Strategy Note
Executive Summary

This note summarises the outcome of a strategy review undertaken by the Board of Ventus 2 VCT plc (the "Company") over the past year during the period when the last of the Company's assets became operational. In publishing this review, the Board has considered the views expressed at the Company's Annual General Meeting, as well as input from a range of shareholders and wealth managers responsible for advising shareholders.

Strategic Objectives

Taking account of the Company's previously stated aims and the views put to us by shareholders the Board can clarify the following as key objectives:

- To achieve a sustainable level of dividends from the management of a portfolio of renewable energy assets held within a tax efficient Venture Capital Trust ("VCT").
- To protect the capital of shareholders and to enhance its value by the active management of the assets operated by investee companies, which are generally joint venture companies.
- To manage the assets of the Company with a view to maximising their longevity and optionality.

The Board considers that the strategy outlined in this note will best achieve the key objectives set out above. Please see the sections below for a full discussion of the issues.

Background

Ventus VCT plc and Ventus 2 VCT plc (the "Ventus Companies") were established as VCTs in 2004 and 2005 respectively. The principal investment objective was to invest in companies that develop, construct and operate on-shore renewable energy projects in the UK. Each of the Ventus Companies set out in its offering document a medium-term dividend objective.

The Ventus Companies were set up as permanent capital vehicles open to raise new capital to diversify and renew the portfolio of assets over time. In addition, it was open to each of the Ventus Companies to sell investments where the assets had reached operational maturity and to recycle the proceeds into construction projects, thereby reducing the age of the portfolio. For clarity, the Ventus Companies were not set up as limited life companies.

The primary means of liquidity for the Company's shareholders is through the sale of listed shares in the secondary market; the Company maintains a full listing on the London Stock Exchange. However, the Company has provided for a continuation vote at the 2020 AGM to allow shareholders to decide whether the Company should continue as a VCT which, depending upon the wishes of shareholders at the time, could subsequently provide for a realisation of the portfolio and winding down of the Company.

When the current manager, Temporis Capital LLP (the "Manager") was appointed in late 2011, acting on the Board's instructions, the Manager refocused the portfolio primarily into income-producing wind and hydro assets with a view to maximising sustainable income consistent with the original investment proposition.

Since the Company was established the legislative backdrop for VCTs has changed significantly. The Company is now unable to raise new capital for investment in electricity generation projects without compromising its VCT status. In the past year the Company's investee companies have successfully commissioned, ahead of the legislative changes, the last of their operating assets. The Company has been fully invested and the assets are held in a tax-free wrapper. There is no liability to tax on dividends and no capital gains tax on realised gains for eligible VCT shareholders, i.e. UK residents aged over 18 years (an investment limit of £200,000 per person per tax year applies). The Company cannot now be replicated as it is not possible to invest in a new company that benefits from both renewable energy subsidies and VCT tax benefits.

The Board regularly reviews Company strategy and in light of these significant background changes has taken the opportunity to publish this explanatory note.

Changes to VCT Rules and other relevant legislation

VCT Rules

Each VCT must hold more than 70% of its investments in companies that carry on a qualifying trade. In the Finance Act 2014 the Government introduced provisions to remove the generation of electricity from wind, amongst other technologies, as a qualifying trade. These provisions came into force on 17 July 2014. Transitional provisions permitted investment in hydro-electricity schemes to remain as a qualifying trade until April 2015. Further legislation has since removed all forms of electricity generation from the definition of a qualifying trade. Therefore the Company is now not able to make new investments that satisfy the investment objective of developing, constructing and operating onshore renewable energy assets. The changes in VCT Rules do not affect the qualifying nature of the investments that the Company currently holds.

Further changes were introduced in the Finance Act 2016 to severely limit the nature of non-qualifying investments that VCTs may hold. This effectively removes the possibility of making renewable energy investments as a non-qualifying investment. Therefore, for example, it would not be possible for the Company to invest in Ventus VCT plc, as was suggested at the AGM, without leading to a loss of VCT status.

