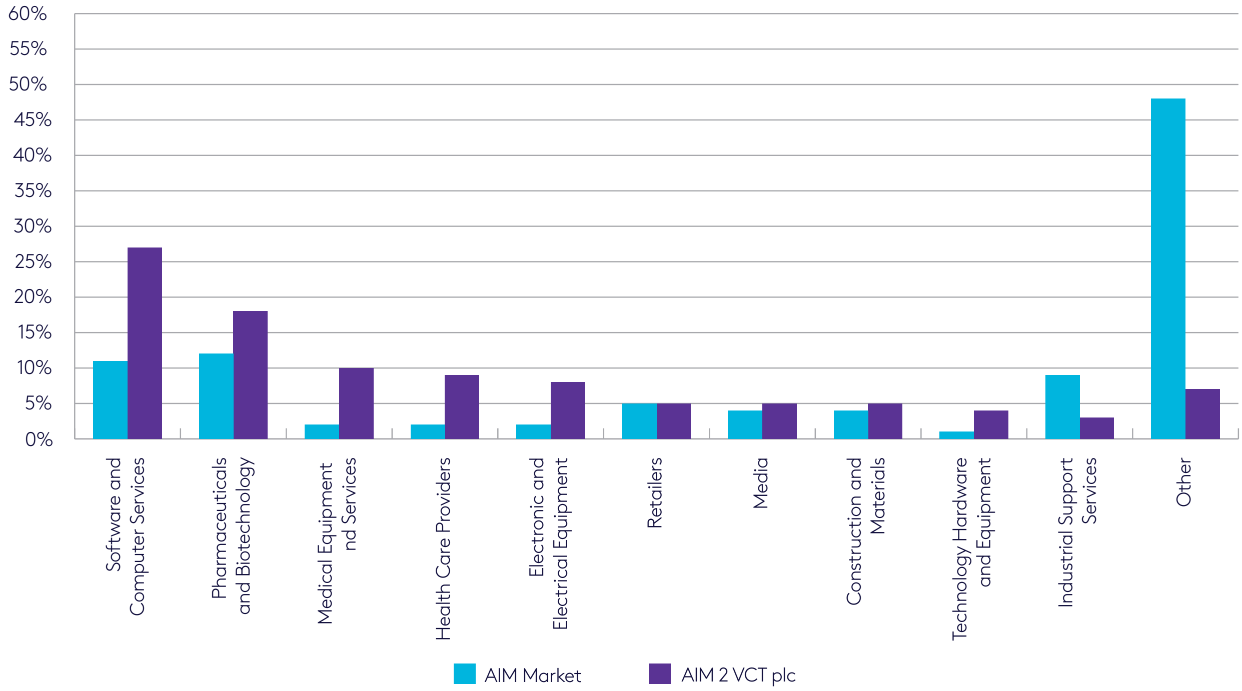
## Popsa Holdings Ltd (unquoted)

Popsa is a software technology company enabling consumers to create photobooks on mobile devices from various sources.

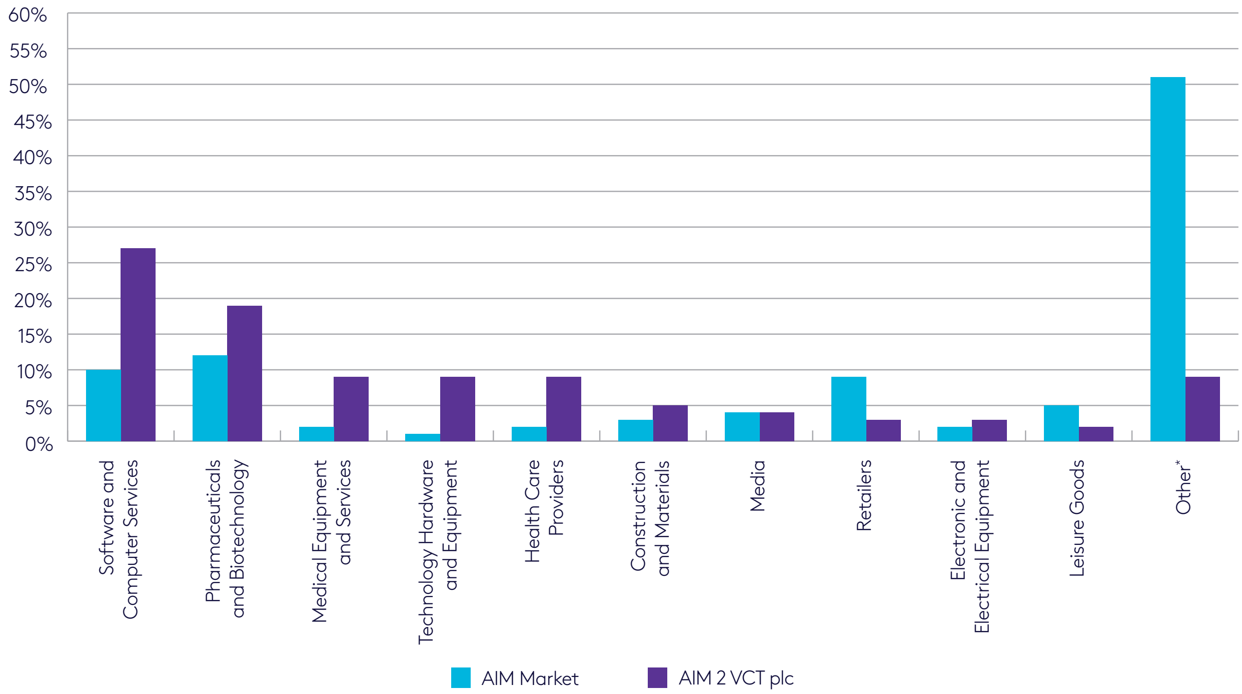
| | |
|---|---|
| **Initial investment date:** | April 2018 |
| **Cost:** | £1,060,000 |
| **Valuation:** | £2,868,000 |
| **Equity held by Octopus AIM VCT 2 plc:** | 5.14% |
| **Fair Value as a % of NAV:** | 2.11% |
| **Last published accounts:** | 30 December 2020 |
| **Revenue:** | £19.2 million |
| **Loss before tax:** | £0.8 million |
| **Net assets:** | £5.7 million |
| **Dividends received in year:** | £nil |

## Sector analysis

The graph below shows the sectors the equity portfolio was invested in by value as at 30 November 2021. It also shows the sectors of the AIM market as a whole as at 30 November 2021:




The graph below shows the sectors the equity portfolio was invested in by value as at 30 November 2020. It also shows the sectors of the AIM market as a whole as at 30 November 2020:




*Other sectors include Industrial Support Services, Investment Banking and Brokerage Services, Alternative Energy, Precious Metal and Mining, Travel and Leisure, Oil, Gas and coal, Beverages, Finance and Credit Services, Industrial Metals and Mining, Real Estate Investment Services.

# The Investment Manager

## Personal Service

Octopus was established in 2000 and has a strong commitment to both smaller companies and to VCTs. Octopus Investments Limited also acts as Investment Manager to three other listed investment companies and has a total of over £11.3 billion of funds under management. If you have any questions about this report, or if it would help to speak to one of the fund managers, please do not hesitate to contact us on **0800 316 2295**.

The Quoted Companies team of Octopus comprises:

**Kate Tidbury**
Kate has had an extensive career which has included periods as an investment analyst with Sheppards and Chase and Panmure Gordon and then as an Investment Manager specialising in ethical and smaller companies with the Co-operative Bank and Colonial First State Investments. She joined the AIM team at Close Brothers in 2000 where she was involved in the management of this Company's investments as well as other AIM VCTs and IHT portfolios. She joined Octopus Investments Limited in 2008.

**Richard Power**
Richard started his career at Duncan Lawrie, where he managed a successful small companies fund. He subsequently joined Close Brothers to manage a smaller companies investment trust before moving to Octopus Investments Limited to head up the AIM team in 2004. He is involved in the management of AIM portfolios, AIM VCTs, the FP Octopus UK Micro Cap Growth Fund and the FP Octopus Multi Cap Income Fund.

**Edward Griffiths**
Edward is an experienced portfolio manager at Octopus Investments Limited, involved particularly in the management of AIM portfolios for private individuals. He joined Octopus Investments Limited in 2004 to help launch the AIM Inheritance Tax Service, having previously worked at Schroder's and State Street.

**Chris McVey**
Chris is a fund manager on the team and joined Octopus in December 2016. He has been a specialist within the quoted UK Smaller Company market for almost 20 years. He joined Octopus from Citigroup where he was most recently a UK Small and Mid-Cap Equity research analyst focussing across a variety of sectors. Prior to this he spent almost seven years on the Smaller Companies team at Gartmore as an investment manager and analyst. He is lead manager on the FP Octopus UK Multi Cap Income Fund, and a co-manager on the FP Octopus UK Micro Cap Growth Fund and works across all the Quoted team portfolios.

**Stephen Henderson**
Stephen joined Octopus Investments Limited in 2008. He has particular responsibility for portfolio management across the Octopus AIM Inheritance Tax Service portfolios and Octopus AIM Inheritance Tax ISA portfolios. Stephen conducts analysis as a member of the operations team. Having helped in the Multi Manager team, he joined the Quoted Companies investment team in 2011.

**Mark Symington**
Mark graduated from the University of Cape Town in 2010 with a Bcom in Economics and Finance. He joined Octopus in 2012 after two years at Warwick Wealth in South Africa. Mark is a portfolio manager focussing predominantly on the Octopus AIM VCTs and the Eureka EIS portfolio service, and provides analytical support to the team.

**Dominic Weller**
Dominic is a Fund Manager on the Quoted Companies team. He works across sectors and co-manages the FP Octopus UK Micro Cap Growth Fund, FP Octopus UK Multi Cap Income Fund, Octopus AIM VCTs and is lead manager of the FP Octopus UK Future Generations Fund. He is a member of the Octopus Investments Responsible Investment Committee and leads the team's stewardship efforts. He is a Chartered Financial Analyst (CFA) charter holder.

**Jessica Sweeney**
Jessica graduated from the University of Liverpool in 2014, where she studied International Business. Starting her career at Octopus shortly after, she has worked in multiple operations functions before moving to the Quoted Companies team to assist with the management of AIM portfolios.

**Charles Lucas**
Charles joined Octopus in 2011 from LV= Asset Management, having previously worked in the Personal Pensions and SIPP space for GE Life and LV=. Charles initially joined Octopus as a member of the operations team, later working as a Project Manager for MiFID II. He has joined the Quoted Companies team as a Product Development Analyst to enhance trading capabilities and performance analytics.

**Freda Isingoma**
Freda Isingoma started her career as an Investment Analyst at Charterhouse CCF before joining the AIM team at Close Brothers in 2001, focused on managing the AIM VCT, inheritance tax and smaller companies portfolios. In 2008 she moved to South Africa to join Investec Asset Management, where she co-managed the Africa Fund (a listed equity portfolio investing across Africa). In 2010 she ventured into entrepreneurship launching a beauty service brand in South Africa, and more recently a UK based art investment business specialising in providing investment and ecosystem impact solutions for the African art market. She joined Octopus in January 2022 and will be focused primarily on the AIM VCT portfolios.

# Section 172(1) Statement

## Introduction

The purpose of the report is to provide shareholders with sufficient information to enable them to assess the extent to which the Directors have performed their legal duty to act in good faith and to promote the success of the Company in accordance with section 172 of the Companies Act 2006 for the benefit of shareholders as a whole, as set out in the Strategic Report. KPIs on performance are on pages 22 and 23.

Directors of a company are required to act in the way they consider will most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172(1) requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- need to act fairly as between members of the Company;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- interests of the Company's employees.

In discharging the Board's section 172 duties regard has been given to the above factors. The Board also has regard to other factors where relevant. By considering the Company's purpose and objectives together with its strategic priorities and having a process in place for decision-making, the Board aims to ensure that decision making is consistent and predictable.

As a Venture Capital Trust, Octopus AIM VCT 2 plc has no employees. However, the Directors also assessed the impact of the Company's activities on other stakeholders. The Company considers its shareholders, the Investment Manager, investee companies and other service providers to be its key stakeholders.

## Shareholder engagement

Shareholder engagement is given high priority by the Board. The Company engages with its shareholders via various media including, but not limited to, the Annual General Meeting, the Annual Report and Accounts and RNS announcements.

The AGM gives shareholders the opportunity to exercise their right to vote on resolutions and engage with the Board and the Investment Manager. On 29 April 2021, following the AGM which, as a result of the pandemic, was held as a closed meeting, the Company held an online Shareholder Event that was well attended by over 45 shareholders, many more than would normally attend the AGM. The event gave shareholders the opportunity to hear directly from the Investment Manager and the Board, thereby maximising engagement during the pandemic. The voting results from all General Meetings are published on the Company's website.

The Board regularly disseminates information to shareholders, including a weekly NAV and, more recently, directorate changes, through RNS releases on the London Stock Exchange. Shareholders receive the Annual Report and Accounts which aims to provide a full understanding of the Company's activities and results. This information, together with the interim accounts, prospectus and other shareholder information is published via the London Stock Exchange and on the Octopus Investments website at **www.octopusinvestments.com**.

The Board always welcome questions from our shareholders at the AGM. To ensure we are able to respond to any questions you may have, for either the Investment Manager or the Board, we would request that you please send these via email to **AIMVCT2AGM@octopusinvestments.com** by 5:00pm on 25 April 2022.

Provision 4 of the 2018 UK Corporate Governance Code requires a company which has received 20% or more of votes cast against a resolution to explain, when announcing the voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. The Company continues to monitor the 20% threshold for votes cast against Board recommendations for a resolution, but has not yet been required to take any actions in this regard.

## Engagement with the Investment Manager

It is normal practice for Venture Capital Trusts to delegate authority for day-to-day management of the Company to an Investment Manager and then to engage with the Manager in setting, approving and overseeing the execution of the business strategy and related policies and all administration and control functions. The Investment Manager attends the scheduled quarterly Board meetings, and other ad-hoc meetings as appropriate, of the Company ensuring an open dialogue. At every Board meeting a review of financial and operational performance, as well as legal and regulatory compliance, is undertaken. The Board also review other areas over the course of the financial year including the Company's business strategy; key risks; stakeholder related matters; diversity and inclusivity; environmental matters; corporate responsibility and governance; compliance and legal matters. The Board formally reviews the performance of the Investment Manager on an annual basis. All Board members complete a questionnaire and discuss the findings before concluding on an outcome

## Engagement with Investee Companies

The Company's performance is directly linked to the performance of its underlying investee companies. The Board has delegated the monitoring of its portfolio companies to the Investment Manager which engages with investee companies through a programme of regular company meetings as part of its investment process. The Board has also given the Investment Manager discretionary authority to vote on investee company resolutions on its behalf as part of its approach to corporate governance.

## Engagement with other key stakeholders and environment

The Investment Manager is a key business partner with responsibility for the provision of investment management, administration, custody and company secretarial services.

During the period the Board received sufficient information to assist in understanding the interests and views of the Company's key stakeholders, investors, investee companies and service providers to the Company, including the auditor, lawyers, and registrar.

The Board recognises the importance of ESG and the Octopus Group, of which the Investment Manager forms a part, was certified as a B Corp in February 2021. B Corp certification is a designation that a business is meeting high standards of verified performance, accountability and transparency on factors from employee benefits and charitable giving to supply chain practices and input materials. Certified B Corps are recognised as leaders in the global movement for an inclusive, equitable, and regenerative economy. The Board welcomes the benefits this will bring to the Company.

The Investment Manager is developing processes and practices that deliver on ESG principles. This includes the development and implementation of internal processes and checks in line with the UN Principles of Responsible Investing and working towards meeting the requirements of the UK Stewardship Code managed by the Financial Reporting Council. The Investment Manager will continue to monitor the ESG practices of existing portfolio companies and over the coming year we will review our portfolio to confirm our compliance with these expectations. An example of this is the ongoing assessment of the carbon emission levels of companies within the portfolio, and their progression towards furthering sustainability and environmental goals regarding net zero ambition and decarbonisation.

The Board has moved to a largely paperless operation over the past 24 months, and the increasing use of conferencing platforms has reduced travel in relation to the Company's activities.

## Key decisions made during the year

Some of the key decisions made by the Company during the year that required the Board to take into consideration section 172(1) factors include:

- In line with the Board's commitment to succession planning, on 10 September 2021 the Company announced that Alastair Ritchie had indicated his intention to retire and therefore would not be standing for re-election at the forthcoming AGM. The importance of ensuring the Board remains independent is recognised and, following the engagement of an executive search consultant and a robust recruitment process, Brad Ormsby was appointed as an independent non-executive director with effect from 1 January 2022.
- In line with the Company's objectives, on 19 August 2021 the Board issued an offer for subscription of shares. This was discussed with the Investment Manager, and allowed new and existing shareholders to invest in the Company.
- The Company continued to buy back shares, providing liquidity to shareholders who wished to sell their shares. The Board maintained a discount of approximately 4.5% to NAV, therefore balancing the interests of both remaining and selling shareholders.
- The Board looks to create shareholder value. During the year, following targets agreed with the Investment Manager, dividends totalling 5.9p were paid to shareholders (comprising a final, in respect of the previous financial year, and an interim dividend of 2.1p each, as well as a special dividend of 1.7p).

# Business Review

## The Company's Objective

The objective of the Company is to invest in a broad range of Alternative Investment Market (AIM) or Aquis Stock Exchange (AQSE) (previously known as New Securities Stock (NEX) Exchange) traded companies in order to provide shareholders with attractive tax-free dividends and long-term capital growth. Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

The Company has been approved as a Venture Capital Trust by HMRC under section 259 of the Income Taxes Act 2007. The shares of the Company were first admitted to the Official List of the UK Listing Authority and trading on the London Stock Exchange on 25 January 2006 and can be found under the TIDM code "OSEC". The Company is premium listed.

## Investment Policy

The Company's investment policy has been designed to enable it to comply with the VCT qualifying conditions. The Board intends that the long-term disposition of the Company's assets will be not less than 85% in a portfolio of qualifying AIM, AQSE Exchange traded investments or unquoted companies where in the short to medium term, the management is planning an initial public offering ("IPO") on AIM or AQSE Exchange. Investments in unquoted companies are not expected to exceed 10% of the Company's invested portfolio.

The non-qualifying balance will be invested in permitted investments held for short term liquidity, generally comprising short term cash or money market deposits with a minimum Moody's long term debt rating of 'A', authorised funds including those managed by Octopus or directly in equity investments and bonds. This provides a reserve of liquidity which should maximise the Company's flexibility as to the timing of investments, disposals, dividend payments and share buybacks.

Risk is spread by investing in a number of different businesses across a range of industry sectors using a mixture of securities. The maximum amount invested in any one company is limited to the amount permitted pursuant to VCT legislation in a fiscal year and no more than 15% of the value of its investment at the time of investment. The value of an individual investment is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale. However, shareholders should be aware that the Company's qualifying investments are held with a view to long-term capital growth as well as income and will often have limited marketability; as a result it is possible that individual holdings may grow in value to the point where they represent a significantly higher proportion of total assets prior to a realisation opportunity being available.

The Company's Articles permit borrowings of amounts up to 10% of the adjusted share capital and reserves (as defined in the Company's Articles). However, investments will normally be made using the Company's equity shareholders' funds and it is not intended that the Company will take on any borrowings.

