FIND INSIDE ● *WHY VCT FUNDRAISING CONTINUES TO RISE* ● *HOW ARE VCTs PERFORMING?*
TECH COMPANIES' GROWING POPULARITY ● *WHAT DOES THE ELECTION MEAN FOR VCTs?*

INDUSTRY UPDATE

VENTURE CAPITAL TRUSTS

The latest news, updates and statistics on everything VCT

QUARTER 1 2020

ACCREDITED BY:

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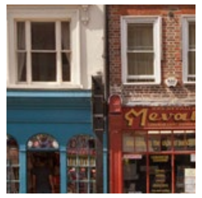

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1. Introduction

FOREWORD

Welcome to the first of our Venture Capital Trusts Quarterly Industry Updates - a new way of keeping you up-to-date with all that's going on in the world of VCTs. And plenty has been happening. In recent years we have seen different prime ministers come and go, innumerable Brexit twists and turns, and further changes to the VCT rules.

With so much change now going on in the UK, and the ability for news to travel faster than ever before, we thought it was time to change the way we keep you informed about what's happening in this widely praised and 25-year-old investment sector.

So from now on, you can expect to receive quarterly updates on VCTs, as well as other tax-advantaged investment sectors such as the Enterprise Investment Scheme, Business Relief and the Alternative Investment Market.

This first edition is a prime example of why we made the change. Inside, you'll find all the usual in-depth analysis of the figures, supported by commentary and insight around the latest trends taking shape in the market.

With the certainty of Brexit has come the need for UK growth businesses to drive the economy as our trading relationships remain far from clear. Technology is also changing the business landscape: managers at an Association of Investment Companies roundtable in February all pointed to tech as an exciting area of investment.

Fundraising continued to grow in the 2018-19 tax year, compared with the previous year, despite it being the first year since the risk to capital changes came into force. That made it the second highest fundraising since VCTs began a quarter of a century ago - and the highest since the rate of income tax relief was reduced from 40% to 30% in 2006-07.

We're going into more depth than ever before in our analysis of the VCT market, drilling down into the data from MICAP and the Association of Investment Companies (AIC) on what the managers charge and how the VCTs perform. Together, these statistics should give you a rounded picture of the VCT market. And expert input helps you consider what the next quarter will look like.

Demand for VCT investment remains strong and the autumn fundraising season saw plenty of new offers coming to market, with managers clearly expecting robust investor appetite.

If you're new to VCTs, you might be interested in the first edition of our Adviser's Guide to Venture Capital Trusts, designed to provide a reference document for the rules and practicalities around this market.

I hope you enjoy reading this update. I welcome any feedback and please do share this first edition with your fellow professionals.

Guy Tolhurst
Managing Director, Intelligent Partnership

ALL GROWN UP

OPENING STATEMENT

NICK BRITTON, HEAD OF INTERMEDIARY COMMUNICATIONS, AIC

THE RULE CHANGES REFOCUSED VCTs ON INVESTING IN YOUNGER COMPANIES.

NICK BRITTON, AIC

Created in the Finance Act of 1995, VCTs celebrate their 25th birthday this year. After an eventful adolescence, they are enjoying a more stable period where they are settling down, getting decent haircuts and jobs, maybe thinking about a mortgage.

There have been no major changes to the tax reliefs since 2006: that is, since VCTs were 11. But – as often happens in life – the industry's early twenties brought some upheavals.

The rule changes of 2015 and 2017 refocused VCTs (and EIS) on investing in younger companies, and away from management buy-outs and 'capital preservation' strategies. Those changes have now bedded in. The vast majority of new investments are in tech-focused companies. VCT managers have hired specialists in software and digital businesses to bolster their existing teams, where they did not have these capabilities already. Those VCT managers with existing expertise in early-stage investing have taken the lion's share of the fundraising in recent years.

All these developments point to the conclusion that the rule changes are having their intended effect.