MAR Rules

The implementation of the Market Abuse Regulations ("MAR") on 3 July 2016 has introduced more restrictive limits in terms of the price and volume at which the Company can repurchase its own shares and still automatically qualify as operating within a safe harbour from the offence of market manipulation.

The Board has noted that MAR does still allow for the operation of a share buyback programme provided that all inside information has been properly disclosed and the way in which it is conducted does not mislead or manipulate the market.

However, in summary, the new MAR rules state that the price paid cannot be higher than the last independent trade or current purchase bid, and the amount purchased on any one day cannot exceed 25% of the average daily volume. Note that the average daily trade volume has been approximately 3,000 ordinary shares and 3,500 C shares over the last year.

The view of the Board is that the Company would not be able to operate an effective share buyback programme within these restrictions.

Closure of Renewables Obligation

The key policy instrument incentivising the growth in UK renewable energy projects was the Renewables Obligation ("RO"). In particular, the RO provides a tariff mechanism to onshore wind generators over a 20 year operating period, and this has driven the growth in onshore wind assets since its introduction in 2002. The provision of the tariff was a key ingredient in the economic viability of onshore wind farms, providing typically about half of their income.

In May 2015 the Government announced that the RO would close in March 2017. A successor mechanism, known as a Contract for Differences ("CfD") exists but to date there has been limited award of CfDs to onshore wind farms. It is not currently expected that future CfD rounds will include an allocation to onshore wind. As such, any future onshore wind developments are expected to need to be viable without subsidy. This does not affect any of the investments that the Company has made, but were the VCT Rules again to allow investment in energy generation it would significantly limit the breadth of investment opportunities.

Similarly, a Feed-in Tariff ("FiT") regime provides an incentive to construct and operate hydro-electricity plants. The Government has announced a progressive cut in the level of tariff available, with the consequence that very few new hydro plants of any scale will be economically viable beyond 2016.

Whilst these changes do not affect the revenues of the Company's existing investee companies it is likely that the removal of the tariffs will significantly affect the deployment of new wind and hydro- electricity schemes.

Assessment of strategic objectives

The Board regularly reviews the strategic objectives of the Company and takes into consideration changes in the market for its assets, the status of the portfolio of assets and shareholder feedback in their assessment process.

Within the past year the Company's portfolio has simplified into operational assets and cash. It consists of 14 operational renewable energy projects. There are no longer any assets in the development or construction phase.

The fact that the portfolio is no longer in development, as well as the changes in legislation described in this document, make this an appropriate time for the Directors to address the future direction of the Company. The result of this review is set out below.

Taking account of the Company's previously stated aims as set out in its prospectuses and the views put to us by shareholders the Board can clarify the following as key objectives:

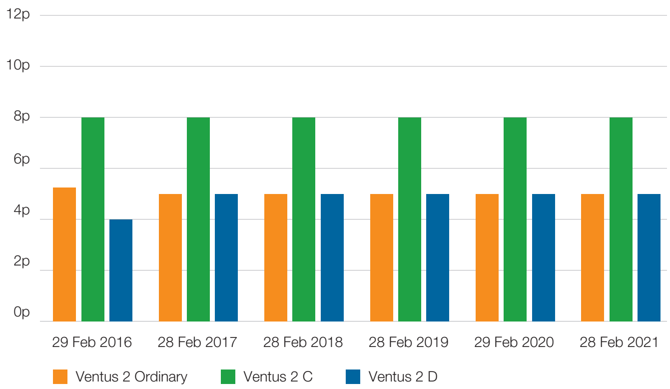
- To achieve a sustainable level of dividends from the management of a portfolio of renewable energy assets within a tax-efficient Venture Capital Trust.
- To protect the capital of shareholders and to enhance its value by the active management of the assets operated by investee companies, which are generally joint venture companies.
- To manage the assets of the Company with a view to maximising their longevity and optionality.