No material changes may be made to the Company's investment policy described above without the prior approval of shareholders by the passing of an Ordinary Resolution. The Directors will continually monitor the investment process and ensure compliance with the investment policy.

## Future Prospects

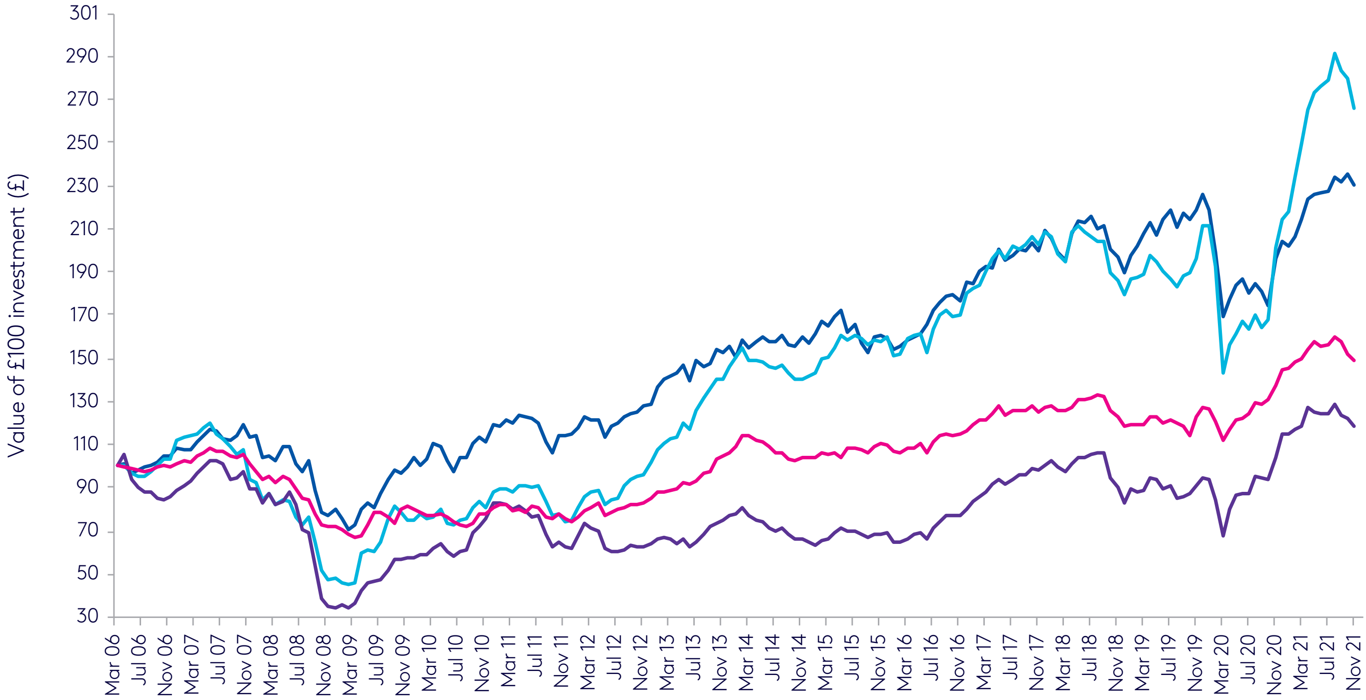
The Company's longer term performance record has allowed the Company to maintain the dividend payments to shareholders in line with the dividend policy set out on page 2. The Board believes the Company's business model will enable it to continue to deliver the targeted regular tax-free annual dividends referred to in the Chairman's Statement. Although we have seen a year of uncertainty due to the coronavirus pandemic the Company has performed well due to the balance of the existing portfolio. The Company has a strong cash position which enables us to invest in new companies and support existing companies. The Outlook statements in both the Chairman's Statement and the Investment Manager's Review, on pages 3 and 7 respectively, provide further details on the more immediate prospects of the Company.

## Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to Octopus through the investment management agreement, as referred to in the Directors' Report.

The graph below compares the total return of the Company over the period from 1 March 2006 to 30 November 2021 with the total return from notional investments in the FTSE AIM All-Share Index and FTSE SmallCap (ex-investment companies) Index over the same period. The FTSE AIM All-Share Index is a stock market index consisting of all companies quoted on the Alternative Investment Market and the FTSE SmallCap Index is an index of small market capitalisation companies. The Directors consider these to be the most appropriate in helping shareholders benchmark returns from the Company but would remind investors that approximately 10.1% of the FTSE AIM All-share Index is attributable to resources, investment vehicles and property sector stocks which VCTs cannot invest in. VCTs are also limited to investing into companies with certain size and age restrictions. The inclusion of the FTSE All Share Index is to provide a wider stock market context. Investors should be reminded that shares in VCTs generally continue to trade at a discount to the NAV of the Company.

**Investors investing into Octopus AIM VCT 2 plc**




- FTSE All-Share total return, based on £100 notional investment on 1 March 2006 and the reinvestment of all income
- FTSE Small-Cap ex Investment trusts total return, based on £100 notional investment on 1 March 2006 and the reinvestment of all income
- FTSE AIM All-Share total return, based on £100 notional investment on 1 March 2006 and the reinvestment of all income
- NAV return + reinvestment of all dividends (net of up-front tax relief), based on notional investment of £100 on 1 March 2006

## Results and Dividends

| | **Year ended 30 November 2021 £'000** | Year ended 30 November 2020 £'000 |
|---|---|---|
| Profit attributable to shareholders | **18,088** | 17,762 |
| | | |
| Distributions: | | |
| Interim dividend paid 2.1p (2020 – 2.1p) | **3,121** | 2,534 |
| Special dividend paid 1.7p (2020 – nil) | **2,527** | – |
| Final dividend proposed 2.1p (2020 paid – 2.1p) | **3,106** | 2,838 |

The proposed final dividend of 2.1p for the year ended 30 November 2021 will be paid on 27 May 2022 to shareholders on the register on 6 May 2022 subject to approval at the AGM.

## Key Performance Indicators (KPIs)

As a VCT, the Company's objective is to provide shareholders with attractive dividends and capital return by investing its funds in a broad spread of predominantly quoted UK companies which meet the relevant criteria for VCTs.

The Board has identified five key performance measures to assess the Company's success in meeting these objectives. Some of these are classified as alternative performance measures ("APMs"*) in line with Financial Reporting Council ("FRC") guidance. The Glossary of terms on page 68 has further details:

1. NAV per share*;
2. Total return per share*;
3. Dividends per share paid in the year;
4. Total ongoing charges*; and
5. VCT Qualification %.

**1. NAV per share**

The NAV per share of the Company is the sum of the underlying assets less the liabilities of the Company divided by the total number of shares in issue.

| Current year (pence per share) | Prior year (pence per share) | Reason for movement |
|---|---|---|
| 90.8 | 82.9 | The NAV per share has increased from last year's value of 82.9p to 90.8p. This uplift of 9.5% is mainly driven by portfolio movement benefitting from its relatively high exposure to the technology and healthcare sectors. |

**2. Total return per share***

Total return is calculated as movement in NAV per share in the period plus dividends paid in the period, divided by the NAV per share at the beginning of the period. Total return on the NAV per share enables shareholders to evaluate more clearly the performance of the Fund, as it reflects the underlying value of the portfolio at the reporting date. This is the most widely used measure of performance in the VCT sector.

| Current year % | Prior year % | Reason for movement |
|---|---|---|
| 16.6 | 20.3 | As previously considered, the NAV per share has increased from last year's value of 82.9p to 90.8p. This gave a total return of 16.6% or 13.8p per share, after adding back dividends of 5.9p paid in the year. |

The Board notes that for the year under review this was slightly ahead of the FTSE AIM All Share Index total return figure of a positive 14.0%. The Board remain confident about achieving the long-term objective of the Company. Performance is also measured against the FTSE SmallCap Index and the FTSE All-Share Index with the latter being provided for wider stock market context. This is also shown on the graph on the previous page. In the year under review the FTSE SmallCap Index rose by 32.3% and the FTSE ALL-Share Index rose by 17.4% all on a total return basis. These indices have been adopted as comparative indices. Further details on performance can be found within the Investment Manager's Review on pages 5 to 6.

**3. Dividends per share paid in the year**

The Company has a target of paying an annual dividend of 3.6p per share or a 5% yield based on the prior year end share price, whichever is greater at the time.

| Current year (pence per share) | Prior year (pence per share) | Reason for movement |
|---|---|---|
| 5.9 | 4.2 | This year the dividends paid were higher due to a special dividend of 1.7p made following a number of partial and total sales of holdings from the portfolio in the year. |

*These KPIs are defined as alternative performance measures ("APMs") and are defined in more detail on the Glossary of terms on page 68.

The 5.9p dividends paid in the year gives an annual yield of 7.1% based on the share price of 82.9p at the prior year end which is above the Board's policy of paying the higher of a 5% yield or 3.6p of dividends in the year. Dividends are paid semi-annually. It remains the intention of the Board to continue this policy, subject to available cash and distributable reserves. However, this is not a guarantee, and no projection or forecast is expressed or implied. A full list of dividends paid can be found in the table on page 65.

**4. Total ongoing charges***

The ongoing charges ratio has been calculated using the AIC recommended methodology and exclude exceptional costs and trail commission.

| Current year % | Prior year % | Reason for movement |
|---|---|---|
| 1.8 | 1.9 | The ongoing charges ratio has decreased slightly from last year primarily due to an increase in average net assets over the year combined with some expenses remaining static despite the increase in net assets. |

There are a number of costs involved in operating a VCT, some of these expenses are outlined in note 4 on page 54. The Company has an expense cap of 3.5%. The ongoing charges have been lower than the expense cap for the current and prior year, which is in line with the Board expectations.

**5. VCT Qualification %**

The Company must comply with VCT legislation laid down by HMRC. A key requirement is to maintain at least an 80% qualifying investment level.

| Current year % | Prior year % | Reason for movement |
|---|---|---|
| 93.8 | 93.5 | 93.8% (as measured by HMRC rules) by value of the Company's investments has been represented throughout the period by shares or securities comprised in qualifying holdings of the Company. The qualification level has increased by 0.3% due to the increase in deployment levels so more investments are contributing to the 80% qualifying investment level. Further details on VCT regulations can be found within the Investment Manager's Review on page 7. |

The Company has continued to maintain to meet the 80% qualification investment level. There continues to be sufficient investment opportunities to enable the Manager to comply with these ratios.

The Chairman's Statement, on pages 2 and 3 includes a review of the Company's activities and future prospects; further details are also provided within the Investment Manager's Review on pages 4 to 16.

*These KPIs are defined as alternative performance measures ("APMs") and are defined in more detail on the Glossary of terms on page 68.

## Viability Statement

As part of their continuing programme of monitoring risk the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the "Going Concern" provision. The Board conducted this review for a period of five years, which was considered to be a reasonable time horizon given that the Company has raised funds under an offer for subscription which closed to new applications on 13 September 2021 and, under VCT rules, subscribing investors are required to hold their investment for a five year period in order to benefit from the associated tax reliefs. The Board regularly considers the Company's strategy, including investor demand for the Company's shares, and a five year period is considered to be a reasonable time horizon for this.

The Board carried out a robust assessment of the emerging and principal risks facing the Company and its current position. This includes the impact of the coronavirus pandemic and any other risks which may adversely impact its business model such as future performance, solvency or liquidity. Particular consideration was given to the Company's reliance on, and close working relationship with, the Investment Manager. The principal risks faced by the Company and the procedures in place to monitor and mitigate them are set out on the following pages.

The Board has also considered the liquidity of the underlying investments and the Company's cash flow projections and found these to be realistic and reasonable. The Company's cash flow includes Cash equivalents which are short-term, highly liquid investments.

Based on the above assessment the Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period to 30 November 2026. A resolution will be put to the AGM to approve the Company continuing as a VCT to 2027.

## Emerging and Principal Risks, Risk Management and Regulatory Environment

In accordance with the Listing Rules and the Companies Act 2006 under which the Company operates, the Board has to comment on the potential risks and uncertainties, which could have a material impact on the Company's performance. The Board carries out a regular review of the risk environment in which the Company operates. The main areas of risk identified by the Board are as follows:

| Risk | Mitigation | Change in year |
|---|---|---|
| **VCT qualifying status risk:** The Company is required at all times to observe the conditions laid down in the Income Tax Act 2007 and the Finance Act 2018 for the maintenance of approved VCT status. The loss of such approval could lead to the Company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the Company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment. | Prior to investment, Octopus seeks assurance from the Company's VCT status adviser that any portfolio asset will meet the legislative requirements for VCT investments.<br><br>Furthermore, Octopus continually monitors the Company's compliance with VCT regulations in respect of cash and non-qualifying holdings, distributions, and deployment of funds raised, to ensure ongoing compliance with VCT legislation. Regular updates on compliance are also provided to the Board throughout the year.<br><br>Additionally, PricewaterhouseCoopers LLP has been engaged throughout the year by the Company to undertake an independent VCT status monitoring role reporting to the Board bi-annually. | = No change |
| **Operational risk:** The Board is reliant on Octopus for all day-to-day operational, investment management and custody for the Company. | The Board reviews annually, with professional assistance where appropriate, the system of internal controls, both financial and non-financial, operated by the Company and the Investment Manager (to the extent the latter are relevant to the Company's internal controls). These include controls designed to ensure that the Company's assets are safeguarded and that proper accounting records are maintained.<br><br>Octopus has a broad team focused on quoted and unquoted investments. This mitigates the risk of a knowledge or skills gap resulting from a loss of a key person with sector and product experience leaving. | = No change |
| **Regulatory and reputational risk:** In addition to specific VCT legislation, the Company is required to comply with the Companies Act, UK Listing Authority regulations and financial statements and notes must be prepared under UK GAAP. The Company is also a small registered Alternative Investment Fund ("AIF") and must comply with the requirements of the AIF Management Directive. Breach of any of these could result in penalties including suspension of the Company's Stock Exchange listing, financial penalties, qualified audit report or loss of shareholder trust. | Day-to-day operational oversight of the Company is carried out by Octopus. Octopus conducts rigorous on-boarding procedures for new employees and conducts regular staff reviews and training to ensure that teams charged with oversight of the Company are appropriately qualified to conduct their roles and ensure compliance with relevant legislation.<br><br>The Board are updated regularly on all regulatory and compliance matters and take specific legal advice where appropriate. | = No change |
| **Valuation risk:** Inaccuracies in the valuation of investment assets may result in the Company net asset position being misrepresented and errors in the reported NAV per share. | Investments traded on AIM and AQSE Exchange are valued by Octopus using closing bid prices as reported on Bloomberg. Where investments are unquoted or there are limited trading volumes, alternative valuation techniques are employed in accordance with current International Private Equity and Venture Capital Valuation ("IPEV") guidelines, December 2018.<br><br>Investment in Octopus Portfolio Manager ("OPM"), FP Octopus UK Micro Cap Growth Fund, FP Octopus UK Multi Cap Income Fund and FP Octopus UK Future Generations Fund are all valued with reference to the daily prices which are published by Fund Partners, the Authorised Corporate Director. | = No change |

| | | |
|---|---|---|
| **Investment risk:** Most of the Company's investments are into companies admitted to trading on AIM and AQSE Exchange which are VCT qualifying holdings and so, by their nature, entail a higher level of risk and lower liquidity than investments in larger quoted companies.<br><br>The Company also makes non-qualifying investments into FP Octopus UK Micro Cap Growth Fund, FP Octopus UK Multi Cap Income Fund and FP Octopus UK Future Generations Fund. FP Octopus UK Micro Cap Growth Fund invests into smaller companies quoted on the LSE, AIM and AQSE markets. FP Octopus UK Multi Cap Income Fund and FP Octopus UK Future Generations Fund invest into companies quoted on the LSE, AIM and AQSE markets. Non-qualifying investments have also been made into OPM which invests via collective investment schemes into global markets.<br><br>As markets fluctuate investments and the income derived from any of the collective investments referred to above may go down as well as up, potentially resulting in investors not getting all their capital back | The Directors and Octopus aim to limit the risk attached to the portfolio as a whole by careful selection and timely realisation of investments, carrying out rigorous due diligence procedures and maintaining a diversified portfolio in terms of business life cycle and sector. The Board reviews the investment portfolio with Octopus on a regular basis. No material changes to the investment approach are considered necessary as a result of new legislation.<br><br>The OPM Service is a discretionary management service offering a range of risk-targeted portfolios which invest in underlying collective investment schemes. The portfolios selected target defined levels of volatility at the lower end of the risk spectrum and have been specifically chosen for their lower risk investment approach to accessing global markets and the ability to offer daily liquidity. The OPM holdings were disposed of during the year.<br><br>The FP Octopus UK Micro Cap Growth Fund, FP Octopus UK Multi Cap Income Fund and FP Octopus UK Future Generations Fund are all regulated collective investment schemes with daily pricing and liquidity. The Micro Cap Fund is invested in small companies and the other funds are invested across the wider UK stock market. | = No change |
| **Financial risk:** The Company is exposed to market price risk, credit risk, liquidity risk, fair value risk, cash flow risk and interest rate risk. | The Company is financed through equity and does not have any borrowings as the Directors consider that it is inappropriate to finance the Company's activities through borrowing. The Company does not use derivative financial instruments. The Company invests in financial assets of a nature that may not always be readily realisable. Accordingly, the Investment Manager seeks to maintain a proportion of the Company's assets in cash or cash equivalents and liquid investments in order to balance irregular cash flows from realisations. At the balance sheet date the cash and cash equivalents (including cash held in liquid funds) amounted to 26% of net assets (2020: 28%). The financial risks are considered in more detail in note 17 to the financial statements. | = No change |
| **Economic and price risk:** Macroeconomic conditions such as government regulation, political instability or recession could cause volatility in the markets, damaging both the price and underlying value of Company investments. The risk is amplified for smaller companies earlier in their life cycle. | To mitigate these risks Octopus constantly monitors the markets and the portfolio companies, providing performance update to the Board at each meeting. The risk of material decline in the value of a single security is further mitigated by holding a diversified portfolio, across a broad range of sectors.<br><br>The Investment Manager continues to monitor the impact of macroeconomic conditions including the coronavirus pandemic and Brexit. The continuous assessment ensures that exposure to the risks for each portfolio company will be addressed, and appropriate actions, where possible, will be implemented. | = No change |

The Board has considered emerging risks. The Board seeks to mitigate internal risks by regular review of performance, monitoring progress and compliance with internal procedures. In the mitigation and management of these risks the Board applies the principles in the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting". Further reference to the Company's internal controls are contained in the Corporate Governance Report on pages 32 to 35.

Further details of the Company's financial risk management objectives and policies are provided in note 17 to the financial statements.

## Gender and Diversity

The Board of Directors comprises one female and four male Non-Executive Directors with considerable experience of the VCT industry and a broad range of skills and backgrounds. The gender, diversity and constitution of the Board is reviewed on an annual basis. All appointments are made on the basis of ability and knowledge

## Employee, Human Rights, Social and Community Issues, Environment Policy and Greenhouse Gas Emissions

The Board's policy on Employee, Human Rights, Social and Community Issues, Environment Policy and Greenhouse Gas Emissions is discussed in the Directors' Report on page 29.