The impact on performance remains to be seen. Venture investing takes years to come to fruition. The wide range of possible outcomes for each individual company - from stellar returns to total losses - means diversification is hugely important. Mature VCTs, in particular, offer access to dozens of companies, at different stages of their development journey. Some will be new investments, others will have been in the portfolio for years.

This 'diversification of maturities' is particularly attractive, and highly unusual in venture investing. Also highly unusual in the venture world are the dividends, which of course remain tax-free. Many VCTs have maintained very stable target dividends, though this is not guaranteed in future.

What are we seeing so far in the 2019-20 tax year? The somewhat disappointing answer is 'more of the same'. Early indications suggest fundraising levels are similar to recent years (you may see news suggesting something else, but past experience shows it's worth waiting till the end of the year before jumping to conclusions).

Demand for VCTs has been bolstered since higher earners have seen their pensions' annual allowance drastically reduced. Levels of investment are also similar to last tax year, and there is a similar amount of VCT 'product' on offer. This is a period of relative stability in the VCT world, whatever the uncertainty of the political and macroeconomic backdrop.

That doesn't mean things are boring, however. VCT investing supports companies that are launching new products, breaking into new markets, creating jobs and experiencing rapid growth. It should always be remembered that this is high-risk. But having a stake in some of these ambitious companies could prove a rewarding investment for the right client, as well as bringing the sense that their money is making a real difference.

UPDATE OVERVIEW

ACKNOWLEDGEMENTS AND THANKS

We couldn't do this without the help and support of a number of third parties who have contributed to writing this update.

Their contributions range from inputting into the scope, sharing data, giving us their insights on the market, providing copy, and peer reviewing drafts.

So, a big thanks to: Mark Braude, Nick Britton, John Glencross, Rupert West and Reuben Wilcock. Their input is invaluable, but needless to say any errors or omissions are down to us.

We have relied upon MICAP for most of the data that we have based the update upon. MICAP is part of the same group of companies as Intelligent Partnership. We also carried out our own extensive desk research and interviews to verify their data.

The update is made possible by our sponsors, who have contributed copy to the update and supported us by helping to meet production and printing costs. So, a big thanks to: Blackfinch Investments, Calculus Capital and Puma Investments.

LEARNING OBJECTIVES FOR CPD ACCREDITATION

Readers can claim up to 2 hours' structured CPD (excluding breaks). By the end of the update readers will be able to:

- Identify the main developments and news in the VCT market.
- Understand the developing impact of rule changes to VCTs.
- Be aware of the key fees and charges applied by VCT managers.
- Recognise the various factors that will affect the VCT market in the coming months.
- Understand the types of open VCT offers available on the market.
- Be able to benchmark current products and providers against each other on key investment criteria.

KEY FINDINGS

100% growth & income

ALL VCT OPEN OFFERS ARE NOW IN THE GROWTH & INCOME SPACE

£716m fundraising

OVER £700M WAS RAISED BY VCTs IN 2018-19

24% increase

RISE IN NUMBER OF PEOPLE CLAIMING INCOME TAX RELIEF THROUGH VCTs IN 2017-18

2,080 adviser searches

CARRIED OUT FOR VCTs ON MICAP IN THE 3 MONTHS TO END OF NOVEMBER

96% of open offers

IN THE GENERAL ENTERPRISE SECTOR

55 target companies

THE AVERAGE TARGET INVESTMENT OF OPEN OFFERS

266 companies

GIVEN KNOWLEDGE- INTENSIVE STATUS SINCE APRIL 2018

42 VCTs

RAISED FUNDS IN 2018-19

2. Market update

NEWS & UPDATES

WHAT'S BEEN HAPPENING IN THE VCT WORLD

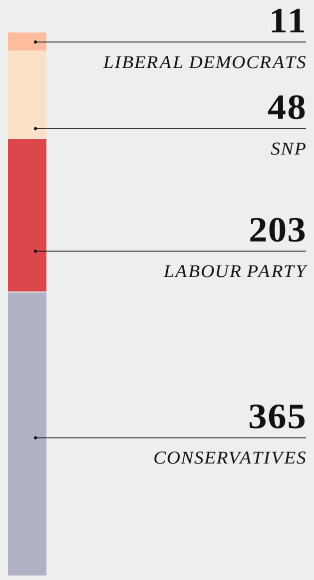
It will have escaped no-one's attention that the end of 2019 saw the UK go to the polls once more for its third General Election in under five years.