These key areas are explained further in the text that follows.

Dividend policy

The Company is now equipped with an operational portfolio of assets that is producing a sustainable yield. All of the Company's investments are now generating revenue. The Board has set clear dividend objectives for each class of share, as set out below along with the dividends paid in respect of the financial year ended 29 February 2016.

Ventus 2 VCT plc
Annual Dividends Declared - paid & target



Approximately half of the income earned by the Company's investee companies is from the sale of electricity in the open market; the remainder is from renewables support schemes. Many of the investee companies have power purchase agreements with a fixed electricity price, which has sheltered the revenues of the relevant assets from volatility in power prices in years past. However, there remains some exposure to electricity prices in the near term, and as fixed price agreements expire, there is exposure to a greater degree unless new fixed price contracts can be agreed. Exposure to power prices is a key factor in assessing and setting the dividend target.

The Board believes the current dividend target is sustainable for the foreseeable future and the dividend policy will be reviewed periodically. As debt amortises within each investee company it is expected that free cash flow available for distribution will increase over

Financial optimisation

time (see below). The Board assesses projected cash flow from its investee companies as part of its periodic review of dividend targets. In considering the application of additional free cash flow the Board will assess the possibility of investee companies making further investments in light of then current legislation. The nature of such investments, and their suitability, will depend upon the shape of investment opportunities at the relevant time and so cannot be assessed in advance.

Active Asset Management

In order to support the dividend objective and to maximise returns to the shareholders, the Manager is actively managing the assets in the portfolio to enhance yield to the Company.

The primary means of maximising revenue from, and hence capital value of, wind and hydro assets is to keep the plant available to generate and to maximise the revenue per unit of generation. Availability levels can be achieved by proactive management of the operation and maintenance providers by managing planned downtime to less windy periods and ensuring that unplanned downtime is kept to a minimum. To this end the Board has encouraged the Manager to recruit within its existing management fee structure specialist in-house engineering experts who continually review operational performance data to identify opportunities to improve performance of both the machines and the contractors.

The Manager also devotes attention to carefully reviewing and managing operating costs, to ensure that the Company benefits from the scale of its operating portfolio across all investee companies. For example these costs include insurance, management systems and reporting. This has resulted in operational cost savings across the portfolio. The Manager also seeks to reduce operating costs on a project by project basis by, for example, successfully appealing business rates assessments and delivering significant savings for investee companies.

Investee company level

Each investee company has long term senior debt in place. Such debt is secured on a fixed rate, fully amortising basis. The ratio of debt to equity at 31 August 2016 within the investee companies in each share class is stated below.

Ventus 2 VCT plc investee companies:

	Ordinary Share	**"C" Share**	**"D" Share**
Percentage Loan-to-Value	52%	53%	62%
Average remaining tenor of loan (years)	12.2	12.7	14.8

The Manager and Board periodically review opportunities to enhance shareholder value through optimising the debt structure within investee companies. The Manager has recently renegotiated the terms of one investee company's senior loan, creating significant additional cash-flow, and the refinancing of three further investee company senior loans is under way which again is expected to enhance cash-flow to the Company.

Many of the senior loans in place with investee companies come with an interest rate swap, at the lenders' insistence, which provides the investee company with a fixed interest rate for the life of the loan. UK interest rates have contracted steadily since 2008 and as a consequence many of the interest rate swaps that are in place have a negative carrying value (or are 'out of the money'). Therefore, a senior loan that carries an out of the money interest rate swap comes with a repayment penalty equal to the size of the swap break cost. For this reason it is not economic to refinance many of the investee company loans in the Company's portfolio.