## Climate-related matters

While not a requirement, Octopus AIM VCT 2 plc acknowledge the recommendations under Task Force on Climate-related Financial Disclosures (TCFD) and have given some initial disclosure under the main headings below, which we will continue to evolve over future periods:

- **Governance:** On an annual basis the Octopus Investments Responsible Investment Committee (comprised of an Octopus Founder, the CIO, the Heads of the Investment Teams and the Impact Centre of Expertise) reviews climate related risks and opportunities that have been identified as being financially material to the management of the Company.
- **Strategy:** The Company makes investments into a range of sectors but the companies receiving funding are small companies specifically listed on the AIM Market. Exposure to climate related risks is assessed on a deal-by-deal basis by the investment team. The analysis considers transition risks and the physical risks and impacts of climate change for industries and sectors where this has been identified as a material issue. The team are also focused on identifying investment opportunities in companies that are well positioned to benefit from the transition to a lower carbon economy.
- **Risk Management:** Where potential material climate related risks have been identified, the investment team assesses how well the risk is managed by the Company. This is raised with the management team and the Board, where appropriate, as part of the investment process and is continually monitored through investment committee meetings. As part of climate-related reporting to the ESG Committee, the investment team must highlight the risks and opportunities that have been identified.
- **Metrics:** Where relevant for the industry and sector, the team reviews metrics reported by the Company to understand material exposures, how they are being managed and Company performance. This includes areas such as energy management, energy use, carbon footprint disclosures and commitments to appropriate carbon reduction pathways for the sector and industry.

The Strategic Report was approved on behalf of the Board by:

Keith Mullins
Chairman
21 February 2022

# Details of Directors

The Board comprises five Directors all of whom are independent of the Investment Manager. The Directors operate in a non-executive capacity and are responsible for overseeing the investment strategy of the Company. The Board has wide experience of investment in both smaller growing companies and larger quoted companies.

## Keith Mullins (Chairman)

Keith Mullins joined SG Warburg's investment management division in 1978. The division later developed into Mercury Asset Management and subsequently became Merrill Lynch Investment Managers upon its acquisition by Merrill Lynch in 1998. He therefore has many years experience as a specialist UK equity fund manager. During this time he was responsible for establishing and managing the team specialising in small and medium sized pension fund portfolios, and from 2000 he was head of pension fund asset allocation. He left as a managing director of Merrill Lynch Investment Managers in 2001. Keith became a Director of the Company on 14 September 2005.

## Andrew Raynor FCA

Andy is the non-executive Chairman of Potter Clarkson LLP, a leading full-service intellectual property law firm based in the UK and Europe. Andy retired from the position of Chief Executive of Shakespeare Martineau LLP in January 2019, an expanding Midlands and London law firm that he led from 2015 through a period of significant growth in turnover and profits. In addition to Potter Clarkson he also has a portfolio of senior advisory roles in the professional and financial services sector and has held other corporate non-executive roles over many years. Andy joined RSM Tenon Group PLC ("RSM Tenon") in 2001 after its acquisition of the independent partnership formerly known as BDO Stoy Hayward – East Midlands. Andy led the company to win National Firm of the Year 2011 in the British Accountancy Awards. Prior to joining RSM Tenon, he spent almost 20 years with BDO Stoy Hayward – East Midlands, where he was managing partner. Andy became a Director of the Company on 14 September 2005.

## Elizabeth Kennedy LLB (Hons) FCSI FCG

Elizabeth Kennedy worked for 30 years in corporate finance, principally with Brewin Dolphin Limited, specialising in IPO, secondary issue, takeover code, FCA sponsor and AIM nominated adviser work. She has been a member of the London Stock Exchange's AIM Advisory Group since 1995. She is currently a Non-Executive Director of a number of companies and charities including BMO Private Equity Trust plc, Beatson Cancer Charity and a consultant with Davidson Chalmers Stewart LLP. Elizabeth became a Director of the Company on 12 August 2010 when Octopus AIM 2 merged with Octopus Second AIM VCT plc.

## Alastair Ritchie BA

Alastair Ritchie has considerable experience in smaller businesses, both private and public, and has served as chairman of several companies quoted on the London Stock Exchange's main market and AIM. Alastair became a Director of the Company on 12 August 2010 when Octopus AIM 2 merged with Octopus Second AIM VCT plc. Alastair will be stepping down as a director of the Company at the close of business of the AGM to be held on 28 April 2022.

## Brad Ormsby CA

Brad Ormsby has been Chief Financial Officer at Judges Scientific plc, the AIM listed buy and build scientific instruments group, since 2015. He is a Chartered Accountant with significant senior financial and operational experience acquired during his time at PwC and Eurovestech plc. Prior to joining Judges he was CFO at Kalibrate Technologies plc where he led the company's IPO onto AIM. Brad became a Director of the Company on 1 January 2022.

# Directors' Report

The Directors present their report and the audited financial statements for the year ended 30 November 2021. The Corporate Governance Report on pages 32 to 35 and the Audit Committee Report on pages 36 and 37 form part of this Directors' Report.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

## Directors

Brief biographical notes on the Directors are given on page 27.

In accordance with the Articles of Association of the Company, Keith Mullins will retire as a Director at the AGM and, being eligible, offer himself for re-election. Brad Ormsby, who was appointed on 1 January 2022, offers himself for election and, as announced previously, Alastair Ritchie will be retiring from the Board on the conclusion of the business of the 2022 AGM. Following a formal performance evaluation as part of the Board Evaluation, further details of which can be found on page 33, the Board believes that all the Directors continue to be effective Non-Executive Directors, providing considerable experience and continuity to the Company and demonstrating commitment to their roles.

## Directors' and Officers' Liability Insurance

The Company has, as permitted by s236 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

## VCT Regulations

Compliance with required rules and regulations is considered when all investment decisions are made. The Company is further monitored on a continual basis to ensure compliance. The main criteria to which the Company must adhere to are outlined below:

The Company is required at all times to hold at least 80% of its investments (as defined in the legislation) in VCT qualifying holdings, of which at least 70% must comprise eligible Ordinary shares.

For this purpose, a "VCT qualifying holding" consists of up to £5 million invested in any one year in new shares or securities of a UK AIM traded company or an unquoted company which is carrying on a qualifying trade, and whose gross assets and number of employees at the time of investment do not exceed a prescribed limit. The definition of "qualifying trade" excludes certain activities such as property investment and development, some financial services and asset leasing.

The Finance Act 2014 amended the VCT Rules in respect of VCT shares issued on or after 6 April 2014, such that VCT status will be withdrawn if a dividend is paid (or other forms of distribution or payments are made to investors) from the capital received by the VCT from that issue within three years of the end of the accounting period in which shares were issued to investors. This may reduce the amount of distributable reserves available to the Company to fund dividends and share buybacks. However, with share premium cancellations when necessary, the Company currently has sufficient distributable reserves to allow dividends to continue to be paid at a level in line with the Company's current dividend policy.

The Finance Act 2016 introduced a number of changes to VCT rules to bring the legislation into line with EU State Aid Risk Finance Guidelines. The legislation introduced new criteria which stipulate a lifetime cap on the total amount of State Aid investment a company can receive, the age of companies which are eligible for investment and specific requirements relating to the use of the funds raised. See page 7 of the Investment Managers Review for a summary of the requirements.

The Finance Act 2018 made further changes to VCT rules. As referred to earlier in page 7 the Company is required to hold at least 80% of its investments in VCT qualifying holdings as of the last accounting period. The legislation also introduced a new deadline by which the Company must invest at least 30% of the money raised from the issue of shares in qualifying holdings within 12 months of the accounting period in which the shares were issued.

The Company has maintained compliance with VCT legislation for the year under review and intends to continue to do so for future periods

## Going Concern

The Company's business activities and the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Investment Manager's Review on pages 2 and 3 and pages 4 to 16. Further details on the management of financial risk may be found in the Business Review on page 20 and in note 17 to the financial statements.

The Board receives regular reports from the Investment Manager and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period at least twelve months from the date of approval of the financial statements. As discussed in the Viability Statement on page 23 the Directors have considered the Company's cash flow projections in a range of scenarios, including both continuation of normal levels of fundraising as well as potential no fundraise scenarios. In both scenarios the Board is confident in the ability of the Company to maintain its VCT status and meet liabilities as they fall due. Some of the ways in which the Board could manage the operations of the Company include adjusting investment strategy and careful consideration of non-committed cash outflows, including dividends and buybacks. They are satisfied that no material uncertainties leading to significant doubt about going concern have been identified. It is appropriate to continue to adopt the going concern basis in preparing the financial statements.

A Resolution will be put to the Company's AGM on page 71 to approve the Company continuing as a VCT to 2027. The continuation to 2027 will allow shareholders who have participated in the recent Offer to subscribe for Ordinary Shares in the Company to hold their shares for the five years required to receive tax relief and, in addition, will also allow the Company to remain a going concern.

The assets of the Company include securities, a large proportion of which are readily realisable and, accordingly, the Company has adequate financial resources to continue to satisfy the expenses of commitments under share buybacks and to remain in operational existence for a period of at least twelve months.

## Dividend

The proposed final dividend is set out in the Financial Summary on page 1, the Chairman's Statement on page 2 and in the Business Review on page 20.

## Management

The Company has in place an agreement with Octopus to act as Investment Manager which is central to the ability of the Company to continue in business. The principal terms of the Company's management agreement with Octopus are set out in note 3 to the financial statements. The Investment Manager also provides secretarial, administrative and custodian services to the Company.

There are no other contracts which are deemed to be essential to the business of the Company.

As required by the Listing Rules, the Directors confirm that, in their opinion, the continuing appointment of Octopus as Investment Manager is in the best interest of the shareholders as a whole. In reaching this conclusion the Directors have taken into account the performance of the investment portfolio and the ability of the Investment Manager to produce satisfactory investment performance in the future. No Director has an interest in any contract to which the Company is a party.

The Board has delegated the routine management decisions such as the payment of standard running costs to Octopus. Investment decisions are discussed with the Board.

## Whistleblowing

The Board has considered the arrangements implemented by the Investment Manager to encourage staff of the Investment Manager or Company Secretary of the Company to raise concerns, in confidence, within their organisation about possible improprieties in matters of financial reporting or other matters. It is satisfied that adequate arrangements are in place to allow an independent investigation, and follow on action where necessary, to take place within the organisation.

## Employee, Human Rights, Social and Community Issues

The Board seeks to conduct the Company's affairs responsibly. The Company is required by company law to provide details of employee, human rights, social and community issues, including information about any policies it has in relation to these matters and the effectiveness of such policies. As an externally managed investment company with no employees the Company does not maintain specific policies in relation to these matters.

## Environment Policy and Greenhouse Gas Emissions

The Board has no specific environmental policy; however, the Company recognises the need to conduct its business, including investment decisions, in a manner that is environmentally responsible wherever possible. The Company does not produce any reportable emissions as the fund management is outsourced to Octopus with no physical assets or property held by the Company. As the Company has no employees or operations, it is not responsible for any direct emissions, and as it uses less than 40,000 kWh of energy during the reporting year it is exempt from SECR reporting requirements.

## Financial Risk Management

The most significant financial risks arising from the Company's financial instruments are market risk, interest rate risk, credit risk and liquidity risk. The policies for managing these risks are regularly reviewed by the Board and full details can be found in note 17 to the financial statements.

## Bribery Act

Octopus has an Anti Bribery Policy which introduced robust procedures to ensure full compliance with the Bribery Act 2010 and to ensure that the highest standards of professional ethical conduct are maintained. All employees and those working for, or on behalf of, the firm are aware of their legal obligations when conducting Company business.

## Share Capital

The Company's ordinary share capital as at 30 November 2021 comprised 148,580,569 Ordinary shares of 0.01p each.

The voting rights of the Ordinary shares on a show of hands are one vote for each member present or represented, the voting rights on a poll are one vote for each share held. There are no restrictions on the transfer of the Ordinary shares and there are no shares that carry special rights with regards to the control of the Company.

## Share Issues and Open Offers

On 20 August 2020, a prospectus offer was launched alongside Octopus AIM VCT plc to raise a combined total of up to £20 million with a £10 million over allotment facility. This prospectus closed to further applications on 30 November 2020. 10,573,503 shares were issued in the current period, raising £8.9 million after costs.

During the year 16,064,510 shares were issued under the fundraise that launched on 19 August 2021 and closed on 13 September 2021, raising £15.5 million after costs.

During the year 1,716,026 shares were issued to those shareholders who elected to receive shares under the Dividend Reinvestment Scheme as an alternative to dividends. This raised £1.6 million.

An additional 38,403 shares were issued to shareholders as a result of reduced adviser charges, and to Octopus employee shareholders as a result of a rebate of part of the annual management fee. These shares were issued to those investors who, in accordance with the adviser charging terms contained in each fundraising document offered to the public and published since 31 December 2012 following the introduction of the retail distribution, had chosen to pay their adviser less than the 0.5% ongoing adviser charge; and to employees, who have been rebated the annual management charge.

### Share Buybacks and Redemptions

During the year, the Company purchased 5,472,527 Ordinary shares with a nominal value of 0.01p for cancellation at a weighted average price of 90.9p per share (2020: 3,788,569 shares at a weighted average price of 71.5p per share) for a total consideration of £5.0 million (2020: £2.7 million). This represents 3.7% of the closing share capital. These were repurchased in accordance with the Company's share buyback facility in an attempt to assist the marketability of the shares and prevent the shares trading at a wide discount to the NAV.

### Post Balance Sheet Events

A full list of post balance sheet events since 30 November 2021 can be found in note 18 to the financial statements on page 63.

### Rights Attaching to the Shares and Restrictions on Voting and Transfer

Subject to any suspension or abrogation of rights pursuant to relevant law or the Company's Articles of Association, the Ordinary shares confer on their holders (other than the Company in respect of any Treasury shares) the following principal rights:

(a) the right to receive profits available for distribution, such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the Board as approved by shareholders in a general meeting or in the case of an interim dividend in an amount determined by the Board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the Company;

(b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the Company remaining after payment of its liabilities pari passu with the other holders of Ordinary shares; and

(c) The right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the Company. On a show of hands, every member present or represented and voting has one vote, and on a poll, every member present or represented and voting has one vote for every share of which that member is the holder. The appointment of a proxy must be received not less than 48 hours before the time of the holding of the relevant meeting or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting, be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll.

These rights can be suspended. If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the Company's Articles of Association with a notice pursuant to s793 of the Companies Act 2006 (notice by the Company requiring information about interests in its shares), the Company can, until the default ceases, suspend the right to attend and speak and vote at a general meeting. If the shares represent at least 0.25% of their class the Company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares. Shareholders, either alone or with other shareholders, have other rights as set out in the Company's Articles of Association and in company law (principally the Companies Act 2006).

A member may choose whether their shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system). Any member may transfer all or any of their shares, subject in the case of certificated shares to the rules set out in the Company's Articles of Association or in the case of uncertificated shares to the regulations governing the operation of CREST (which allow the Directors to refuse to register a transfer as therein set out); the transferor remains the holder of the shares until the name of the transferee is entered in the Register of Members. The Directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required). The Directors may also refuse to register an Ordinary share transfer if it is in respect of a certificated share which is not fully paid up or on which the Company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if, in the opinion of the Directors (and with the concurrence of the UK Listing Authority), exceptional circumstances so warrant, provided that the exercise of such power will not disturb the market in those shares. Whilst there are no squeeze-out and sell-out rules relating to the shares in the Company's Articles of Association, shareholders are subject to the compulsory acquisition provisions in s974 to s991 of the Companies Act 2006.

## Directors' Authority to Allot Shares, to Disapply Pre-emption Rights

The authority proposed under Resolution 7 is required so that the Directors may issue shares in connection with offers, if the Directors believe this to be in the best interests of the Company and the shareholders as a whole. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used, in whole or part, to purchase Ordinary shares in the market. Resolution 7 renews the Directors' authority to allot Ordinary shares (representing approximately 20% of the Company's issued share capital at the date of the Notice of AGM). The authority conferred by this resolution will expire on the earlier of the next AGM and the date falling 15 months after the date of the passing of the resolution and is in addition to existing authorities.

Resolution 8 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying for the allotment of shares authorised pursuant to Resolution 7 and for the same reasons. The authority conferred by this resolution will expire on the earlier of the next AGM and the date falling 15 months after the date of the passing of the resolution and, as with Resolution 7, is in addition to existing authorities.

## Directors' Authority to Make Market Purchases of its Own Shares

The authority proposed under Resolution 9 is required so that the Directors may make purchases of up to 22,173,806 Ordinary shares (representing approximately 14.99% of the Company's issued share capital at the date of the Notice of AGM) and the Resolution seeks renewal of such authority until the next AGM (or the expiry of 15 months, if earlier). Any shares bought back under this authority will be at a price determined by the Board, (subject to a minimum of 0.01p (being the nominal value of such shares) and a maximum of 5% above the average mid-market quotation for such shares on the London Stock Exchange and the applicable regulations thereunder). This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in Treasury for future re-sale in appropriate market conditions.

## Cancellation of Share Premium Account

The Board considers it appropriate to obtain shareholders' approval for the cancellation of the remaining amount standing to the share premium account of the Company as at 30 November 2021 to create (subject to Court approval) a pool of distributable reserves. A Special Resolution to this effect is being proposed at Resolution 10.

## Substantial Shareholdings

As at the date of this report, no disclosures of major shareholdings had been made to the Company under Disclosure Guidance and Transparency Rule 5 (Vote Holder and Issuer Notification Rules).

## Independent Auditor and Disclosure of Information to Auditor

BDO LLP is the appointed auditor of the Company and offer themselves for reappointment. A Resolution to reappoint BDO LLP as auditor and authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

As far as the Directors are aware, there is no relevant audit information of which the auditor is unaware and the Directors have taken all the steps they ought to have taken as a Director in order to make them aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Board

Keith Mullins
Chairman
21 February 2022

# Corporate Governance Report

The Board of the Company has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance ("AIC Code"). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code ("UK Code"), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and provisions of the AIC Code, which has been endorsed by the Financial Reporting Council provides more relevant information to shareholders.

Corporate governance within the closed-ended investment company industry differs from that of other companies. In addition, VCTs differ from most other investment companies in that they have, developed over many years, a complex range of additional legal, tax and regulatory requirements.

Octopus AIM VCT 2 plc, as a VCT and closed-ended investment company has particular factors which have an impact on its governance arrangements. The Company:

- outsources all day-to-day activities (such as portfolio management, administration, accounting, custody and company secretarial). This means that it is governed entirely by a Board of Non-Executive Directors. In these circumstances, the proper oversight of these relationships is the key aspect of achieving good corporate governance.
- does not have executive directors or employees. As a consequence, the only "corporate memory" is that of the Non-Executive Directors;
- does not have customers, only shareholders.

The AIC Code deals with matters such as the relationship with the manager and other service providers. In practice, most of the time spent by the Board of a well-functioning investment company should be spent on matters of general corporate governance (e.g. the investment strategy, policy and performance) which is what we do.[1]

The Company is committed to maintaining high standards in corporate governance. The Directors consider that the Company has, throughout the year under review, complied with the provisions set out in the AIC Code with the exceptions set out in the Compliance Statement on page 35.

[1]Please see the AIC Code at **www.theaic.co.uk**.

## Board of Directors

The Company has a Board of five Non-Executive Directors, all of whom are considered by the Board to be independent. The Board meets at least four times a year, and on other occasions as required, to review the investment performance and monitor compliance with the investment policy laid down by the Board.