No doubt the result will have caused a sigh of relief among the VCT industry, with a large Conservative majority meaning the market can expect continued support under the new administration. After all, the Conservative manifesto trumpeted the success of the wider venture capital market, particularly the Enterprise Investment Scheme.

The expectation, therefore, is that not only will the new government continue to support the VCT world, but it will not seek to make significant amendments to the legislation, holding to the same principles of all recent governments.

And with the Conservative election mantra having been to 'Get Brexit done', there will no doubt be hope that some certainty can be injected into the UK's small business community, giving greater confidence to companies over the country's direction of travel and therefore the potential for them to grow.

ELECTION RESULT IN SEATS



SOME OF OUR WORK HAS BEEN SPECTACULARLY SUCCESSFUL – SUCH AS THE SEIS AND EIS, WHICH WE WILL CONTINUE IN THE NEXT PARLIAMENT.

—**CONSERVATIVE MANIFESTO**

The Risk to Capital Condition

The Autumn Budget 2017 introduced a new 'principles based approach' to identify lower risk activities that should not benefit from the tax reliefs[1].

This crystallised in the risk to capital condition, which has applied since March 2018 and is intended to exclude tax-motivated investments, where the tax relief provides most of the return for an investor or where there is a limited risk to the original investment (i.e. a 'wealth preservation' approach). The condition depends on HMRC taking a 'reasonable view' as to whether an investment has been structured to provide a low risk return for investors.

There are two parts to the condition:

01. Whether the company has objectives to grow and develop over the long term (which broadly mirrors an existing test with the schemes); and

02. Whether there is a significant risk that there could be a loss of capital to the investor of an amount greater than the net return.

The Risk to Capital Condition

The condition requires all relevant factors about the investment to be considered in the round. These rules apply to all VCTs, as well as investments through the Enterprise Investment Scheme and Seed Enterprise Investment Scheme.

However, the condition is not black and white, and therefore has proved potentially difficult for VCT investment managers. The list of risk factors that may suggest a company is not eligible for VCT funding is not exhaustive, while the existence of one or more of those factors does not immediately bar a company from VCT funding. This has left a level of uncertainty over what sorts of investments are likely to receive advance assurance from HMRC and therefore what does and does not qualify.

Since the risk to capital condition was introduced in 2018, it has proven difficult for investors, advisers, managers and investee companies alike, in part because decisions over whether a company's activities fit the criteria are subjective, with the list of potential risk factors not exhaustive. This has affected both VCTs and EIS (with the latter particularly affected in the film industry).

> *WE HAVE HAD TWO AND A HALF YEARS OF HELL.*
>
> — **DAVE MORRISON,** PARTNER, NYMAN LIBSON PAUL[2]

Most VCT investments are now made without seeking advance assurance, in accordance with HMRC's preference stated in VCM 60410[3]. It may be that where there is some considerable doubt over whether an investment will make the grade, VCTs will simply steer clear of them.

Investment managers have generally made good progress in getting to grips with the changes, and are now investing in younger and riskier companies. One industry expert told us that for some, however, there had been a big learning curve as they had to change their focus from funding management buyouts to investing in riskier propositions.

Knowledge-intensive companies *(KICs)*

As well as focusing VCTs on growth companies, the 2017 Autumn Budget also brought in new rules for so-called knowledge-intensive companies (KICs)[4]. The more generous rules mean, among other things, that KICs can:

- qualify for VCT investment up to 10 years after they began trading (instead of seven);
- have up to 499 employees (instead of 249);
- have a lifetime tax-advantaged venture capital scheme raise limit of £20 million (instead of £12 million)

The number of companies applying for knowledge-intensive companies (KIC) status is growing as a result of the more generous rules introduced in 2018. HMRC does not keep records on how many unsuccessful KIC applications it receives, meaning there may be many more companies seeking KIC status that are not being approved by HMRC.

