

MATRIX INCOME & GROWTH 2 VCT PLC



MIG 2 VCT UPDATE SEPTEMBER 2010

Welcome to the latest Matrix Income & Growth 2 ("MIG 2") VCT Newsletter, providing an update of activity since the Annual Report for the year ended 30 April 2010.

At the EGM held on 9 September 2010, shareholders approved the merger of the Ordinary and C Share classes. For each Ordinary Share held, shareholders received approximately 0.83 C Shares in the Company, and the C Shares have now been redesignated as new Ordinary Shares. **The net asset value at 9 September 2010, the date of the merger, was 90.89p per new Ordinary Share and the share price at the date of publication of this Newsletter was 56.5p.**

The latest performance data in this newsletter are for a date prior to the merger.

	NET ASSET VALUE as at 31 Jul 10	SHARE PRICE as at 31 Jul 10
ORDINARY SHARES	75.3p	39.5p
C SHARES	92.1p	56.5p

As at 31 July, the Ordinary Share Fund total shareholder return was 102.1p comprising NAV of 75.3p plus cumulative dividends paid of 26.8p. On a comparable basis, this represents an increase of 3.2% in total shareholder return from 98.9p at 30 April 2010. The C Share Fund total shareholder return was 97.1p comprising NAV of 92.1p plus cumulative dividends paid of 5.0p. On a comparable basis, this represents an increase of 5.0% in total shareholder return from 92.5p at 30 April 2010. An interim dividend of 1.0 penny was paid to C Shareholders on 13 August 2010 in respect of the year ended 30 April 2010.

LATEST INVESTMENTS AND DIVESTMENTS

DiGiCo Europe

DiGiCo continues to trade well ahead of budget and prepaid a further £44,017 of loan stock for the Ordinary Share Fund and £30,730 for the C Share Fund (including premium) in June. The company continues to develop innovative products and this has led to its success. It also paid a dividend in July generating income of £69,574 for the Company.

Monsal

Originally held only in the C Share Fund, Monsal completed a second investment round in July that brought in a new investor, FourWinds Capital. The specialist investor Waste Resources Fund (managed by FourWinds) has invested £4 million in Monsal as part of a total commitment of £14 million, at a valuation significantly greater than our original cost and previous valuation. MIG 2 made an additional investment of £1,717 for further shares as part of the investment round.

Monsal also prepaid £85,450 of loan stock to the Company as part of this investment round.

Monsal's valuation of £1,391,033 at 31 July compares to £889,423 as at 30 April 2010, an uplift of almost 66% on a like-for-like basis.

The investment by Four Winds will be used to expand Monsal's core anaerobic digestion solutions business in the wastewater industry and provide infrastructure funding for bio-gas energy from waste projects. It will also act as a strong catalyst in securing growth for Monsal.



COMBINED PORTFOLIO BREAKDOWN AT 31 JULY 2010

	31 July 2010	30 April 2010
	£	£
Unquoted loan stock	7,706,917	7,719,977
Unquoted equities	4,920,440	3,744,316
AiM quoted investments	10,035	67,174
Money market funds	11,769,855	11,752,413
Cash	133,924	88,424
Net other assets/(liabilities)	(86,748)	(81,355)
Net assets	24,454,423	23,290,949
Net asset value per share		
Ordinary Shares	75.3p	72.1p
C Shares	92.1p	87.5p

MANAGER'S COMMENTARY

The private equity market has continued to be challenging, both for new investment and achieving exits. The recent political uncertainty and slow recovery from recession have meant that companies have been reluctant to market their businesses for sale or raise new capital. However, now that the coalition Government has set out its plans for reducing the budget deficit, this should provide business owners with the

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ASSET MANAGEMENT

MANAGER'S COMMENTARY CONTINUED

clarity they need to plan for the future. We are hopeful, therefore, that a greater number of more attractively priced opportunities will come forward.

We have remained cautious and continue to be highly selective in the companies that we consider. Over the quarter, the combined portfolio on a like-for-like basis has increased in valuation by £1.3m, or 11.0%. This uplift can be attributed to improved performance at four companies; ATG Media, British International, Focus Pharma and Racoon; and the investment in Monsal by FourWinds Capital.

ATG Media is trading in line with expectations and continues to see increased interest in its online auction technology. British International has returned to historic levels of profitability after a disappointing year in 2009. It continues to supply helicopter support to the drilling rig stationed in Falkland Islands' waters. Focus Pharma is seeing increased success and expects to be materially ahead of its budget for the year. Racoon has improved its profitability through a more focussed marketing expenditure.

Iglu.com has made a strong start since investment and is performing ahead of its business plan.

The two acquisition companies continue to seek investments in their chosen sector but have not yet found sufficiently attractive investments at the right price.

Those businesses with exposure to the housebuilding and construction sectors, notably Youngman, Plastic Surgeon and PXP continue to suffer weakness in their markets. Each has responded by cutting costs and diversifying their markets. We have worked with these and other portfolio businesses to make the changes necessary to ensure they are in the best possible position to withstand this period of economic uncertainty.

Despite a recent trading update which was only slightly behind market expectations, Legion Group requested a suspension of its shares pending clarification of its working capital position in July. Unfortunately, it was unable to agree a repayment plan with a major creditor and the business was placed into administration in August.

Although the UK economic environment remains uncertain, there appear to be no signs of further threats to the financial health of our portfolio companies. The more stable political and economic environment should allow smaller companies to plan for the future and we expect to see increasingly attractive opportunities coming forward. With significant cash reserves, your Company is well placed to take advantage of this point in the cycle.

COMBINED QUALIFYING INVESTMENT PORTFOLIO AS AT 31 JULY 2010*

COMPANY	BUSINESS	INVESTMENT COST £	INVESTMENT VALUATION £	% OF THE INVESTMENT PORTFOLIO
Ten largest investments				
Digico Europe	Sound mixing consoles	495,651	1,688,886	13.4
Monsal Holdings	Water & waste sector engineering services	770,717	1,391,033	11.0
British International	Helicopter services	1,160,000	1,354,763	10.7
ATG Media	Publisher and online auction platform operator	863,895	1,056,199	8.4
Iglu.com Holidays	Online ski and cruise travel agent	1,000,001	1,000,001	7.9
VSI	Software for CAD/CAM vendors	308,643	926,358	7.3
Focus Pharma Holdings	Licensing & distribution of pharmaceuticals	660,238	883,174	7.0
Youngman Group	Manufacture of ladders and access towers	1,000,052	699,966	5.5
Racoon International	Supplier of hair extensions & hair care products	878,527	423,069	3.3
Vectair Holdings	Design and sale of washroom products	243,784	411,352	3.3
Total of ten largest investments		7,381,508	9,834,801	77.8
Other investments		6,583,890	2,802,591	22.2
Total		13,965,398	12,637,392	100.0

* The acquisition companies, Backbarrow and Vanir Consultants, are included in Other investments at a cost and valuation of £1 million each.

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