The Board has a formal schedule of matters specifically reserved for its decision which include:

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation;
- consideration of corporate strategy;
- approval of the appropriate dividend to be paid to the shareholders;
- the appointment, evaluation, removal and remuneration of the Investment Manager;
- the performance of the Company, including monitoring of the discount of the NAV to the share price; and
- monitoring shareholder profiles and considering shareholder communications.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda and has no involvement in the day to day business of the Company. He facilitates the effective contribution of the Directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

The Company Secretarial function is discharged by Octopus Company Secretarial Services Limited which is responsible for advising the Board, through the Chairman, on all governance matters. All of the Directors have access to the advice and services of the Company Secretary, which has administrative responsibility for the meetings of the Board and its committees. Directors may also take independent professional advice at the Company's expense where necessary in the performance of their duties.

As all of the Directors are Non-Executive, it is not considered necessary to identify a member of the Board as the senior independent director of the Company.

In line with the Board's commitment to succession planning, on 10 September 2021, the Company announced that Alastair Ritchie had indicated his intention to retire. This will be effective at the close of business of the 2022 AGM. The importance of ensuring that the Board remains independent is recognised and, following the engagement of an executive search consultant, Nurole Limited, and the conclusion of a robust and transparent recruitment process, Brad Ormsby was appointed as an additional Director by the Board with effect from 1 January 2022. Neither the Directors nor the Company are connected to Nurole Limited.

The Company's Articles of Association and the schedule of matters reserved for the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

During the year the following meetings were held as part of the regular programme of meetings:

| | Full Board meetings held | No. of meetings attended | Audit Committee meetings held | Audit Committee meetings attended |
|---|---|---|---|---|
| Keith Mullins | 6 | 6 | 2 | 2 |
| Elizabeth Kennedy | 6 | 6 | 2 | 2 |
| Andy Raynor | 6 | 6 | 2 | 2 |
| Alastair Ritchie | 6 | 6 | 2 | 2 |

Additional meetings were held as required to address specific issues including approval of the Annual Report and Accounts. Brad Ormsby was appointed on 1 January 2022 and therefore did not attend any meetings in the year to 30 November 2021.

## Performance Evaluation and Independence of Directors

Each year a formal performance evaluation is undertaken of the Board, its Committee and the Directors in the form of a questionnaire completed by each Director. The Chairman provides a summary of the findings to the Board, which are discussed and an action plan agreed. During the year no issues were identified requiring an action plan. The performance of the Chairman is evaluated by the other Directors.

Brad Ormsby is Group Finance Director and a shareholder of Judges Scientific plc, in which the Company has an investment and so absents himself from any Board decisions relating to that investment. We believe that, in line with the AIC Code, all members of the Board are independent in character and judgement with respect to their duties to the shareholders. Keith Mullins, Chairman of the Company, has served on the Board for 16 years since his initial appointment. He is still considered to be independent in the absence of a connection with the Investment Manager or any of the Company's advisers.

## Length of Service

| | Date of Original Appointment | Due Date for Re-election |
|---|---|---|
| Keith Mullins | 14/09/2005 | AGM 2022 |
| Elizabeth Kennedy | 12/08/2010 | AGM 2023 |
| Andy Raynor | 14/09/2005 | AGM 2024 |
| Alastair Ritchie | 12/08/2010 | Will retire at the 2022 AGM |
| Brad Ormsby | 01/01/2022 | AGM 2025 |

Length of service of the Chairman and other Directors is one of a number of factors taken into account when considering the contribution and ongoing independence of the Board, both individually and in terms of overall composition. The Board considers the experience, range of skills, knowledge of the Company and its operating environment and diversity of the Directors. Accordingly, the Board's policy on tenure is that the term the Chairman and other Directors serve on the Board should not be restricted to a fixed time limit in order to ensure sufficient corporate memory and consistent adherence to strategy.

## Powers of the Directors

Subject to the provisions of the Companies Act, the Memorandum and Articles of Association of the Company and any directions given by shareholders by Special Resolution, the Articles of Association specify that the business of the Company is to be managed by the Directors, who may exercise all the powers of the Company, whether relating to the management of the business or not. In particular the Directors may exercise on behalf of the Company its powers to purchase its own shares to the extent permitted by shareholders. Authority was given at the Company's 2021 AGM to make market purchases of up to 14.99% of the issued Ordinary share capital at any time up to the 2023 AGM and otherwise on the terms set out in the relevant Resolution and renewed authority is being sought at the 2022 AGM as set out in the notice of meeting.

## Board Committees

It should be noted that there is no formal Management Engagement Committee as matters of this nature are dealt with by the independent Non-Executive Directors. The Board does not have a separate Remuneration Committee as the Company has no employees or executive Directors. Detailed information relating to the remuneration of Directors is given in the Directors' Remuneration Report on pages 38 to 40. The Board does not have a separate Nomination Committee as there has not been a requirement for a Committee. Whilst diversity considerations would normally be a function of a Nomination Committee, these are dealt with by the Board as a whole on an annual basis. The Board considers its composition to be appropriate with due regard for the benefits of diversity and gender.

## Audit Committee

Andy Raynor is Chairman of the Audit Committee and all Directors are members of this Committee. The Board confirms that, in accordance with the recommendation of the AIC Code, at least one member of the Audit Committee has recent and relevant financial experience. Both Andy Raynor, as Chairman, and Brad Ormsby are Chartered Accountants and the Board is confident that the Committee as a whole has competence relevant to the sector in which the Company operates.

The Audit Committee Report is given on pages 36 and 37.

## Internal Control

The purpose of these controls is to ensure that proper accounting records are maintained, the Company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the business objectives. The Board regularly reviews financial results and investment performance with its Investment Manager.

The Board delegates the identification of appropriate opportunities and the investment of funds to Octopus. The Board regularly review reports upon the investments made and on the status of existing investments. Octopus is also engaged to carry out the accounting and custodian functions of the Company. All quoted investments are held in CREST. Unquoted investments are held in certificated form.

The Directors confirm that they have established a continuing process throughout the year and up to the date of this report for identifying, evaluating and managing the significant potential risks faced by the Company and have reviewed and were satisfied with the effectiveness of the internal control systems. As part of this process an annual review of the internal control systems is carried out, by Octopus, in accordance with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. As explained in the Audit Committee Report, the Board does not consider it necessary to maintain an internal audit function.

Internal control systems include the production and review of monthly bank reconciliations and management accounts. All outflows made from the VCT's accounts require the authority of two signatories from Octopus. The Investment Manager is subject to ongoing review by the Octopus Compliance Department.

## Financial Risk Management Objectives and Policies

The Company is exposed to the risks arising from its operational and investment activities. Further details can be found in note 17 to the financial statements.

## Statement of Voting at the Annual General Meeting

The most significant portion of the votes cast against a resolution at the 2021 AGM were for the resolutions relating to Cancellation of Share Premium (3.39% of votes cast) and Re-appointment of BDO LLP as auditor (2.65% of votes cast) No communication was received from shareholders giving reasons for the votes against the resolutions.

Shareholders' views are always welcomed and considered by the Board. The methods of contacting the Board are set out below.

## Relations with Shareholders

The Board will be holding a virtual shareholder event on 20 April 2022 at 11:00am to enable shareholders to receive an update from the Investment Manager. This will also provide an opportunity for shareholders to ask questions of the Board relating to the AGM resolutions and Annual Report and Accounts.

We always welcome questions from our shareholders at the AGM. To ensure we are able to respond to any questions you may have for either the Investment Manager or AIM VCT 2 Board, please send these via email to **AIMVCT2AGM@octopusinvestments.com** by 5:00pm on 25 April 2022. Alternatively, please contact the team at Octopus to answer any queries. They can be contacted on **0800 316 2295**.

## Compliance Statement

The Board recognises the importance of good governance. With the exception of the limited items outlined below, the Board believes, for the year ended 30 November 2021, the Company has complied with the principles and provisions of the AIC Code:

1. The Company does not have a senior independent director. The Board does not consider this necessary for the size of the Company.
2. The Company does not have a separate Nomination Committee due to the relatively small size and structure of the Company. Appointments are dealt with by the full Board as and when appropriate.
3. The Company does not have a Remuneration Committee given the size of the Company and as it does not have any executive directors. The whole Board deals with any matters pertaining to remuneration.
4. The Company has no major shareholders therefore shareholders are not given the opportunity to meet any Non-Executive Directors at a specific meeting other than the AGM, or other designated shareholder events, but are welcome to contact the Board or Octopus at any time.
5. The Directors are not subject to annual re-election. This is to ensure experience is retained on the Board. As highlighted earlier, the Board considers all the Directors to be independent.

By Order of the Board

Keith Mullins
Chairman
21 February 2022

# Audit Committee Report

This report is submitted in accordance with The AIC Code in respect of the year ended 30 November 2021 and describes the work of the Audit Committee in discharging its responsibilities.

The Committee's key objective is the provision of effective governance of the appropriateness of the Company's financial reporting, the performance of the auditor and the management of the internal control and business risks systems. The Directors forming the Audit Committee can be found on page 34.

### Matters considered by the Audit Committee in the year

The Audit Committee's terms of reference include the following responsibilities:

- reviewing and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;
- reviewing and making recommendations to the Board in relation to the Octopus internal controls (including internal financial control) and risk management systems to the extent they are relevant to the Company's internal controls;
- periodically considering the need for an internal audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional regulatory requirements;
- monitoring the extent to which the external auditor is engaged to supply board audit services; and
- ensuring that the Investment Manager has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to propriety of financial reporting or other matters.

The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review. The terms of reference are available on request from the Company Secretary. The Committee meets twice per year and has direct access to BDO LLP, the Company's external auditor. Non-audit services were not provided by the external auditor during the period and therefore the Audit Committee does not believe there are any influences on their independence or objectivity. When considering whether to recommend the re-appointment of the external auditor, the Committee take into account the tenure of the current auditor in addition to comparing the fees charged to similar sized VCTs. The current auditor was appointed in 2008 under the name of PKF (UK) LLP, which subsequently merged with BDO LLP, and has held the position for thirteen years.

The Audit Committee undertook a competitive audit tender process in 2018 as required for all Public Interest Entities who have had the same auditor for ten years.

### Independence and Objectivity of the Auditor

When considering the effectiveness of the external audit, the Board considered the quality and content of the Audit Plan and Report provided to the Committee by the auditor and the resultant reporting and discussions on topics raised. Further consideration is also given as part of the annual Board evaluation.

### Auditor Evaluation

The effectiveness of the external audit is assessed as part of the Board evaluation conducted annually and by the quality and content of the Audit Plan and Report provided to the Committee by the Auditor and the resultant discussions on topics raised. The Committee also challenges the Auditor when present at a Committee meeting, if appropriate. The Audit Committee is satisfied that BDO LLP provided effective challenge in carrying out its responsibilities.

Once the Committee has made a recommendation to the Board, in relation to the appointment of the external auditor, this is then ratified at the AGM through an Ordinary Resolution.

### Internal Audit

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business. However, the Committee considers annually whether there is a need for such a function and if so would recommend this to the Board. Octopus has an internal audit team, which is supported as required by external consultants. The Octopus Compliance Department reports to the Board on the outcome of the internal audits that have taken place insofar as these relate to the Company and confirms the absence of any issues relating to internal audit of which the Board should be aware. Octopus undertakes to immediately raise to the Committee, any significant issues arising from the Octopus internal audit that affect the Company.

The Committee will monitor the significant risks at each meeting and Octopus will work closely with the internal auditor to mitigate the risks and the resultant impact.

## Significant Risks

The Audit Committee is responsible for considering significant issues in relation to the financial statements. The Committee has identified the most significant risks for the Company as:

- **Valuation and ownership of investments:** The Committee gives special audit consideration to the valuation of investments and supporting data provided by Octopus. The impact of this risk would be a large gain or loss in the Company's results. The valuations are supported variously by stock market quotations, investee company audited accounts and third party evidence (where relevant). These, together with reconciliations and independent confirmations performed by the auditor give comfort to the Audit Committee.
- **Management override of financial controls:** The Committee specifically review all significant accounting estimates that form part of the financial statements and consider any material judgements applied by management during the completion of the financial statements.
- **Recognition and categorisation of revenue from investments:** Investment income is the Company's main source of revenue. The revenue return is recognised when the Company's right to the return is established in accordance with the Statement of Recommended Practice, as either revenue or capital income. Octopus confirms to the Audit Committee that the revenues are recognised appropriately

In addition to the above, the Committee has also considered the implications of the coronavirus pandemic and Brexit. As at the date of issuing this Report, whilst the Committee anticipates short-term market volatility affecting the underlying investments, it does not consider that this will have an impact upon the long-term viability of the Company. This is discussed further in the Viability Statement on page 23.

These issues were discussed with Octopus and the auditor at the conclusion of the audit of the financial statements.

The Committee has considered the Annual Report and Accounts for the year ended 30 November 2021 and has reported to the Board that it considers them to be fair, balanced and understandable, providing the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The Audit Committee is also responsible for considering and reporting on any significant issues that arise in relation to the audit of the financial statements. The Audit Committee can confirm that there were no significant issues to report to the shareholders in respect of the audit of the financial statements to 30 November 2021.

Andrew Raynor
Audit Committee Chairman
21 February 2022

# Directors' Remuneration Report

## Introduction
This report is submitted in accordance with Regulation 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("Regulations") in respect of the year ended 30 November 2021.

The Company's auditor, BDO LLP, is required to give their opinion on certain information included in this report; comprising the Directors' emoluments section and the Directors' interest in shares below as set out on pages 42 to 46.

## Consideration by the Directors of Matters Relating to Directors' Remuneration
The Board as a whole considers Directors' remuneration and has not appointed a separate committee in this respect.

The Board has not sought advice or services from any external person in respect of its consideration of Directors' remuneration during the year although the Directors expect from time to time to review the fees against those paid to the boards of directors of other VCTs. The Company does not have a chief executive officer, senior management or any employees.

## Directors' Remuneration Policy Report
The Board consists entirely of Non-Executive Directors, who meet at least quarterly and on other occasions as necessary, to deal with the important aspects of the Company's affairs. Directors are appointed with the expectation that they will serve for a period of at least three years. All Directors are subject to election at the first AGM after their appointment and one third of all Directors are subject to retirement by rotation at the AGMs. Re-election will be recommended by the Board but is dependent upon shareholder votes.

Each Director receives a letter of appointment. A Director may resign by notice in writing to the Board at any time giving three months' notice. None of the Directors are entitled to compensation payable upon early termination of their contract other than in respect of any unexpired notice period.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors. They should be sufficient to attract candidates of high calibre to be recruited. The policy is for the Chairman of the Board and the Chairman of the Audit Committee to be paid higher fees than the other Directors in recognition of their more onerous roles. The Remuneration policy is to review the Directors' fees from time to time, benchmarking the fees against other VCT boards, although such review will not necessarily result in any changes. Due to the nature of the Company, there are no employees other than the Directors and therefore no such issues to consider when determining the Directors' remuneration.

The Company's policy is for the Directors to be remunerated in the form of fees, payable monthly in arrears. The fees are not specifically related to the Directors' performance, either individually or collectively. There are no long-term incentive schemes, share option schemes or pension schemes in place. The Board is also entitled to be repaid all reasonable travelling, subsistence and other expenses incurred by them respectively whilst conducting their duties as Directors. No other remuneration or compensation was paid or payable by the Company during the year to any of the current Directors. There will be no payment for loss of office unless approved by a separate shareholder resolution.

An Ordinary Resolution to approve the remuneration policy of the Company was put to, and approved by, shareholders at the 2020 AGM and will remain in force for a three year period. The Board will review the remuneration of the Directors if thought appropriate and monitors competitors in the VCT industry on an annual basis.

## Annual Remuneration Report
This section of the report is subject to approval by a simple majority of shareholders at the AGM in April 2022, as in previous years.

## Statement of Voting at the Annual General Meeting
The 2020 Remuneration Report was presented to the AGM in April 2021 and received shareholder approval following voting by way of a poll. 97.91% of the votes cast were in favour of the Remuneration Report or at the Chairman's discretion, 2.09% were against the resolution and 231,826 votes were withheld. The proxy forms returned to the Registrars contained no explanation for the votes against the resolution.

Shareholders' views are always considered by the Board, and the methods of contacting the Board are set out on page 35.

## Company Performance
The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to Octopus through the investment management agreement, as referred to in the Directors' Report. The performance graph on page 21 also shows the performance of the Company on a total return basis, compared to the performance of the FTSE AIM All Share Index, the FTSE SmallCap (excluding investment companies) Index rose and the FTSE All Share Index.

## Directors' Emoluments (audited)

The amount of each Director's fees for the year were:

| | **Year ended 30 November 2021 £'000** | Year ended 30 November 2020 £'000 | % Increase |
|---|---|---|---|
| Keith Mullins | **26** | 25 | 4.0 |
| Andy Raynor | **24** | 23 | 4.3 |
| Elizabeth Kennedy | **21** | 20 | 5.0 |
| Alastair Ritchie | **21** | 20 | 5.0 |
| Total | **92** | 88 | 4.5 |

The Directors do not receive any other form of emoluments in addition to the Directors' fees, their total remuneration is not linked to the performance of the Company and no bonuses were or will be paid to the Directors.

The Chairman of the Company and Audit Committee Chairman receive additional remuneration over the basic Directors' fee in recognition of the additional responsibilities and time commitment, and additionally, to be fair and comparable to similar VCTs.

## Relative Importance of Spend on Pay

The actual expenditure in the current year is as follows:

| | **Year ended 30 November 2021 £'000** | Year ended 30 November 2020 £'000 |
|---|---|---|
| Total Dividends paid | **8,452** | 5,067 |
| Total Buybacks | **4,973** | 2,710 |
| Total Directors' Fees | **92** | 88 |

The Directors do not consider there to be any other significant distributions during the year relevant to understanding the relative importance of spend on pay.

## Directors' Interest in Shares (audited)

There are no guidelines or requirements for Directors to own shares in the Company. The interests of the Directors, and their connected persons, in shares of the Company during the year (in respect of which transactions are notifiable under Disclosure Guidance and Transparency Rule 3.1.2) in the issued Ordinary shares of 0.01p are shown in the table below:

| | **Ordinary shares of 0.01p each 30 November 2021** | Ordinary shares of 0.01p each 30 November 2020 |
|---|---|---|
| Keith Mullins | **308,563** | 204,195 |
| Andy Raynor | **21,080** | 21,080 |
| Alastair Ritchie | **31,809** | 31,809 |
| Elizabeth Kennedy | **37,380** | 37,380 |
| Brad Ormsby | **–** | – |

All of the shares held by the Directors, or their connected persons, were held beneficially, either in their own name or through a nominee company. There have been no changes in the Directors' share interests between 30 November 2021 and the date of this report.

## Shareholders Proxy Voting Information

As required by Schedule 8:23 of the Regulations, the votes received for the AGM in 2021 were as follows:

| | For (including discretionary) | | Against | |
|---|---|---|---|---|
| | No. of Shares | % | No. of Shares | % |
| Approval of Directors' Remuneration Report | 3,944,697 | 97.91 | 84,006 | 2.09 |

By Order of the Board

Keith Mullins
Chairman
21 February 2022

# Directors’ Responsibility Statement

The Directors are responsible for preparing the Strategic Report, the Directors’ Report, the Directors’ Remuneration Report and the Financial Statements in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report and Accounts include information required by the Listing Rules of the Financial Conduct Authority

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (“GAAP”), including Financial Reporting Standard 102 – “The Financial Reporting Standard Applicable in the United Kingdom and Republic of Ireland” (“FRS 102”), (United Kingdom accounting standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Strategic Report, a Directors’ Report and Directors’ Remuneration Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions, to disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Annual Report and Accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the Company’s performance, business model and strategy.