This is largely being driven by EIS, with the government due to establish a "new knowledge-intensive EIS approved fund structure" in the next Finance Bill[5]. Originally scheduled for 6 December, this was postponed due to the General Election. However, the rules may still come into force in April 2020, with the Conservative government having scheduled a Budget for 11 March.

In the VCT space, it appears that while there is interest from some in focusing resources onto KICs, there is also a certain level of caution. This may be because of the additional qualification requirements needed for KIC-qualifying companies, which adds additional risk that VCTs may not want to take on.

> *VCTs SHOULD BE ABLE TO RELY UPON THEIR PROFESSIONAL ADVISERS TO DETERMINE IF A PROSPECTIVE INVESTMENT IS QUALIFYING OR NOT.*
>
> —**VENTURE CAPITAL SCHEMES MANUAL 60410, AS UPDATED IN OCTOBER 2019**

WHY ARE TECHNOLOGY COMPANIES SO POPULAR WITH VCTs?

THOUGHT LEADERSHIP

***MARK BRAUDE**, LEGAL DIRECTOR, TLT LLP*

Recent years have seen a spike in the number of technology companies VCTs are choosing to invest in. While there are many possible reasons for this, a shift in the focus of the tax-advantaged venture capital schemes may provide a partial explanation.

> *THE RISK TO CAPITAL TEST IS ACTING AS A GATEWAY TO ACCESSING THE RELIEFS AND ENSURING THAT THE RIGHT COMPANIES ARE RECEIVING INVESTMENT.*

MARK BRAUDE, TLT LLP

This shift may come down to the introduction of the 'risk to capital' condition for the venture capital schemes with effect from March 2018 following the government's Patient Capital Review the year before. This test is concerned with whether the company intends to grow and develop its trade over the long term and whether there is a significant risk of a loss of capital to the investor. HMRC have confirmed that any advance assurance applications that fail this test would be rejected.

The test is therefore now acting as a gateway to accessing the reliefs and ensuring that the right companies are receiving investment. It is also a crucial first step for companies or investors looking to find out if a business or trade will qualify for tax reliefs.

Because of this, technology companies are in a favourable position. They are not normally asset rich and the process of developing a new technology or product is generally risky. Technology firms also fit the description of businesses the government intends the schemes to benefit most: early-stage, higher risk, entrepreneurial companies which have the potential to grow in the long term.

And this strategy seems to be working. While the number of successful advance assurance applications has gone down to around 62%, indications are that the turnaround times for delivering funding to higher risk companies that pass the test have improved. Investing VCTs now have more confidence when looking at technology companies, knowing that the chances of the business qualifying for VCT purposes are much greater.

However, this does not mean that technology companies will automatically qualify for VCT investment and tax reliefs. The VCT rules are still complex and there are many traps investors and tech firms can fall into.

For example, companies must provide detailed business plans and financial projections in order to convince HMRC that they can pass the 'risk to capital' test. Failure to provide the right level of documentation can lead to delays and rejected applications. Companies must also avoid carrying out any "excluded activities". This includes any activity that involves the receipt of royalties and licence fees attributable to the exploitation of intellectual property not created by the company.

So while technology companies have become an attractive option for VCTs looking for VCT qualifying investments, it is important to remain wary of the many traps and conditions contained in the legislation.

STRENGTH OF UK'S VCTs

A MARKET BENEFITTING FROM ITS POSITIVE HISTORY

Despite the challenges of the risk to capital condition, VCTs have done much to demonstrate their advantages over the last few months.