Beyond refinancing, the Board has considered the level and remaining life ("tenor") of debt within the portfolio. The Loan to Value ratio and the tenor for each share class is set out above. These metrics, as well as the forward cover ratios of investee company debt, were analysed on a company by company basis. Sensitivity analysis was performed to calculate the impact of an increase in senior debt on cover ratios and investee company dividends. Generally, an increase in debt quantum would lead to an increase in the Company's sensitivity to variability in investee company performance. This may result in investee companies paying limited or no dividends to the Company in a particular year depending on the level of additional borrowing. It is for this reason that the Company has acted to set leverage in the portfolio at a sustainable level which balances predictability with value in returns from investee companies.

The Board has concluded that the loans already targeted for refinancing are the only loans that can be economically refinanced at present and the level of gearing within each investee company is appropriate given the Company's objective of paying a sustainable level of dividend.

VCT level

The Board has also considered, and includes in its periodic review, the viability of taking debt at Company level. If the terms were right this could enhance the level of dividends payable to shareholders by bringing forward cash flows at a cheaper cost of capital than the discount rate that applies to the assets. The Board has currently identified a number of drawbacks with this potential action.

The returns received from investee companies by the Company are already subject to senior debt restrictions at investee company level. As such, the shares in the investee companies that are owned by the Company are subject to a first ranking charge in favour of the senior lender to each investee company. The Company could not, therefore, offer a lender first ranking security over its assets. Any such debt would be second lien.

The Board has sourced terms for second lien debt at Company level. The lending rates currently on offer are substantially higher than the discount rates used in the discounted value analysis of the Company's assets. Therefore the Board does not at present consider such a strategy as value accretive to shareholders.

In addition, such a strategy would increase the sensitivity of shareholders to movements in power prices and operational performance at investee company level, as the second lien lender would have priority over income received from investee companies. This could lead to a position where dividends and income from investee companies are used solely to satisfy second lien debt, leaving the Company unable to pay a dividend to its shareholders. This would contradict the strategic objective offering shareholders a sustainable dividend.

For these reasons the Board has concluded that taking debt at Company level is not in the interest of shareholders at present.

Merger of share classes

The Board has determined that it expects the Ordinary and C share portfolio to be suitable for merger following the publication of the Company's results for the financial year ending 28 February 2017. Unless there is a significant change in either portfolio by that time it is the Board's intention to complete the merger in the weeks that follow publication of the results.

It is not expected that the merger of share classes will create significant cost savings, however the Board anticipates that it will simplify reporting and presentation to new investors as well as providing a larger single pool of shares in the secondary market which may increase liquidity.

The Board will publish details of the merger mechanics with the results for the year ending 28 February 2017.

Life of the Company

Asset life

Renewable energy installations have become an established asset class, driven in part by greater levels of deployment and investor demand for physical assets that provide long term yield. Deployment has advanced significantly since the creation of the Ventus Companies with over 9,000MW of onshore wind farms in operation in the UK.

Many wind farms of a scale similar to those owned by the Company's investee companies are approaching ten years of operating history. The technology behind wind farms is now demonstrably robust and, as deployment of onshore wind increases in scale, wind farm operators have begun to explore the possibility of extending turbine life to 25 or 30 years. In addition market participants have begun to explore and validate the possibility of repowering i.e. replacing older turbines with newer, larger, more efficient machines. The first operational wind farm of scale in the UK, at Delabole in Cornwall, was successfully repowered with larger turbines in 2010, and others have followed.

At present, as updated in the Half-Yearly Financial Report for the six month period ended 31 August 2016, the Company assumes an operational life of 25 years, in line with other market participants, albeit with a reduced annual generation assumption for the last five years of operational life. No terminal value is assumed, nor is any repowering or life extension value, because it is not possible to forecast with any accuracy the electricity market that many years ahead.