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company’s auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors are of the opinion that this report as a whole provides the necessary information to assess the Company’s performance, business model and strategy and is fair, balanced and understandable.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Annual Report and Accounts (including the strategic report), give a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Keith Mullins
Chairman
21 February 2022

# Independent auditor's report to the members of Octopus AIM VCT 2 plc

## Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2021 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Octopus AIM VCT 2 plc (the 'Company') for the year ended 30 November 2021 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cashflow Statement and Notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

### Independence

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors to audit the financial statements for the year ended 30 November 2008 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 14 years, covering the years ended 30 November 2008 to 30 November 2021. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the VCT compliance reports during the year and as at year end and reviewing their calculations to check that the Company was meeting its requirements to retain VCT status.
- Reviewing and challenging the forecasted cash flows that support the Directors' assessment of going concern, taking into account the current levels of cash and committed expenditure.
- Evaluating management's method of assessing going concern in light of market volatility and the present uncertainties having regard to the liquidity of the investment portfolio.
- Calculating financial ratios to consider the financial health of the Company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

## Overview

| | | 2021 | 2020 |
|---|---|---|---|
| **Key audit matters** | Valuation and Ownership of Investments | ✓ | ✓ |
| **Materiality** | £1,200,000 (2020: £910,000) based on 1% of adjusted net assets (2020: 1% of invested assets) | | |

## An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How We Addressed the Key audit matter in the Audit |
|---|---|
| **Valuation and ownership of fixed asset investments (Notes 1 and 10 to the financial statements)**<br><br>Fixed asset investments represent the most significant balance in the financial statements and are the primary driver of returns to shareholders and we therefore considered valuation and ownership to be a key audit matter.<br><br>Quoted Investments: £93.3m (93.4%) of the Company's investments held at fair value through profit and loss are quoted investments.<br><br>Unquoted investments: £6.7m (6.6%) of the Company's investments held at fair value through profit and loss are unquoted and are valued using more subjective techniques (level 3).<br><br>There is a high level of estimation uncertainty involved in determining the unquoted investment valuations. The investment manager's fee is based on the value of the net assets of the fund, as shown in note 3.<br><br>The Investment Manager's fee is based on the value of the net assets of the fund. As the investment manager is responsible for valuing the unquoted investments for the financial statements, there is a potential risk of overstatement.<br><br>We also consider the valuation disclosures to be a significant area as they are expected to be a key area of interest for the users of the financial statements. | We performed the following procedures:<br><br>In respect of 100% of quoted equity investments we have:<br><br>• Checked that the year-end bid price was used by agreeing all quoted investments to externally quoted prices and reviewing trading volumes around year-end to assess if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value.<br>• Obtained direct confirmation from the custodian regarding the ownership of all quoted investments held at the balance sheet date and agreeing the holdings to the CREST system at year end<br><br>In respect of a sample of unquoted investments we have:<br><br>• Reviewed the valuation papers prepared by the Investment Manager to check that the assumptions and underlying evidence supporting the year end valuations are in line with UK GAAP and the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines.<br>• Considered the economic environment in which the investment operates to identify factors that could impact the investment valuation, including challenging key assumptions made in the valuation, such as the suitability and accuracy of the multiple from a basket of comparable transactions/ quoted companies and checking that the valuation methodology applied remains applicable given the economic impact of COVID-19<br>• Obtained direct confirmation from the custodian regarding the ownership of all unquoted investments held at the balance sheet date<br><br>We also considered the completeness, accuracy and clarity of relevant disclosures in the financial statements with reference to the requirements of applicable accounting standards.<br><br>**Key observations:**<br>Based on the procedures performed we did not identify any issues relating to the valuation or ownership of fixed asset investments, and consider that the related disclosures are appropriate. |

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

| | **Company Financial statements** | |
|---|---|---|
| | **2021 £m** | **2020 £m** |
| **Materiality** | £ 1,200,000 | £910,000 |
| **Basis for determining materiality** | 1% of net assets adjusted to exclude fund raising during the year | 1% of invested assets |
| **Rationale for the benchmark applied** | Net asset value is the primary measure used by the users in assessing the performance of the Company as an investment entity. In setting materiality, we have had regard to the nature and disposition of the investment portfolio. Given that the VCT's portfolio is comprised primarily of quoted investments, we have applied a percentage of 1% of adjusted net assets value. The benchmark used is lower than the net asset value to consider cash that has been recently raised from fund raising during the year. | |
| **Performance materiality** | £ 900,000 | £680,000 |
| **Basis for determining performance materiality** | 75% of materiality<br><br>The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year. | |

**Lower Testing Threshold**

Whilst the majority of long term returns are expected to arise from capital, we consider that on-going costs and revenue returns are still important to users of the financial statements, despite being considerably smaller in magnitude. Thus, we have set a lower testing threshold for those items impacting revenue return of £260,000 which is based on 10% of gross expenditure. (2020: £180,000).

**Reporting threshold**

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £65,000 (2020: £40,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

| | |
|---|---|
| **Going concern and longer-term viability** | • The Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties; and<br>• The Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate. |
| **Other Code provisions** | • Directors' statement on fair, balanced and understandable;<br>• Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;<br>• The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and<br>• The section describing the work of the audit committee. |

### Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

| | |
|---|---|
| **Strategic report and Directors' report** | In our opinion, based on the work undertaken in the course of the audit:<br>• the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and<br>• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.<br>In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report. |
| **Directors' remuneration** | In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. |
| **Matters on which we are required to report by exception** | We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:<br>• adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or<br>• the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or<br>• certain disclosures of Directors' remuneration specified by law are not made; or<br>• we have not received all the information and explanations we require for our audit. |

### Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Extent to which the audit was capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("the SORP") issued in November 2014 and updated in February 2018 with consequential amendments and FRS 102. We also considered the Company's qualification as a VCT under UK tax legislation.

We considered areas where the financial statements could be susceptible to material misstatement. Our audit work focussed on the valuation of investments as described in the key audit matters section of this report, where the risk of material misstatement due to fraud is the greatest. We also:

- Recalculated investment management fees in total;
- Obtained independent confirmation of bank balances.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- Agreement of the financial statement disclosures to underlying supporting documentation;
- Enquiries of management;
- Review of minutes of board meetings throughout the period;
- Obtaining and reviewing independent reports prepared for the Company on compliance with the relevant tests in order to maintain its qualifying status as a VCT.

We addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud. We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at:

**www.frc.org.uk/auditorsresponsibilities**.

This description forms part of our auditor's report.

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Smith (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
Date:

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

# Income Statement

| | | Year to 30 November 2021 | | | Year to 30 November 2020 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Gain on disposal of fixed asset investments | 10 | – | 2,123 | 2,123 | – | 433 | 433 |
| Gain/(Loss) on disposal of current asset investments | | – | 33 | 33 | – | (158) | (158) |
| Gain on valuation of fixed asset investments | 10 | – | 15,662 | 15,662 | – | 17,871 | 17,871 |
| Gain on valuation of current asset investments | | – | 2,304 | 2,304 | – | 1,126 | 1,126 |
| Investment income | 2 | 481 | 109 | 590 | 290 | 41 | 331 |
| Investment management fees | 3 | (493) | (1,478) | (1,971) | (334) | (1,001) | (1,335) |
| Other expenses | 4 | (653) | – | (653) | (506) | – | (506) |
| **Profit/(loss) before tax** | | (665) | 18,753 | 18,088 | (550) | 18,312 | 17,762 |
| Tax | 6 | – | – | – | – | – | – |
| **Total comprehensive income/ (loss) after tax** | | (665) | 18,753 | 18,088 | (550) | 18,312 | 17,762 |
| **Earnings per share – basic and diluted** | 8 | (0.5)p | 13.8p | 13.3p | (0.5)p | 15.5p | 15.0p |

- The 'Total' column of this statement represents the statutory income statement of the Company; the supplementary revenue return and capital return columns have been prepared in accordance with the AIC Statement of Recommended Practice.
- All revenue and capital items in the above statement derive from continuing operations.
- The Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market funds, as well as OEIC funds.

The Company has no recognised gains or losses other than the results for the period as set out above. Accordingly a Statement of Comprehensive income is not required.

The accompanying notes on pages 51 to 63 form an integral part of the financial statements.

# Balance Sheet

| | Notes | As at 30 November 2021 £'000 | As at 30 November 2021 £'000 | As at 30 November 2020 £'000 | As at 30 November 2020 £'000 |
|---|---|---|---|---|---|
| Fixed asset investments | 10 | | **100,036** | | 76,695 |
| Current assets: | | | | | |
| Investments | 11 | **11,993** | | 10,396 | |
| Money Market Funds | 11 | **3,487** | | 3,486 | |
| Debtors | 12 | **185** | | 120 | |
| Cash at bank | 11 | **19,915** | | 14,838 | |
| | | **35,580** | | 28,840 | |
| Creditors: amounts falling due within one year | 13 | **(762)** | | (1,389) | |
| Net current assets | | | **34,818** | | 27,451 |
| **Total assets less current liabilities** | | | **134,854** | | 104,146 |
| Called up equity share capital | 14 | | **15** | | 13 |
| Share premium | | | **54,600** | | 37,758 |
| Capital redemption reserve | | | **2** | | 1 |
| Special distributable reserve | | | **30,826** | | 35,051 |
| Capital reserve realised | | | **(4,533)** | | (7,492) |
| Capital reserve unrealised | | | **56,103** | | 40,309 |
| Revenue reserve | | | **(2,159)** | | (1,494) |
| **Total equity shareholders' funds** | | | **134,854** | | 104,146 |
| **NAV per share – basic and diluted** | 9 | | **90.8p** | | 82.9p |

The statements were approved by the Directors and authorised for issue on 21 February 2022 and are signed on their behalf by:

Keith Mullins
Chairman
Company No: 05528235

The accompanying notes on pages 51 to 63 form an integral part of the financial statements.

# Statement of Changes in Equity

| | Share capital £'000 | Share premium £'000 | Special distributable reserves* £'000 | Capital reserve – realised* £'000 | Capital reserve – unrealised £'000 | Capital redemption reserve £'000 | Revenue reserve* £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 1 December 2020** | **13** | **37,758** | **35,051** | **(7,492)** | **40,309** | **1** | **(1,494)** | **104,146** |
| **Comprehensive income for the year:** | | | | | | | | |
| Management fee allocated as capital expenditure | – | – | – | (1,478) | – | – | – | (1,478) |
| Current year gains on disposal | – | – | – | 2,156 | | – | – | 2,156 |
| Current period gains on fair value of investments | – | – | – | – | 17,966 | – | – | 17,966 |
| Capital investment income | – | – | – | 109 | – | – | – | 109 |
| Loss after tax | – | – | – | – | – | – | (665) | (665) |
| Total comprehensive income for the year | – | – | – | 787 | 17,966 | – | (665) | 18,088 |
| **Contributions by and distributions to owners:** | | | | | | | | |
| Repurchase and cancellation of own shares | (1) | – | (4,973) | – | – | 1 | – | (4,973) |
| Issue of shares | 3 | 27,725 | | – | – | – | – | 27,728 |
| Share issue costs | – | (1,683) | – | – | – | – | – | (1,683) |
| Dividends paid | – | – | (8,452) | – | – | – | – | (8,452) |
| Total contributions by and distributions to owners | 2 | 26,042 | (13,425) | – | – | 1 | – | 12,620 |
| **Other movements:** | | | | | | | | |
| Cancellation of share premium | – | (9,200) | 9,200 | – | – | – | – | – |
| Prior years' holding gains now realised | – | – | – | 2,172 | (2,172) | – | – | – |
| Total other movements | – | (9,200) | 9,200 | 2,172 | (2,172) | – | – | – |
| **Balance as at 30 November 2021** | **15** | **54,600** | **30,826** | **(4,533)** | **56,103** | **2** | **(2,159)** | **134,854** |

| | Share capital £'000 | Share premium £'000 | Special distributable reserves* £'000 | Capital reserve – realised* £'000 | Capital reserve – unrealised £'000 | Capital redemption reserve £'000 | Revenue reserve* £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 1 December 2019** | **11** | **47,044** | **19,423** | **(8,641)** | **23,146** | **1** | **(944)** | **80,040** |
| **Comprehensive income for the year:** | | | | | | | | |
| Management fee allocated as capital expenditure | – | – | – | (1,001) | – | – | – | (1,001) |
| Current year gains on disposal | – | – | – | 275 | – | – | – | 275 |
| Current period gains on fair value of investments | – | – | – | – | 18,997 | – | – | 18,997 |
| Capital investment income | – | – | – | 41 | – | – | – | 41 |
| Loss after tax | – | – | – | – | – | – | (550) | (550) |
| Total comprehensive income for the year | – | – | – | (685) | 18,997 | – | (550) | 17,762 |
| Repurchase and cancellation of own shares | – | – | (2,710) | – | – | – | – | (2,710) |
| Issue of shares | 2 | 15,027 | – | – | – | – | – | 15,029 |
| Share issue costs | – | (908) | – | – | – | – | – | (908) |
| Dividends paid | – | – | (5,067) | – | – | – | – | (5,067) |
| Total contributions by and distributions to owners | 2 | 14,119 | (7,777) | – | – | – | – | 6,344 |
| **Other movements:** | | | | | | | | |
| Cancellation of share premium | – | (23,405) | 23,405 | – | – | – | – | – |
| Prior years' holding gains now realised | – | – | – | 1,834 | (1,834) | – | – | – |
| Total other movements | – | (23,405) | 23,405 | 1,834 | (1,834) | – | – | – |
| **Balance as at 30 November 2020** | **13** | **37,758** | **35,051** | **(7,492)** | **40,309** | **1** | **(1,494)** | **104,146** |

*Included within these reserves is an amount of £24,134,000 (2020: £26,065,000) which is considered distributable to shareholders.

# Cash Flow Statement

| | Notes | Year to 30 November 2021 £'000 | Year to 30 November 2020 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) on ordinary activities before tax | | **18,088** | 17,762 |
| Adjustments for: | | | |
| (Increase)/decrease in debtors | 12 | **(65)** | 14 |
| Increase in creditors | 13 | **173** | 437 |
| Gain on disposal of fixed assets | 10 | **(2,123)** | (433) |
| (Gain)/loss on disposal of current asset investments | | **(33)** | 158 |
| Gain on valuation of fixed asset investments | 10 | **(15,662)** | (17,871) |
| Gain on valuation of current asset investments | | **(2,304)** | (1,126) |
| Non-cash distributions | 2 | **(109)** | (41) |
| **Cash used in operations** | | **(2,035)** | (1,100) |
| Income taxes paid | – | **–** | – |
| **Net cash used in operating activities** | | **(2,035)** | (1,100) |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of fixed asset investments | 10 | **(12,332)** | (4,518) |
| Proceeds from sale of fixed asset investments | 10 | **6,085** | 5,214 |
| Purchase of current asset investments | | **(2,620)** | (2,471) |
| Proceeds from sale of current asset investments | | **3,360** | 9,500 |
| **Total cash flows (used in)/from investing activities** | | **(5,507)** | 7,725 |
| | | | |
| **Cash flows from financing activities** | | | |
| Purchase of own shares | 14 | **(4,973)** | (2,710) |
| Share issues | 14 | **26,086** | 14,104 |
| Share issue costs | | **(1,683)** | (908) |
| Dividends paid net of DRIS | | **(6,810)** | (4,142) |
| **Total cash flows from financing activities** | | **12,620** | 6,344 |
| | | | |
| **Increase in cash and cash equivalents** | | **5,078** | 12,969 |
| | | | |
| Opening cash and cash equivalents | | **18,324** | 5,355 |
| | | | |
| **Closing cash and cash equivalents** | | **23,402** | 18,324 |
| | | | |
| **Closing cash and cash equivalents is represented by:** | | | |
| Cash at bank | 11 | **19,915** | 14,838 |
| Money market funds | 11 | **3,487** | 3,486 |
| **Total cash and cash equivalents** | | **23,402** | 18,324 |

The accompanying notes on pages 51 to 63 form an integral part of the financial statements.

# Notes to the Financial Statements

## 1. Principal Accounting Policies

The Company is a Public Limited Company ("plc") incorporated in England and Wales and its registered office is 6th Floor, 33 Holborn, London, EC1N 2HT.

The Company's principal activity is to invest in a diverse portfolio of predominately AIM-traded companies with the aim of providing shareholders with attractive tax-free dividends and long-term capital growth.

### Basis of preparation

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice ("GAAP"), including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ("FRS 102"), and with the Companies Act 2006 and the Statement of Recommended Practice ("SORP") 'Financial Statements of Investment Trust Companies and Venture Capital Trusts (issued 2014 and updated in October 2019 with consequential amendments).'

The principal accounting policies have remained unchanged since those set out in the Company's 2020 Annual Report and Accounts. A summary of the principal accounting policies is set out below.

FRS 102 sections 11 and 12 have been adopted with regard to the Company's financial instruments. The Company held all fixed asset investments at fair value through profit or loss ("FVTPL"); therefore all gains and losses arising from such investments held are attributable to financial assets held at FVTPL. Accordingly, all interest income, fee income, expenses and gains and losses on investments are attributable to assets held at FVTPL.

### Going Concern

After reviewing the Company's forecasts and expectations, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The annual expenses of the Company are around £2.5 million and the Company had £19.9 million in cash at the year end therefore if there was a serious downturn, the Company could continue by choosing to retain cash in order to pay these expenses as they fall due. The ability to retain cash is largely in our control as we can shift investment strategy to ensure we have a sufficient cash buffer. The Company therefore continues to adopt the going concern basis in preparing its Financial Statements. In reaching this conclusion the Directors have had regard to the potential impact on the economy and the Company of the current coronavirus pandemic. See Directors' Report on page 28 to 31 for further details.

### Revenue and Capital

The Company presents its Income Statement in a three column format to give shareholders additional detail of the performance of the Company, split between items of a revenue or capital nature as required by the SORP.

The revenue column of the Income Statement includes all income and revenue expenses of the Company. The capital column includes gains and losses on disposal of investments, and gains and losses on the revaluation of investments.

Upon disposal of investments, gains or losses relating to the assets are transferred from the unrealised capital reserve to the realised capital reserve.

### Key judgements and estimates

The preparation of the financial statements requires the Board to make judgements and estimates that affect the application of policies and reported amounts of assets and liabilities. Estimates and assumptions mainly relate to the fair valuation of the fixed asset investments particularly unquoted investments. Estimates are based on historical experience and other assumptions that are considered reasonable under the circumstances. The estimates and the assumptions are under continuous review with particular attention paid to the carrying value of the investments.

Investment valuation policies are important to the depiction of the Company's financial position and require the application of subjective and complex judgements, notably with regards to unquoted holdings, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods. The main accounting and valuation policies used by the Company are disclosed below.

Investments are regularly reviewed to ensure that the fair values are appropriately stated. Unquoted investments are valued in accordance with current IPEV guidelines, although this does rely on subjective estimates such as appropriate sector earnings multiples, forecast results of investee companies, asset values of the subsidiary companies of investee companies and liquidity or marketability of the investments held.

Although the Company believes that the assumptions concerning the business environment and estimate of future cash flows are appropriate, changes in estimates and assumptions could require changes in the stated values. This could lead to additional changes in fair value in the future (see note 10).