The changes apply only to new investments, meaning that many established VCTs are still benefiting from their lower risk, asset-backed investments made before the rules changed. This gives them a competitive advantage in the market against any potential new entrants, with a lower risk, more stable portfolio. It also means that these VCTs, with existing, historical share classes, are more able to deliver strong, stable dividends than may be the case for new VCTs under the new rules.

This competitive advantage may also mean that more investors are looking to make the most of these existing portfolios while they can by investing in top-up offers, buying into existing portfolios - before riskier investments are acquired and change the risk profile of the share classes on offer.

Over the coming years, as these VCTs buy into more new companies under the new rules, and sell out of the less risky ones, this competitive advantage will diminish. All VCTs will then face the conundrum of how to continue providing regular dividends when they are invested in smaller companies with less obvious exit routes.

Competitive performance

Analysis carried out by the British Business Bank has underlined the successful performance of UK venture capital funds. Although not specifically including VCTs, its report into venture capital returns suggests that UK VC funds "share a similar distribution of returns compared to US funds, apart from a small number of top US funds that outperform significantly".

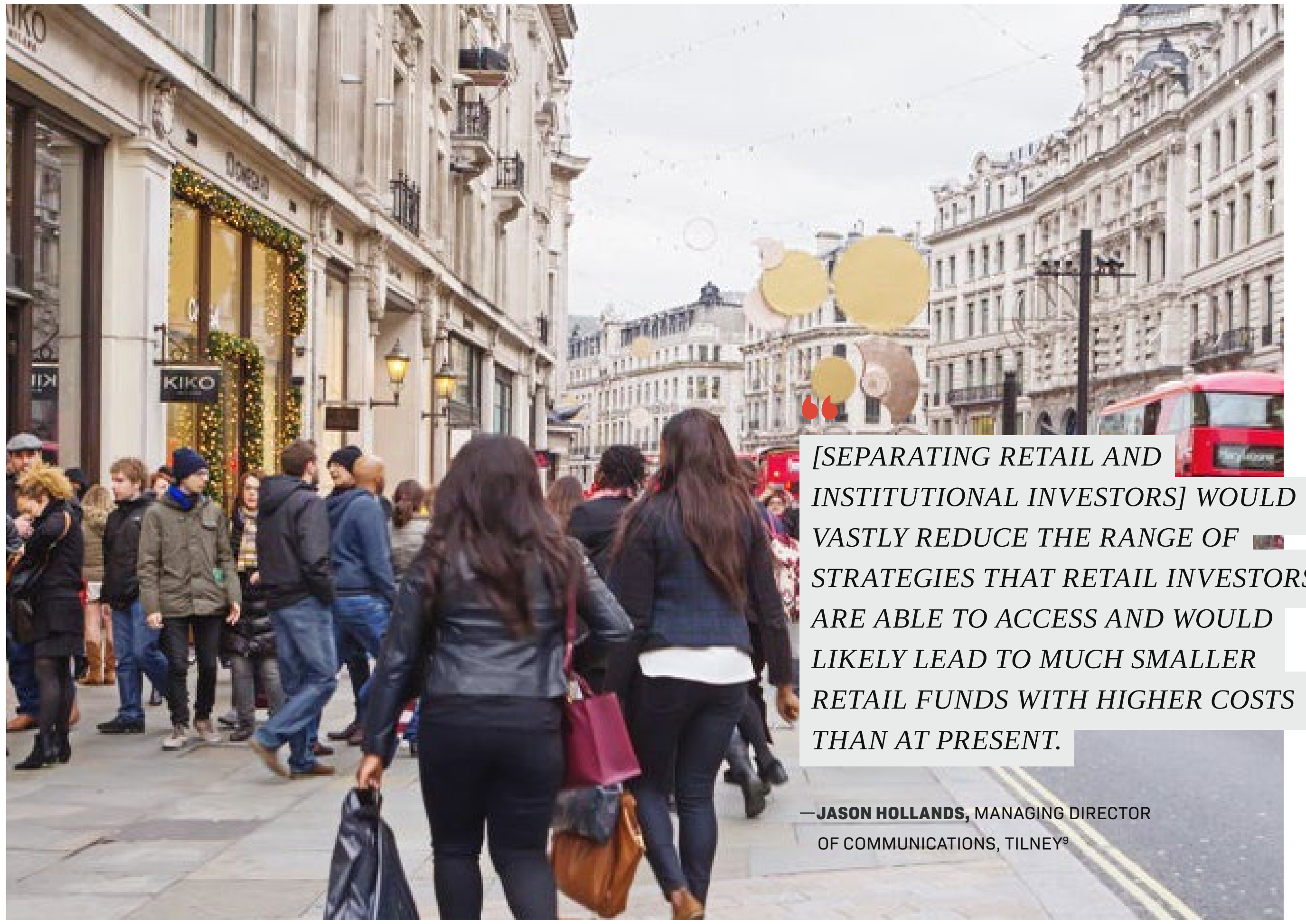
Between 2002-11, the proportion of UK venture capital funds reporting financial returns multiples "come out slightly ahead of those of the US", the report added[6].