Most of the land leases for investee company wind farms have clauses permitting renewal following renegotiation; grid connection agreements are generally evergreen and are owned by the investee company. The Board and Manager continue to monitor the market and to ensure that, wherever possible, optionality to derive any value from life extensions and repowering is preserved throughout the portfolio. Such initiatives may allow the Company to extend its lifespan beyond the currently assumed operational life of the portfolio. The economics of such a proposal will be a function of the electricity market at the relevant time, as well as turbine technology. Extension or repowering will normally require renegotiation of land leases and renewed planning permissions. The Board does not consider it possible to ascribe a quantifiable value to life extension that may or may not be viable in 15 to 25 years. However the Manager has been instructed to preserve optionality to extend operational life throughout the portfolio. This does not significantly affect the current valuations of investee companies due to the effect of discounting over a prolonged period. However it is likely that some value may be both achievable and more quantifiable later in the life of the Company.

Hydro-electricity stations tend to have a longer operating life than wind sites, partly because of the relative simplicity of the technology involved once the scheme is built and commissioned. Schemes can operate for 40 years or more, often without significant capital expenditure being required. The longevity of these schemes will also be relevant in the life span of the Company.

As set out above it is anticipated that free cash flow inside investee companies may increase in the future as senior debt amortises. As well as the potential to increase cash flow to the Company it is possible that additional free cash flow could be used by the investee companies to make further investments. This would be subject to the VCT rules prevalent at the time, and where a senior lender remains in place, its consent to new investment. This route may provide a means of funding a repowering exercise or capital investment to extend turbine life and the Board will explore such opportunities at the appropriate time.

Continuation of the VCTs

Whilst the original intention was for the Company to operate as a permanent capital vehicle, it provided for a continuation vote in its offering documents. The Company will include a resolution to consider the continuation of the Company as a VCT in its AGM in 2020. Shareholders will have the opportunity to vote directly on whether the Company should continue in the current form. If the continuation motion is not carried a general meeting will be convened within four months of the 2020 AGM to present proposals for the restructuring or voluntary winding up of the Company.

As set out above, the Board's strategic assessment is that the Company should continue to operate over the long term, to provide sustainable and stable tax efficient dividends to its shareholders.

Share Buy Back Policy

The Board and its advisers continually monitor the discount between share price and net asset value and endeavour to reduce it while preserving value for the majority of shareholders. It is frequently suggested that buying back Company shares will significantly reduce the discount.

The Board periodically reviews the application of its policy to buy back shares from the market. The policy dictates that the Board will act in the best interest of all shareholders in applying its policy. Previous share buy backs have not led to a sustained increase in share price. The Board's view is the best support of the share price is through promoting the Company's objectives of maintaining a sustainable level of dividends and enhancing the value of the Company's investments

The recent changes in Market Abuse Regulations place very tight constraints on both the price paid for and volumes that can purchased of the Company's own shares (see earlier section). Although the Board keeps application of its buy back policy under frequent review, at present the Board does not consider it in the interest of all shareholders to use cash that would otherwise support the dividend objectives to buy back shares in the market, and as such it is not currently expected that the Company will buy shares back in the market.

There are many dividend stocks not in VCT wrappers that are trading at a premium because of the yield that they offer. It is clear that many investors are seeking access to yielding assets given the low interest rate climate. The Board's strategy has been to communicate a stable dividend policy to shareholders, as well as promoting the benefits of the shares as a secondary purchase, in order to progressively create demand for the shares. The trend of discounts for the Company shares has been gradually closing compared with earlier years and the Board is taking active steps to promote the Fund to a wider share-buying population.

Board

Various proposals, made by shareholders at the AGM, for sharing directorships between Ventus 2 VCT plc and Ventus VCT plc were examined but rejected on the grounds of lack of company independence.

Conclusion

The Board of Ventus 2 VCT plc, as part of an ongoing process, has reviewed the strategy of the Company to coincide with the progression of its assets into full operation and significant changes in relevant legislation.

It has re-stated the Company's objectives and set out in this note its strategy for achieving them. The Board believes that the Company is well placed as an efficiently-managed investment vehicle offering an attractive sustainable yield within a tax-free VCT wrapper.