**Financial instruments**
The Company's principal financial assets are its investments and the policies in relation to those assets are set out above and in Note 10. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities. Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

The Company's trade receivables are initially recognised at fair value which is normally transaction cost and subsequently measured at amortised cost.

**Cash and liquid resources**
Cash, for the purposes of the cash flow statement, comprises cash at bank. Cash equivalents are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. This comprises investments in money market funds subject to insignificant changes in fair value.

**Reserves**
**Called up equity share capital** – represents the nominal value of shares that have been issued.

**Share premium account** – includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

**Special distributable reserve** – includes cancelled share premium available for distribution.

**Capital reserve realised** – when an investment is sold, any balance held in Capital reserve unrealised is transferred to Capital reserve realised on disposal, as a movement in reserves. The portion of the management fee allocated to capital expenditure is also included in this reserve.

**Capital reserve unrealised** – when the Company revalues the investments still held during the period, any gains or losses arising are credited/charged to Capital reserve unrealised.

**Capital redemption reserve** – includes nominal share capital which has been bought back by the Company for cancellation and cannot be distributed to shareholders.

**Revenue reserve** – includes all net revenue profits and losses of the Company.

**Functional and presentational currency**
The financial statements are presented in Sterling (£). The functional currency is also Sterling (£).

## 2. Income

**Accounting Policy**
Investment income includes interest earned on money market securities and includes income tax withheld at source. Dividend income is shown net of any related tax credit. Dividends are allocated to revenue or capital depending on whether the dividend is of a revenue or capital nature. During the year the Company received shares in Trellus Health plc as a result of an in-specie dividend from EKF Diagnostics Holdings plc. This has been treated as capital income.

Dividends receivable are recognised when the Company's right to receive payment is established and it is probable that payment will be received. Fixed returns on debt and money market securities are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course.

**Disclosure**

| | 30 November 2021 £'000 | 30 November 2020 £'000 |
|---|---|---|
| Dividends receivable from fixed asset investments | **451** | 255 |
| In-Specie dividend* | **109** | 41 |
| Loan note interest receivable | **30** | 25 |
| Income receivable on money market securities and bank balances | **–** | 10 |
| | **590** | 331 |

*The Company received shares in Trellus Health plc as a result of an in-specie dividend from EKF Diagnostics Holdings plc. In the prior period the Company received shares in Verici Dx plc as a result of an in-specie dividend from Renalytix AI plc. These have been treated as capital income.

## 3. Investment Management Fees

| | 30 November 2021 | | | 30 November 2020 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Investment management fees | **493** | **1,478** | **1,971** | 334 | 1,001 | 1,335 |

Octopus provides investment management and accounting and administration services to the Company under a management agreement which initially ran for a period of five years with effect from 6 October 2005 and may be terminated at any time thereafter by not less than 12 months' notice given by either party. No compensation is payable in the event of terminating the agreement by either party, if the required notice period is given. The fee payable, should insufficient notice be given, will be equal to the fee that would have been paid should continuous service be provided, or the required notice period was given. The management fee is an annual charge and is set at 2% of the Company's net assets.

During the year Octopus charged gross management fees of £2,494,000 (2020: £1,674,000). When the various allowances detailed below are included, the net management fee for the year is £1,971,000 (2020: £1,335,000). At the year end there was £559,700 payable to Octopus (2020: £384,000). Octopus received £419,000 as a result of upfront fees charged on allotments of Ordinary shares (2020: £298,000). The increase in upfront fees this year has proportionately increased in line with the number of allotments in the year.

The Company pays ongoing adviser charges to Independent Financial Advisers (IFAs). Ongoing adviser charges are an ongoing fee of up to 0.5% per annum of the amount invested for a maximum of nine years paid to Advisers who are on an advised and ongoing fee structure. The Company is rebated for this cost by way of a reduction in the annual management fee. For the year to 30 November 2021 the rebate received was £227,000 (2020: £154,000).

The Company also facilitates upfront fees to IFAs where an investor has invested through a financial adviser and has received upfront advice. Where an investor agrees to an upfront fee only, the Company can facilitate a payment of an initial adviser charge of up to 4.5% of the investment amount. If the investor chooses to pay their intermediary/adviser less than the maximum initial adviser charge, the remaining amount will be used for the issue and allotment of additional new shares for the investor. In these circumstances the Company does not facilitate ongoing annual payments. To ensure that the Company is not financially disadvantaged by such payment, a notional ongoing advisor charge equivalent to 0.5% per annum of the amount invested will be deemed to have been paid by the Company for a period of nine years. The Company is rebated for this cost, also by way of a reduction in the annual management fee. For the year to 30 November 2021 the rebate received was £233,000 (2020: £131,000).

The Company also receives a reduction in the management fee for the investments in other Octopus managed funds, being the Octopus Portfolio Manager, Multi Cap, Micro Cap Growth and Future Generations products, to ensure the Company is not double charged on these products. This amounted to £63,000 for the year to 30 November 2021 (2020: £54,000).

The management fee has been allocated 25% to revenue and 75% to capital, in line with the Board's expected long-term return in the form of income and capital gains respectively from the Company's investment portfolio.

## 4. Other Expenses

**Accounting Policy**

All expenses are accounted for on an accruals basis.

The transaction costs incurred when purchasing or selling assets are written off to the Income Statement in the period that they occur.

**Disclosure**

| | **30 November 2021 £'000** | 30 November 2020 £'000 |
|---|---|---|
| IFA charges | **227** | 155 |
| Directors' remuneration | **92** | 88 |
| Registrar fees | **50** | 51 |
| Audit fees | **36** | 30 |
| VCT monitoring fees | **17** | 20 |
| Printing and postage | **21** | 18 |
| Legal and professional fees | **13** | 9 |
| Directors' and officers' liability insurance | **18** | 8 |
| Brokers' fees | **7** | 6 |
| Other administration expenses | **172** | 121 |
| | **653** | 506 |

The fees payable to the Company's auditor above are stated net of VAT and the VAT is included within other administration expenses.

The ongoing charges of the Company were 1.8% of average net assets during the year to 30 November 2021 (2020: 1.9%).

## 5. Directors' Remuneration

Directors were paid £92,000 in the year to 30 November 2021 (2020: £88,000); this excludes Employer's National Insurance contributions of £10,000 (2020: £8,000). The highest paid director received £26,000 (2020: £25,000). None of the Directors received any other remuneration, pension contributions or benefits from the Company during the year. The Company has no employees. The average number of Non-Executive Directors in the year was four (2020: four).

## 6. Tax

**Accounting Policy**

Current tax is recognised for the amount of income tax payable in respect of the taxable profit/(loss) for the current or past reporting periods using the current UK corporation tax rate. The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue return on the "marginal" basis as recommended in the SORP.

Deferred tax is recognised on an undiscounted basis in respect of all timing differences that have originated but not reversed at the balance sheet date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

**Disclosure**
The corporation tax charge for the year was £nil (2020: £nil).

| | 30 November 2021 £'000 | 30 November 2020 £'000 |
|---|---|---|
| Profit before tax | **18,088** | 17,762 |
| Current tax at 19.00% (2020: 19.00%) | **3,437** | 3,375 |
| **Effects of** | | |
| Non taxable income | **(106)** | (55) |
| Non taxable capital gains | **(3,823)** | (3,662) |
| Non deductible expenses | **2** | 2 |
| Excess management expenses on which deferred tax not recognised | **490** | 340 |
| **Total tax charge** | **–** | – |

Approved VCTs are exempt from tax on capital gains within the Company. Since the Board intend that the Company will continue to conduct its affairs so as to maintain its approval as a VCT, no deferred tax has been provided in respect of any capital gains or losses arising on the revaluation or disposal of investments.

In March 2021, the UK Government announced that from 1 April 2023, the main rate of Corporation Tax will be increased to 25%. Consequently, deferred tax has been calculated at the year end using a tax rate of 25%. As at 30 November 2021, there is an unrecognised deferred tax asset of £4,008,000 (2020: £2,556,000) in respect of surplus management expenses, based on a prospective tax rate of 25% (2020: 19%). This deferred tax asset could in future be used against taxable profits.

Provided the Company continues to maintain its current investment profile, it is unlikely that the expenses will be utilised and that the Company will obtain any benefit from this asset.

## 7. Dividends

**Accounting Policy**
Dividends payable are recognised as distributions in the financial statements when the Company's liability to make a payment has been established. This liability is established on the record date, the date on which those shareholders on the share register are entitled to the dividend. This liability is established for interim dividends when they are paid and for final dividends when they are approved by the shareholders usually at the Annual General Meeting.

**Disclosure**

| | 30 November 2021 £'000 | 30 November 2020 £'000 |
|---|---|---|
| **Dividends paid on Ordinary shares during the year** | | |
| 2020 Final dividend – 2.1p paid 21 May 2021 (2020: 2.1p) | **2,804** | 2,533 |
| 2021 Interim dividend – 2.1p paid 12 November 2021 (2020: 2.1p) | **3,121** | 2,534 |
| 2021 Special dividend – 1.7p paid 12 November 2021 (2020: nil) | **2,527** | – |
| **Total** | **8,452** | 5,067 |

During the year £1,642,000 (2020: £925,000) of dividends were reinvested under the DRIS, see note 14.

Under section 32 of FRS 102 'Events After the end of the Reporting Period', dividends payable at year end are not recognised as a liability. Details of these dividends and all other dividends declared in the year are set out below.

| | **30 November 2021 £'000** | 30 November 2020 £'000 |
|---|---|---|
| **Dividends paid and proposed** | | |
| 2021 Interim dividend – 2.1p paid 12 November 2021 (2020: 2.1p) | **3,121** | 2,534 |
| 2021 Special dividend – 1.7p paid 12 November 2021 (2020: Nil) | **2,527** | – |
| Final proposed dividend – 2.1p payable 27 May 2022 (2021 paid: 2.1p) | **3,106** | 2,838 |
| | **8,754** | 5,372 |

The above proposed final dividend is based on the number of shares in issue at the date of this report. The actual dividend paid may differ from this number as the dividend payable will be based on the numbers of shares in issue on the record date and will reflect any changes in the share capital between the year end and the record date.

## 8. Earnings per share

| | **30 November 2021** | | | 30 November 2020 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Profit/(loss) attributable to ordinary shareholders | **(665)** | **18,753** | **18,088** | (550) | 18,312 | 17,762 |
| Earnings per ordinary share | **(0.5)p** | **13.8p** | **13.3p** | (0.5)p | 15.5p | 15.0p |

The profit/(loss) per share is based on 135,902,032 (2020: 118,842,639) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year, and the profit on ordinary activities after tax for the year of £18,088,000 (2020: £17,762,000).

There are no potentially dilutive capital instruments in issue and, as such, the basic and diluted earnings per share are identical.

## 9. Net Asset Value per share

| | **30 November 2021** | 30 November 2020 |
|---|---|---|
| Net assets (£'000) | **134,854** | 104,146 |
| Shares in issue | **148,580,569** | 125,660,654 |
| NAV per share (p) | **90.8** | 82.9 |

There are no potentially dilutive capital instruments in issue and, as such, the basic and diluted NAV per share are identical.

## 10. Fixed asset investments

**Accounting Policy**

The Company's principal financial assets are its investments and the policies in relation to those assets are set out below.

Purchases and sales of investments are recognised in the financial statements at the date of the transaction (trade date).

These investments will be managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy and information about them has to be provided internally on that basis to the Board. Accordingly, as permitted by FRS 102, the investments are measured as being FVTPL on the basis that they qualify as a group of assets managed, and whose performance is evaluated, on a fair value basis in accordance with a documented investment strategy. The Company's investments are measured at subsequent reporting dates at fair value.

In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending upon convention of the exchange on which the investment is quoted. In the case of unquoted investments fair value is established by assessing different methods of valuation, such as price of recent transaction, earnings multiples, discounted cash flows and net assets. Where price of recent investment is used as a starting point for estimating fair value at subsequent measurement dates, this has been benchmarked using an appropriate valuation technique. These methodologies are consistent with IPEV guidelines.

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the Income Statement and allocated to the Capital reserve – unrealised. The Investment Manager reviews changes in fair value of investments for any permanent reductions in value and will give consideration to whether these losses should be transferred to the Capital reserve – realised.

In the preparation of the valuations of assets the Directors are required to make judgements and estimates that are reasonable and incorporate their knowledge of the performance of the investee companies.

**Fair value hierarchy**

Paragraph 34.22 of FRS102 suggests following a hierarchy of fair value measurements, for financial instruments measured at fair value in the Balance Sheet, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). This methodology is adopted by the Company and requires disclosure of financial instruments to be dependent on the lowest significant applicable input, as laid out below:

Level 1: The unadjusted, fully accessible and current quoted price in an active market for identical assets or liabilities that an entity can access at the measurement date.

Level 2: Inputs for similar assets or liabilities other than the quoted prices included in Level 1 that are directly or indirectly observable, which exist for the duration of the period of investment.

Level 3: This is where inputs are unobservable, where no active market is available and recent transactions for identical instruments do not provide a good estimate of fair value for the asset or liability.

| | Level 1: Quoted equity investments £'000 | Level 2: Quoted equity investments £'000 | Level 3: Unquoted investments £'000 | Total £'000 |
|---|---|---|---|---|
| Cost as at 1 December 2020 | 34,225 | 1,694 | 2,595 | 38,514 |
| Opening unrealised gain at 1 December 2020 | 36,899 | (631) | 1,913 | 38,181 |
| **Valuation at 1 December 2020** | **71,124** | **1,063** | **4,508** | **76,695** |
| | | | | |
| Purchases at cost* | 10,852 | – | 680 | 11,532 |
| In-Specie dividend | 109 | – | – | 109 |
| Disposal proceeds | (5,887) | – | (198) | (6,085) |
| Profit on realisation of investments | 2,004 | – | 119 | 2,123 |
| Reclassifications between levels | 1,063 | (1,063) | – | – |
| Change in fair value in year | 14,061 | – | 1,601 | 15,662 |
| **Closing valuation at 30 November 2021** | **93,326** | – | **6,710** | **100,036** |
| | | | | |
| Cost at 30 November 2021 | 44,933 | – | 3,087 | 48,020 |
| Closing unrealised gain at 30 November 2021 | 48,393 | – | 3,623 | 52,016 |
| **Valuation at 30 November 2021** | **93,326** | – | **6,710** | **100,036** |

*The difference to the cash flow is a timing difference in respect of an investment in Reneuron Group plc. The trade date was in the prior year whilst the settlement of cash was in December 2020.

Level 1 valuations are valued in accordance with the bid-price on the relevant date. Further details of the fixed asset investments held by the Company are shown within the Investment Manager's Review.

Level 2 investments are valued using other observable inputs not included in Level 1.

Level 3 investments are valued in accordance with IPEV guidelines. Hasgrove plc and Rated People Ltd are valued using a range of inputs including sales, annualised recurring revenues, and net debt/cash. Valuations for Popsa Holdings Ltd, The Food Marketplace Ltd, and Eluceda Ltd are based on the Price of Recent Investment which occurred close to the reporting date.

All capital gains or losses on investments are classified at FVTPL. Given the nature of the Company's venture capital investments, the changes in fair value of such investments recognised in these financial statements are not considered to be readily convertible to cash in full at the balance sheet date and accordingly these gains are treated as holding gains or losses.

At 30 November 2021 there were no commitments in respect of investments approved by the Investment Manager but not yet completed. The transaction costs incurred when purchasing or selling assets are written off to the Income Statement in the period that they occur.

## 11. Current asset investments, cash and cash equivalents

**Accounting Policy**

For the purposes of the cash flow statement, cash at bank comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. This comprises government securities, investment grade bonds and investments in money market funds. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

Current asset investments on the Balance Sheet comprise of investments in Open Ended Investment Companies (OEICs), money market funds and deposits and are designated as FVTPL. Gains and losses arising from changes in fair value of current investments are recognised as part of the capital return within the Income Statement and allocated to the capital reserve – unrealised.

The current asset investments are convertible into cash at the choice of the Company, within 7 days. The current asset investments are held for trading, are actively managed and the performance is evaluated on a fair value basis in accordance with a documented investment strategy. Information about them has to be provided internally on that basis to the Board.

**Disclosure**

Current asset investments at 30 November 2021 and at 30 November 2020 comprised of money market funds and deposits and OEICs. These fall into Level 1 of the fair value hierarchy as defined in the Fixed asset investment accounting policy in Note 10 above.

| | **30 November 2021 £'000** | 30 November 2020 £'000 |
|---|---|---|
| OEICs: | | |
| FP Octopus UK Micro Cap Growth Fund | **6,737** | 4,573 |
| FP Octopus UK Multi Cap Income Fund | **5,026** | 2,496 |
| FP Octopus UK Future Generations Fund | **230** | – |
| Octopus Portfolio Manager – Conservative Capital Growth | – | 1,752 |
| Octopus Portfolio Manager – Defensive Capital Growth | – | 1,575 |
| **Total current asset investments** | **11,993** | 10,396 |
| Money Market Funds | **3,487** | 3,486 |
| **Total current asset investments and money market funds** | **15,480** | 13,882 |
| **Cash at bank** | **19,915** | 14,838 |
| | **35,395** | 28,720 |

## 12. Debtors

| | 30 November 2021 £'000 | 30 November 2020 £'000 |
|---|---|---|
| Prepayments and accrued income | **182** | 120 |
| Other debtors | **3** | – |
| | **185** | 120 |

## 13. Creditors: Amounts falling due within one year

| | 30 November 2021 £'000 | 30 November 2020 £'000 |
|---|---|---|
| Trade creditors | – | 805 |
| Accruals | **761** | 583 |
| Other | **1** | 1 |
| | **762** | 1,389 |

## 14. Share capital

| | 30 November 2021 £'000 | 30 November 2020 £'000 |
|---|---|---|
| Allotted and fully paid up: | | |
| 148,580,569 Ordinary shares of 0.01p (2020: 125,660,654) | **15** | 13 |

The capital of the Company is managed in accordance with its investment policy with a view to the achievement of its investment objective as set on page 20. As the Company is registered as an AIFM, it is subject to externally imposed capital requirements, namely if the value of assets under management (AUM) exceeds €250 million then an additional amount of Company funds equal to 0.02% of the excess over €250 million (subject to a cap of €10 million capital requirement) will be required.

During the year the Company repurchased the following shares to be cancelled:

| Date | Number of shares | Price per share (p) | Total cost of shares repurchased (£) |
|---|---|---|---|
| 10 December 2020 | 557,881 | 81.1 | 452,000 |
| 21 January 2021 | 470,810 | 86.7 | 408,000 |
| 25 February 2021 | 456,958 | 90.8 | 415,000 |
| 18 March 2021 | 555,254 | 91.7 | 509,000 |
| 22 April 2021 | 682,938 | 95.2 | 650,000 |
| 20 May 2021 | 471,138 | 93.4 | 440,000 |
| 11 June 2021 | 305,750 | 95.7 | 293,000 |
| 30 July 2021 | 364,782 | 92.6 | 338,000 |
| 27 August 2021 | 181,180 | 94.7 | 172,000 |
| 24 September 2021 | 195,877 | 95.9 | 188,000 |
| 28 October 2021 | 859,829 | 89.8 | 772,000 |
| 18 November 2021 | 370,130 | 90.8 | 336,000 |
| **Totals** | **5,472,527** | | **4,973,000** |

The total nominal value of the shares repurchased for cancellation was £547 representing 3.7% of the issued share capital (2020: 3,788,659 shares with a nominal value of £379 representing 3.0% of the issued share capital).