These are significant findings for the historical performance of UK VC funds, because there has often been a perception that US financial returns in the venture capital sector were consistently and substantially higher than what could be found in the UK.

INCIDENCE OF VC FUNDS REPORTING FINANCIAL RETURNS MULTIPLES

	UK	Europe	US
No of VC funds with 2002-2017 vintage	236	1,045	3,363
No of funds reporting TVPI* multiples	51	135	697
Proportion (% in bracket 2002-2012)	22% (24%)	13% (14%)	21% (29%)

**Total Value to Paid in Multiple (the fund's investment multiple, measuring the total value created by a fund). Source: British Business Bank*



> *[SEPARATING RETAIL AND INSTITUTIONAL INVESTORS] WOULD VASTLY REDUCE THE RANGE OF STRATEGIES THAT RETAIL INVESTORS ARE ABLE TO ACCESS AND WOULD LIKELY LEAD TO MUCH SMALLER RETAIL FUNDS WITH HIGHER COSTS THAN AT PRESENT.*
>
> —**JASON HOLLANDS,** MANAGING DIRECTOR OF COMMUNICATIONS, TILNEY[9]

Liquidity

Over the past year, the question of liquidity has come far more to the forefront of the minds of investors and advisers alike.

The primary reason for this has been the huge publicity surrounding former 'star' fund manager, Neil Woodford, who suspended trading in the Woodford Equity Income Fund (WEIF) in June 2019, before it was wound up in October that year.

The FCA published its updated rules for open-ended funds in September 2019, and it had been expected that the regulator would take the opportunity to bring in stricter requirements to tackle concerns over the levels of liquidity in funds such as the WEIF. However, many in the industry were unimpressed.

"Consumers will not be protected by mere risk warnings and firms' contingency plans," SCM Direct founder Gina Miller told Portfolio Adviser[7].

In November 2019, FCA chief executive Andrew Bailey suggested in an interview with The Times that the regulator could look to separate retail and institutional investors in funds as a way of protecting individuals[8].

This, though, was quickly rejected by industry professionals, who warned such a move might make it more difficult for retail investors to find suitable investments at an acceptable price.

VCTs are not open-ended and it is important to note that managers make no claim to daily or weekly guaranteed liquidity. The fact that VCT shares are listed does give some access to liquidity, as does the fact many VCT managers offer to buy back VCT shares, usually at a discount. That said, they are not required to make such offers and have the right to withdraw them as they see fit. In any case, investors should be fully aware that, in order to claim the tax reliefs, they must hold VCT shares for a minimum of five years.

> *VCTs FUNNEL INVESTMENT INTO THE INNOVATIVE SMALL BUSINESSES THAT DRIVE UK GROWTH.*
>
> —**RUPERT WEST,** MANAGING DIRECTOR, PUMA PRIVATE EQUITY

PERFORMANCE DATA

A DEEP DIVE INTO VCTs' PERFORMANCE

For this section, we are grateful to the Association of Investment Companies (AIC), which has given us permission to analyse its data. Unless otherwise stated, the information here is a compilation collated through Regulatory News Service (RNS) announcements, the AIC Monthly Information Release and Morningstar calculated estimates, brought together by the AIC and correct as at January 2020.