The Company issued the following shares during the year:

| Date | Number of shares | Price per share (p) | Net proceeds of shares issued (£) |
|---|---|---|---|
| 09 December 2020 | 10,527,955 | 89.8 | 8,815,000 |
| 15 April 2021 | 45,548 | 104.0 | 45,000 |
| 21 May 2021** | 538,519 | 97.7 | 526,000 |
| 30 June 2021* | 38,403 | 98.1 | 38,000 |
| 07 October 2021 | 16,064,510 | 103.0 | 15,505,000 |
| 12 November 2021** | 1,177,507 | 94.8 | 1,116,000 |
| **Totals** | **28,392,442** | | **26,045,000** |

*Shares issued as a result of reduced adviser charges, and reduced annual management fee for Octopus employees.

**Shares issued under the Dividend Reinvestment Scheme ("DRIS").

Excluding the value of shares issued under the DRIS, the total value of shares issued net of share issue costs was £24,403,000 (2020: £13,196,000). This is shown in the cash flow statement.

## 15. Reconciliation of movements in equity

| | Notes | 30 November 2021 £'000 | 30 November 2020 £'000 |
|---|---|---|---|
| Shareholders' funds at start of year | | **104,146** | 80,040 |
| Total comprehensive income/(loss) after tax | | **18,088** | 17,762 |
| Share capital bought back | 14 | **(4,973)** | (2,710) |
| Issue of shares (net of issue costs) | 14 | **26,045** | 14,121 |
| Dividends paid | 7 | **(8,452)** | (5,067) |
| Shareholders' funds at end of year | | **134,854** | 104,146 |

Included within these reserves is an amount of £24,134,000 (2020: £26,065,000) which is considered distributable to shareholders under Companies Act rules.

During the year there was a share premium cancellation amounting to £9.2 million. This was carried out with the approval of shareholders for the purposes of creating sufficient distributable reserves.

## 16. Financial Instruments

The Company's financial instruments comprise equity investments, loan notes, OEICs, cash balances, investments in money market funds and debtors and creditors. The Company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT qualifying AIM-traded securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity.

| | **30 November 2021 £'000** | 30 November 2020 £'000 |
|---|---|---|
| **Financial assets at fair value through profit or loss** | | |
| Fixed asset investments | **100,036** | 76,695 |
| Money market securities | **3,487** | 3,486 |
| OEICs | **11,993** | 10,396 |
| **Total financial assets at fair value through profit or loss** | **115,516** | 90,577 |
| **Financial assets measured at amortised cost** | | |
| Cash at bank | **19,915** | 14,838 |
| Debtors | **185** | 120 |
| **Total financial assets measured at amortised cost** | **20,100** | 14,958 |
| **Financial liabilities measured at amortised cost** | | |
| Creditors | **762** | 1,389 |
| **Total financial liabilities measured at amortised cost** | **762** | 1,389 |

The Company holds six qualifying, unquoted investments; Rated People Limited, Popsa Holdings Limited, Airnow Group plc, Hasgrove plc which delisted from AIM in 2013, The Food Marketplace Ltd and Eluceda Ltd. The Company also holds one unquoted loan note investments Osirium Technologies plc valued at £400,000, held at cost. Unquoted investments and loan notes are included in fixed asset investments in the table above.

Fixed and current asset investments (see notes 10 and 11) are initially recognised at FVTPL. For quoted investments this is bid price. The Directors believe that the fair value of the assets held at the year end is equal to their book value. Unquoted investments are valued in accordance with IPEV guidelines.

The Company's creditors and debtors are initially recognised at fair value which is usually the transaction cost and subsequently measured at amortised cost using the effective interest method.

The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet. The Directors believe that the fair value of the assets held at the year end is equal to their book value.

## 17. Financial Risk Management

In carrying on its investment activities, the Company is exposed to various types of risk associated with the financial instruments and markets in which it invests. The most significant types of financial risk facing the Company are price risk, interest rate risk, credit risk and liquidity risk. The Company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date.

### Market risk

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined on page 20. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The Company's portfolio is managed in accordance with the policies and procedures described in the Corporate Governance Report on pages 32 to 35, having regard to the possible effects of adverse price movements, and other macroeconomic affects on the market such as the coronavirus outbreak and Brexit with the objective of maximising overall returns to shareholders. Investments in smaller companies, by their nature, usually involve a higher degree of risk than investments in larger companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the Company's assets is regularly monitored by the Board.

Details of the Company's investment portfolio at the balance sheet date are set out on pages 8 to 11.

By value, 69% (2020: 69%) of the Company's net assets comprised equity securities listed on the London Stock Exchange or quoted on AIM. In the context of the continued short-term market volatility caused by the coronavirus pandemic and the continued uncertainty post Brexit, we have maintained the sensitivity analysis at 20%, consistent with 2020. Therefore, a decrease in the bid price of these securities as at 30 November 2021 would have decreased net assets and the total return for the year by £18,665,000 (2020: £14,270,000 decrease); and an equivalent change in the opposite direction would have increased net assets for the year by the same amount.

OEIC investments comprised 9% of the Company's net assets by value (2020: 10%). A 20% decrease (2020: 20%) in the price of these securities at 30 November 2021 would have decreased net assets by £2,399,000 (30 November 2020: £2,079,000 decrease); and an equivalent change in the opposite direction would have increased net assets for the year by the same amount.

Unquoted investments comprised 5% of the Company's net assets by value (2020: 5%). A 20% decrease (2020: 20%) in the price of these securities at 30 November 2021 would have decreased net assets by £1,342,000 (2020: £989,000 decrease); and an equivalent change in the opposite direction would have increased net assets for the year by the same amount. Due to the nature of the valuation of unquoted investments a more detailed analysis of the sensitivity is not practical.

**Interest rate risk**
Some of the Company's financial assets are interest-bearing. As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

**Floating rate**
The Company's floating rate investments comprise cash held on interest-bearing deposit accounts and, where appropriate, within interest bearing money market securities. The benchmark rate which determines the rate of interest receivable on such investments is the bank base rate, which was 0.1% at 30 November 2021 (2020: 0.1%). The amounts held in floating rate investments at the balance sheet date were as follows:

| | **30 November 2021 £'000** | 30 November 2020 £'000 |
|---|---|---|
| Money market funds | **3,487** | 3,486 |
| Cash at bank | **19,915** | 14,838 |
| | **23,402** | 18,324 |

A 1% increase in the base rate would increase income receivable from these investments and the total return for the year by £234,020 (2020: £183,240).

**Credit risk**
Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager and the Board carry out a regular review of counterparty risk. Where financial assets expose the Company to credit risk, the maximum exposure is represented by their carrying value.

Other than cash, loan notes or liquid money market funds, there were no significant concentrations of credit risk to counterparties at 30 November 2021 or 30 November 2020. By value, no individual bank holding or fixed rate note investment exceeded 15% of the Company's net assets at 30 November 2021 (2020: 18%).

The Company's interest-bearing deposit and current accounts are maintained with HSBC and BlackRock. The risk of loss to this cash is deemed to be low due to the historical credit ratings and a current Moody's rating of A2 for HSBC and A3 for BlackRock cash funds. The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. Should the credit quality or the financial position of HSBC or BlackRock deteriorate significantly, the Investment Manager will move the cash holdings to another bank.

Credit risk relating to listed money market securities is mitigated by investing in a portfolio of investment instruments of high credit quality, comprising securities issued by the UK Government and major UK companies and institutions. Credit risk relating to loans to and shares in unquoted companies is considered to be part of market risk. The investments in money market funds and OEICs are uncertified.

Those assets of the Company which are traded on recognised stock exchanges are held on the Company's behalf by third party sub-custodians (for example, BlackRock in the case of listed money market securities and Octopus Investments Limited in the case of quoted equity securities). Bankruptcy or insolvency of a custodian could cause the Company's rights with respect to securities held by the custodian to be delayed or limited or by bankruptcy proceedings.

Credit risk arising on the sale of investments is considered to be small due to the short settlement and the contracted agreements in place with the settlement lawyers.

**Liquidity risk**
The Company's financial assets include investments in AIM-traded companies, which by their nature involve a higher degree of risk than investments on the main market as well as unquoted securities which are not traded on a recognised stock exchange and which generally may be illiquid. As a result, the Company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The Company's listed money market securities are considered to be readily realisable as they are of high credit quality as outlined above.

The Company's OEIC investments are considered to be readily realisable as under the terms of the product funds can be withdrawn at any point and received within 7 working days. There is a risk that the value of the investment will fall, but this is monitored continually by the Investment Manager.

The Company's liquidity risk is managed on a continuing basis by the Investment Manager in accordance with policies and procedures laid down by the Board. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 30 November 2021 these investments were valued at £35,395,000 (2020: £28,720,000). The Company has no debt, therefore no maturity analysis is required.

## 18. Post balance sheet events

The following events occurred between the balance sheet date and the signing of these financial statements:

- an investment of £2,000,000 into Libertine Holdings plc
- an investment of £664,000 into Velocys plc
- an investment of £160,000 into FP Octopus UK Future Generations Fund
- an investment of £1,200,000 into Clean Power Hydrogen plc
- an investment of £337,000 into Strip Tinning Holdings plc
- a partial disposal of 36,000 shares in Clinigen for total consideration of £326,000
- a full disposal of 679,615 shares in Cloudcall Group plc for total consideration of £554,000

The following shares have been bought back since the year end:

- 23 December 2021: 255,091 shares at a price of 83.9p per share
- 20 January 2022: 401,488 shares at a price of 85.8p per share

The following changes to the Board took place:

- 1 January 2022: Brad Ormsby was appointed as a Non-Executive Director

## 19. Contingencies, Guarantees and Financial Commitments

There were no contingencies, guarantees or financial commitments as at 30 November 2021 (2020: nil).

## 20. Related Party Transactions

The Company has employed Octopus Investments Limited ("Octopus" or "the Manager") throughout the period as Investment Manager. Octopus has also been appointed as Custodian of the Company's investments under a Custodian Agreement. The Company has been charged £1,971,000 by Octopus as a management fee in the year to 30 November 2021 (2020: £1,335,000). The management fee is payable quarterly and is based on 2% of net assets at quarterly intervals.

The Company receives a reduction in the management fee for the investments in other Octopus managed funds, being the Octopus Portfolio Manager, Multi Cap Income Fund, Micro Cap Growth Fund and Future Generations Fund, to ensure the Company is not double charged on these products. This amounted to £63,000 in the year to 30 November 2021 (2020: £54,000). For further details please refer to note 3. Details of amounts invested in Octopus managed funds can be found on page 11.

Octopus received £nil (2020: £nil) transaction fees and directors' fees from investee companies.

Details of the Directors and their remuneration can be found in the Directors' Remuneration Report on page 38 to 40.

# Information and Contact Details

Octopus AIM VCT 2 plc was launched as Close IHT AIM VCT PLC in March 2006 and raised £25 million through an offer for subscription. On 12 August 2010 the Company acquired the assets and liabilities of Octopus Third AIM VCT plc (formerly Octopus Second AIM VCT plc) ("the merger") and changed its name from Octopus IHT AIM VCT plc to Octopus Second AIM VCT plc. Shareholders of Octopus Third AIM VCT plc received 0.48356191 Ordinary shares in the Company for each Ordinary share they had prior to the merger. On 30 January 2015, the Company name changed to Octopus AIM VCT 2 plc.

An offer, launched on 6 February 2012 and which closed on 5 April 2012, raised £1.3 million for the Company. An offer launched on 25 April 2012, closed on 31 July 2012 and raised a further £0.5 million for the Company. An Enhanced Buyback Facility opened on 23 October 2012 and closed on 28 December 2012. 10,470,985 existing shares were tendered and 9,974,094 new shares were issued.

An offer for subscription of up to £10 million, which opened on 1 February 2013 and closed on 17 January 2014, raised £5.9 million. A further offer for subscription to raise £4.1 million was opened on 3 February 2014 and closed, fully subscribed, on 28 March 2014. A combined fund raise with Octopus AIM VCT plc by way of an issue of new shares was launched on 29 August 2014 to raise up to £8 million with an over-allotment facility of £4 million was closed, fully subscribed on 11 August 2015. A combined fund raise with Octopus AIM VCT plc by way of an issue of new shares was launched on 21 December 2015 to raise up to £8 million with an over-allotment facility of £4 million. This offer closed, fully subscribed, on 21 October 2016. On 6 February 2017 the Board announced a further offer for subscription to raise up to £4.3 million.

A further combined offer for subscription with Octopus AIM VCT plc was launched on 16 June 2017 to raise up to £12 million with an over-allotment facility of £4 million which closed to new applications on 14 November 2017. A combined fund raise with Octopus AIM VCT plc by way of an issue of new shares was launched on 3 August 2018 to raise up to £20 million with an over-allotment facility of £10 million. This offer closed, fully subscribed, on 28 September 2018. A further combined fundraise with Octopus AIM VCT plc by way of an issue of new shares was launched on 29 November 2019 to raise a combined total of up to £20 million with a £10 million over allotment facility. This offer closed, fully subscribed, on 27 February 2020.

On 20 August 2020, a prospectus offer was launched alongside Octopus AIM VCT plc to raise a combined total of up to £20 million with a £10 million over allotment facility. This prospectus closed to further applications on 30 November 2020.

On 19 August 2021, a prospectus offer was launched alongside Octopus AIM VCT plc to raise a combined total of up to £30 million with a £10 million over allotment facility. This prospectus closed to further applications on 13 September 2021.

## About VCTs

VCTs were introduced in the Finance Act 1995 to provide a means for private individuals to invest in unlisted companies in the UK. Subsequent Finance Acts have introduced changes to VCT legislation. The tax benefits currently available to eligible new investors in VCTs include:

- up to 30% up-front income tax relief;
- exemption from income tax on dividends paid; and
- exemption from capital gains tax on disposals of shares in VCTs.

The Company has been approved as a VCT by HMRC. In order to maintain its approval, the Company must comply with certain requirements on a continuing basis including the provisions of chapter 3 of the Income Tax Act 2007; in particular s280A:

- at least 80% of the Company's investments must comprise 'qualifying holdings'* (as defined in the legislation);
- at least 70% of the qualifying holdings must be invested into Ordinary shares with no preferential rights (30% for funds invested before 6 April 2011);
- no single investment made can exceed 15% of the total Company value at the time of investment; and
- a minimum of 10% of each qualifying investment must be in Ordinary shares with no preferential rights.

*A 'qualifying holding' consists of up to £5 million invested in any one year in new shares or securities in a company admitted to trading on AIM (or an unquoted UK company) which is carrying on a qualifying trade and whose gross assets do not exceed a prescribed limit at the time of investment. The definition of a 'qualifying trade' excludes certain activities such as property investment and development, financial services and asset leasing.

## VCT Legislation Changes

The Finance Act 2018 contained some further adjustments to the VCT regulations. The new requirements are that any funds raised in accounting periods beginning on or after 6 April 2018 should be 30% invested in qualifying holdings within 12 months of the end of the accounting period in which the shares were issued, and for financial years ending after 6 April 2019 the portfolio also has to maintain a minimum qualifying investment of 80%.

## Dividends

Dividends will be paid by the Registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account rather than by cheque to their registered address can complete a mandate form for this purpose or complete an instruction electronically by visiting the Computershare Investor Centre at: **www-uk.computershare.com/investor/**.

Queries relating to dividends, shareholdings or requests for mandate forms should be directed to Computershare by calling **0370 703 6326** (calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open Monday-Friday 9.00am-5.30pm), or by writing to them at:

The Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road Bristol
BS99 6ZZ

The table below shows the NAV per share and lists the dividends that have been paid since the launch of the Company. Following the merger of Octopus IHT AIM VCT and Octopus Third AIM VCT and various share re-organisations, there is now only one share class, Ordinary shares. For Octopus IHT AIM VCT Ordinary shares, together with Octopus Third AIM VCT Ordinary shares and 'C' & 'D' shares, the figures below represent the NAV, rebased to assume investment at 100p, and adjusted in accordance with the relevant conversion factors. Investment has been assumed at the first allotment of each tax year, hence the dividends shown below may not necessarily equate to the dividends actually received by shareholders.

| Dividends paid during the period ending | Octopus AIM VCT 2 Ordinary shares 2021/22 | Octopus AIM VCT 2 Ordinary shares 2020/21 | Octopus AIM VCT 2 Ordinary shares 2019/20 | Octopus AIM VCT 2 Ordinary shares 2018/19 | Octopus AIM VCT 2 Ordinary shares 2017/18 | Octopus AIM VCT 2 Ordinary shares 2016/17 | Octopus AIM VCT 2 Ordinary shares 2015/16 | Octopus AIM VCT 2 Ordinary shares 2014/15 | Octopus AIM VCT 2 Ordinary shares 2013/14 | Octopus AIM VCT 2 Ordinary shares 2012/13 | Octopus AIM VCT 2 Ordinary shares 2011/12 | Octopus AIM VCT 2 Ordinary shares 2010/11 | Octopus Second AIM VCT (formerly Octopus IHT AIM VCT A&B shares) 2005/06 | Octopus Third AIM VCT C&D shares 2005/06 (formerly Octopus Second AIM VCT) | Octopus Third AIM Ordinary shares 2000/01 shares (formerly Octopus Second AIM VCT plc) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 30 November 2003 | | | | | – | – | – | – | – | – | – | – | – | – | 1.6 |
| 30 November 2004 | | | | | – | – | – | – | – | – | – | – | – | – | – |
| 30 November 2005 | | | | | – | – | – | – | – | – | – | – | – | – | – |
| 30 November 2006 | | | | | – | – | – | – | – | – | – | – | 1.4 | – | 1 |
| 30 November 2007 | | | | | – | – | – | – | – | – | – | – | 2.0 | 0.8 | 7 |
| 30 November 2008 | | | | | – | – | – | – | – | – | – | – | 2.0 | 2.2 | 11 |
| 30 November 2009 | | | | | – | – | – | – | – | – | – | – | 2.0 | 2.0 | 2 |
| 30 November 2010 | | | | | – | – | – | – | – | – | – | – | 2.5 | 5.4 | 2.2 |
| 30 November 2011 | | | | | – | – | – | – | – | – | – | 4.7* | 3.3 | 3.9* | 1.6* |
| 30 November 2012 | | | | | – | – | – | – | – | 2.3* | 4.4* | 4.6* | 3.2 | 3.8* | 1.6* |
| 30 November 2013 | | | | | – | – | – | – | 4.5* | 5.1* | 4.7* | 5.0* | 3.5 | 4.1* | 1.7* |
| 30 November 2014 | | | | | – | – | – | 4.3* | 5.2* | 5.8* | 5.4* | 5.8* | 4.0 | 4.7* | 1.9* |
| 30 November 2015 | | | | | – | – | 7.0* | 6.4* | 7.8* | 8.7* | 8.1* | 8.6* | 6.0 | 7.1* | 2.9* |
| 30 November 2016 | | | | | – | 4.8* | 4.6* | 4.3* | 5.2* | 5.8* | 5.4* | 5.8* | 4.0 | 4.7* | 1.9* |
| 30 November 2017 | | | | | 4.5* | 4.9* | 4.8* | 4.4* | 5.3* | 5.9* | 5.5* | 5.9* | 4.1 | 4.8* | 2.0* |
| 30 November 2018 | | | | 4.5* | 4.6* | 5.0* | 4.9* | 4.5* | 5.5* | 6.1* | 5.6* | 6.0* | 4.2 | 4.9* | 2.0* |
| 30 November 2019 | | | 9.8* | 8.7* | 8.9* | 9.7* | 9.4* | 8.6* | 10.5* | 11.7* | 10.9* | 11.6* | 8.1 | 9.5* | 3.9* |
| 30 November 2020 | | 6.0* | 5.1* | 4.5* | 4.6* | 5.0* | 4.9* | 4.5* | 5.5* | 6.1* | 5.6* | 6.0* | 4.2 | 4.9* | 2.0* |
| 30 November 2021 | 6.2* | 8.4* | 7.2* | 6.3* | 6.5* | 7.0* | 6.8* | 6.3* | 7.7* | 8.6* | 7.9* | 8.5* | 5.9 | 2.9* | 6.9* |
| **Total dividends paid (assumed investment at 100p)** | **6.2** | **14.4** | **22.1** | **24.1** | **29.0** | **36.4** | **42.3** | **43.1** | **57.1** | **66.1** | **63.4** | **72.5** | **60.4** | **49.2** | **69.7** |
| **Adjusted NAV (assumed investment at 100p)** | **95.4p**** | **129.3p**** | **110.1**** | **97.6**** | **99.3**** | **108.2**** | **105.3**** | **96.7**** | **117.9**** | **131.6**** | **122.0**** | **130.6**** | **90.8** | **106.8**** | **43.9**** |
| **NAV plus total dividends (assumes investment at 100p)** | **101.6***** | **143.7***** | **132.1***** | **121.7***** | **128.3***** | **144.6***** | **147.7***** | **139.8***** | **175.1***** | **197.7***** | **185.1***** | **203.1***** | **151.2** | **176.5***** | **93.1***** |

*Notional dividends assuming investment at 100p and adjusting for conversion of various share classes into Octopus AIM 2 VCT plc Ordinary shares.

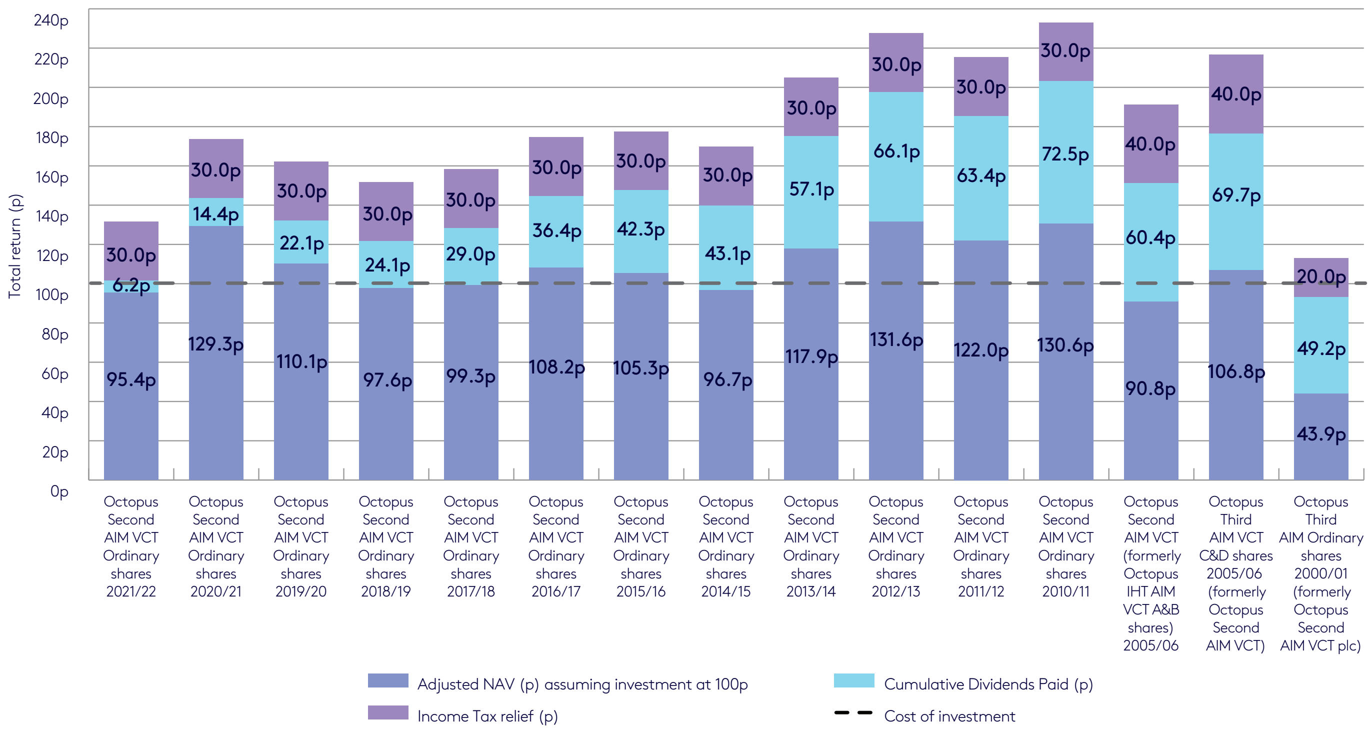
**NAV assuming investment at 100p and adjusting for conversion of various share classes into Octopus AIM 2 VCT plc Ordinary shares.

***NAV plus cumulative dividends adjusting for conversion, assuming investment at 100p showing the notional return to shareholders based on their original investment share class.

**Notes**

- Octopus Third AIM VCT 'D' shares converted into 'C' shares in May 2009, in accordance with a conversion factor of 1 'C' share for each 'D' share.
- Octopus Third AIM VCT 'C' shares converted into Octopus Third AIM VCT Ordinary shares in May 2009, in accordance with a conversion factor of 2.4313 Ordinary shares for each 'C' share.
- Octopus AIM VCT 2 plc (previously Octopus IHT AIM VCT) 'B' shares converted into 'A' shares in May 2009, in accordance with a conversion factor of 1 'A' share for each 'B' share.
- Octopus Third AIM Ordinary shares converted into Octopus Second AIM (post August 2010) Ordinary shares in August 2010, in accordance with a conversion factor of 0.48356191 Octopus Second AIM Ordinary share (post August 2010), for each Octopus Third AIM Ordinary share.
- In August 2010, Octopus IHT AIM VCT was renamed Octopus Second AIM VCT, and subsequently changed its name to Octopus AIM VCT 2 plc.

The graph below depicts the NAV per share and the dividends that have been paid since the launch of Octopus AIM VCT 2 plc for each class of share issued since the start, assuming an investment at 100p including the up-front tax relief and adjusted in accordance with the relevant conversion factors. Investment has been assumed at the first allotment of each tax year:




The proposed final dividend of 2.1p will, if approved by shareholders, be paid on 27 May 2022 to shareholders on the register on 6 May 2022.

## Dividend Reinvestment Scheme ("DRIS")

The Company established a DRIS in 2014, under which shareholders are given the opportunity to automatically re-invest future dividend payments by subscribing for new Ordinary Shares. This allows participating shareholders to re-invest the growth in their shareholdings and, subject to personal circumstances, benefit from additional income tax reliefs.

Any shareholder wishing to reinvest their dividends can request a DRIS instruction form by calling Computershare on **0370 703 6326** or complete an instruction electronically by visiting the Computershare Investor Centre at: **www-uk.computershare.com/investor/**. The application form and rules can also be found in the Document Library on the Octopus Investments Limited website: **www.octopusinvestments.com/investor/our-products/venture-capital-trusts/octopus-aim-vcts/**.

## Share Price
The Company's share price can be found on various financial websites including **www.londonstockexchange.com**, with the following TIDM/EPIC code:

| | Ordinary shares |
|---|---|
| TIDM/EPIC code | OSEC |
| Latest share price 18 February 2022 | 79.5 pence per share |

## Buying and Selling Shares
The Company's Ordinary shares can be bought and sold in the same way as any other company quoted on the London Stock Exchange via a stockbroker. There may be tax implications in respect of selling all or part of your holdings, so shareholders should contact their independent financial adviser if they have any queries.

## Buyback of Shares
The Company operates a policy of buying its own shares for cancellation as they become available, and envisages that purchases will be made at a 5% discount to the prevailing NAV. The Company is, however, unable to buy back shares directly from shareholders. If you are considering selling your shares or trading in the secondary market, please contact Panmure Gordon (UK) Limited, the Company's broker.

Panmure Gordon (UK) Limited is able to provide details of close periods (when the Company is prohibited from buying in shares) and details of the price at which the Company has bought its shares. Panmure Gordon (UK) Limited can be contacted as follows:

| | | |
|---|---|---|
| Chris Lloyd | 020 7886 2716 | chris.lloyd@panmure.com |
| Paul Nolan | 020 7886 2717 | paul.nolan@panmure.com |

## Secondary Market
UK income tax payers, aged 18 or over, can purchase shares in the secondary market and benefit from:

- Tax-free dividends
- Realised gains not being subject to capital gains tax (although any realised losses are not allowable)
- No minimum holding period
- No need to include VCT dividends in annual tax returns

The UK tax treatment of VCTs is on a first in and first out basis and therefore tax advice should be obtained before shareholders dispose of their shares.

## Notification of Change of Address
Communications with shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment, this should be notified to the Company's registrar, Computershare, under the signature of the registered holder or via the Computershare Investor Centre at: **www-uk.computershare.com/investor/**. Computershare's contact details are provided on page 69.

## Other Information for Shareholders
Previously published Annual Reports and Half-yearly Reports are available for viewing on the Investment Manager's website at **www.octopusinvestments.com** by navigating to Investor, Shareholder, Octopus AIM VCT 2 plc. Other statutory information about the Company can also be found there.

## Electronic Communications
We also publish reports and accounts and all other correspondence electronically. This cuts the cost of print and reduces the impact on the environment. If, in future, you would prefer to receive an email telling you a report is available to view or to receive documents by email, please complete the enclosed form or contact Octopus on **0800 316 2295** or Computershare on **0370 703 6326**. Alternatively you can sign up to receive e-communications via the Computershare Investor Centre at: **www-uk.computershare.com/investor/**.

## Warning to Shareholders
Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based "brokers" who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be wary of any unsolicited advice, offer to buy shares at a discount or offer for free Company reports.

Please note that it is very unlikely that either the Company, Octopus or the Registrar would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and would never be in respect of investment advice.

If you are in any doubt about the authenticity of an unsolicited phone call, please call Octopus on **0800 316 2295**.

The Financial Conduct Authority have also issued guidelines on how to avoid share fraud and further information can be found on their website: **www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams**. You can report any share fraud to them by calling **0800 111 6768**.

# Glossary of Terms

### Alternative performance measure ("APM")
A financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. These APMs will help Shareholders to understand and assess the Company's progress. A number of terms within this Glossary have been identifies as APMs.

### Net asset value or NAV
The value of the VCTs' total assets less liabilities. It is equal to the total shareholders' funds.

### Net asset value per share or NAV per share
The NAV per share of the Company is the sum of the underlying assets less the liabilities of the Company divided by the total number of shares in issue.

### Ongoing charges ratio (APM)
The ongoing charges ratio has been calculated using the AIC recommended methodology and excludes exceptional costs and trail commission. The figure shows the annual percentage reduction in shareholder returns as a result of recurring operational expenses. It informs shareholders of the likely costs that will be incurred in managing the fund in the future.

This is calculated by dividing your expenses of £2,346,000 which includes the expenses listed out in Note 4 on page 54 excluding irrecoverable VAT, exceptional costs and trail commission by average net assets of £130,664,000.

### Total Return (APM)
Total return is calculated as movement in NAV per share in the period plus dividends paid in the period, divided by the NAV per share at the beginning of the period. Total return on the NAV per share enables shareholders to evaluate more clearly the performance of the Fund, as it reflects the underlying value of the portfolio at the reporting date.

# Directors and Advisers

## The Board of Directors
Keith Mullins (Chairman)
Andrew Raynor FCA
Alastair Ritchie BA
Elizabeth Kennedy LLB (Hons) FCSI FCG
Brad Ormsby CA

## Company Number
Registered in England No: 05528235

## Secretary and Registered office
Octopus Company Secretarial Services Limited
33 Holborn
London
EC1N 2HT

## Investment and Administration Manager
Octopus Investments Limited
33 Holborn
London
EC1N 2HT
Tel: 0800 316 2295
www.octopusinvestments.com

## Custodians
Octopus Investments Limited
33 Holborn
London
EC1N 2HT

## Bankers
HSBC Bank plc
31 Holborn
London
EC1N 2HR

## Independent Auditor
BDO LLP
55 Baker Street
London
W1U 7EU

## Tax Adviser
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

## VCT Status Adviser
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

## Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Tel: 0370 703 6326
(calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate.
www.computershare.com/uk
www-uk.computershare.com/investor/

## Corporate Broker
Panmure Gordon (UK) Limited
One New Change
London
EC4M 9AF
020 7886 2500

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Octopus AIM VCT 2 plc will be held at 33 Holborn, London, EC1N 2HT on 28 April 2022 at 11:00 am for the purposes of considering, and if thought fit, passing the following resolutions of which Resolutions 1 to 7 and 11 will be proposed as Ordinary Resolutions and Resolutions 8 to 10 will be proposed as Special Resolutions:

## Ordinary Business

1. To receive and adopt the financial statements for the year to 30 November 2021 and the Directors', Auditor's and Strategy reports therein.

2. To approve a final dividend of 2.1p per Ordinary share.

3. To approve the Directors' Remuneration Report.

4. To re-elect Keith Mullins as a Director.

5. To elect Brad Ormsby as a Director.

6. To re-appoint BDO LLP as auditor of the Company in accordance with section 489 of the Companies Act 2006 (the 'Act'), until the conclusion of the next general meeting of the Company at which audited accounts are laid before members, and to authorise the Directors to determine their remuneration.

## Special Business

To consider and if thought fit, pass Resolutions 7 and 11 as Ordinary Resolutions and Resolutions 8 to 10, as Special Resolutions:

7. **Authority to allot relevant securities**
THAT, in addition to existing authorities, the Directors be and are generally and unconditionally authorised in accordance with s551 of the Act to exercise all the powers of the Company to allot shares in the Company up to a maximum nominal amount of £2,958 (representing approximately 20% of the Ordinary share capital in issue at the date of this Notice) such authority to expire at the earlier of the conclusion of the Company's AGM next following the passing of this Resolution and the expiry of 15 months from the passing of the relevant Resolution (unless previously renewed, varied or revoked by the Company in a general meeting but so that such authority allows the Company to make offers or agreements before the expiry thereof, which would or might require relevant securities to be allotted after the expiry of such authority).

8. **Empowerment to make allotments of equity securities**
THAT, conditional upon the passing of Resolution 7 above, and in addition to existing authorities, the Directors of the Company be and are hereby empowered pursuant to s571 of the Act to allot or make offers or agreements to allot equity securities (as defined in s560(1) of the Act) for cash pursuant to the authority granted by Resolution 7 as if s561 of the Act did not apply to any such allotment and so that:

   (a) reference to allotment of equity securities in this Resolution shall be construed in accordance with s560(2) of the Act; and

   (b) the power conferred by this Resolution shall enable the Company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding the expiry of such power.

   The power provided by this Resolution shall expire on the date falling 15 months from the date of the passing of this Resolution (unless previously renewed, varied or revoked by the Company in a general meeting).

9. **Authority to make market purchases**
THAT, in addition to existing authorities, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of s693(4) of the Act) of Ordinary shares of 0.01p each in the Company ('Ordinary shares') provided that:

   (a) the maximum number of Ordinary shares so authorised to be purchased shall not exceed 22,173,806 Ordinary shares, representing approximately 14.99% of the Company's issued share capital at the date of this Notice;

   (b) the minimum price which may be paid for an Ordinary share shall be its nominal value;

   (c) the maximum price, exclusive of expenses, which may be paid for an Ordinary share is an amount equal to (i) 105% of the average of the middle market quotation for an Ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is contracted to be purchased; and (ii) the amount stipulated by Article 5(6) of the Market Abuse Regulation;

   (d) the authority conferred comes to an end at the conclusion of the next AGM of the Company or upon the expiry of 15 months from the passing of this Resolution, whichever is the earlier; and

   (e) that the Company may enter into a contract to purchase its Ordinary shares under this authority prior to the expiry of this authority which would or might be completed wholly or partly after the expiry of this authority.

**10. Cancellation of Share Premium Account**
THAT, subject to the sanction of the High Court, the amount standing to the credit of the share premium account of the Company, at the date an order is made confirming such cancellation by the Court, be and hereby is cancelled, and the amount by which the share capital is so reduced be credited to a reserve of the Company.

**11. Continuation of the Company as a VCT**
THAT the Company continue as a VCT until 2027.

By Order of the Board

Keith Mullins

Keith Mullins
Chairman
21 February 2022

## Notes:

(a) A member entitled to attend and vote at the AGM may appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member.

(b) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at close of business on the day which is two days before the day of the meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

(c) A form of proxy is enclosed which, to be effective, must be completed and delivered to the Company's registrars, **Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY** or alternatively, you may register your proxy electronically at **www.investorcentre.co.uk/eproxy**, in each case, so as to be received by no later than 48 hours before the time the AGM is scheduled to begin. To vote electronically, you will be asked to provide your Control Number, Shareholder Reference Number and PIN which are detailed on your proxy form.

Appointment of a proxy, or any CREST proxy instruction (as described in paragraph (d) below) will not preclude a member from subsequently attending and voting at the meeting should he or she choose to do so. This is the only acceptable means by which proxy instructions may be submitted electronically.

(d) To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number 3RA50) not later than 48 hours (excluding non-working days) before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(e) Any person receiving a copy of the Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a 'Nominated Person') should note that the provisions in Notes (a) and (b) above concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.

(f) Section 319A of the Companies Act 2006 requires the Directors to answer any question raised at the AGM which relates to the business of the meeting although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the Company's website; or (c) if it is undesirable in the best interests of the Company or the good order of the meeting.

Questions from our shareholders in relation to the AGM can be sent via email to **AIMVCT2AGM@octopusinvestments.com.** The Company may, however, elect to provide answers to questions raised within a reasonable period of days after the conclusion of the AGM.

(g) Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last AGM, that the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement required to be placed on the website must also be sent to the Company's auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website.

(h) Under sections 338 and 338A Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company:

(i) To give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or

(ii) To include the business to be dealt with at the meeting any matters (other than a proposed resolution) which may be properly included in the business.

A resolution may properly be moved or a matter may properly be included in the business unless:

(i) (In the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise);

(ii) It is defamatory of any person; or

(iii) It is frivolous or vexatious.

Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than six weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

(i) A copy of the Notice of AGM and the information required by Section 311A Companies Act 2006 is included on the Company's website, **www.octopusinvestments.com** under VCTs. Copies of the Directors' Letters of Appointment, the Register of Directors' Interests in the Ordinary shares of the Company kept in accordance with the Listing Rules and a copy of the Memorandum and Articles of Association of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday from the date of this notice until the AGM, and at the place of that meeting for at least 15 minutes prior to the commencement of the meeting until its conclusion.

(j) As at 21 February 2022 (being the last practicable date prior to the publication of this Notice) the Company's issued share capital consists of 147,923,990 Ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 21 February 2022 are 147,923,990.