VCTs' shares are not widely traded and they usually trade at a discount to their Net Asset Value (NAV). The size of this discount can give an indication of the demand in the market for VCTs at any given time: the more demand there is in the market, the more competitive the pricing will be and therefore shares will trade closer to the NAV. Many VCTs offer to buy back shares from the investors who originally subscribed for them, at a predetermined discount to the NAV (usually between 5% and 10%).

It would therefore appear from the below figures that demand for VCTs in 2020 is perhaps higher than the previous year, perhaps because of the volatility that had been seen in the global equity markets in the final quarter of 2018.

However, it is notable that in 2020 shares in VCTs that invest in AIM shares have so far been trading at a much higher discount, while in 2019 they had been trading at a notably lower discount compared to the industry average.

In 2019, the discount for AIM focused VCT shares was lower than the market average. This means that the discount for the other VCT offers (focusing on totally unquoted shares) must have been much higher to drag up the average.

Therefore, despite of the poor AIM performance in Q4 2018, the initial bounce back in 2019 appears to have given investors confidence.

By contrast, the turnaround at the start of 2020 suggests that, for now at least, there is more demand for the VCTs that invest in totally unlisted/unquoted shares. This could be related to a number of factors that hit the major markets at the start of 2020, including heightened Iran-US tensions and the emergence of the coronavirus.

NAV Total Return

The AIC data provides information on the Net Asset Value total return (NAVTR) over a range of periods up to 10 years. Across all the periods listed, the NAVTR for industry average VCTs is notably lower than it was a year ago.

In fact, there was a general malaise in the equities market in 2019, which saw fewer IPOs and other activity as businesses and investors waited to see how the Brexit uncertainty played out - not to mention the General Election that caused even greater uncertainty in the final quarter of the year.

Dividends

Overall, dividend growth appears sluggish when compared with the data from AIC covering non-VCTs, where five-year dividend growth is forecast at 4.89%. This is over a six percentage point difference to VCT dividend growth, which is forecast at -1.92% over the same period.

However, this may in part be down to the fact that VCT dividends are already considerably higher than for other investment companies, with the industry average hitting 8.4%, compared with just 2.89% for non-VCTs. As a result, there may be something of a correction in the market expected to take place over the coming years, as VCT dividends slow and non-VCT dividends begin to catch them up.

What these figures clearly underline, however, is that using VCTs for good dividend yields remains a strong benefit of the VCT model.

TRADING DISCOUNT

	2019	2020
Industry Average VCTs	7.94%	5.87%
AIM-quoted VCTs	5.61%	8.79%

NAV TOTAL RETURN

Industry average VCTs	1 year	3 year	5 year	10 year
NAVTR 2020	4.38%	13.35%	27.33%	86.93%
NAVTR 2019	4.54%	20.6%	34.43%	110.44%

AIM-quoted VCTs	1 year	3 year	5 year	10 year
NAVTR 2020	14.10%	21.6%	44.12%	131.07%
NAVTR 2019	-9.56%	24.43%	27.87%	150.56%

DIVIDENDS

	Dividend Yield	5-year Dividend Growth
Industry Average VCTs	8.4%	-1.92%
AIM-quoted VCTs	7%	0.7%

3. Considerations for investment

VCTs HAVE BECOME A VITAL PART OF THE FINANCIAL PLANNING MIX FOR A GROWING NUMBER OF INVESTORS WHO ARE REACHING PENSION LIMITS.

—**JOHN GLENCROSS,** CEO AND CO-FOUNDER, CALCULUS CAPITAL

MARKET COMPOSITION

RESPONDING WELL TO THE RISK TO CAPITAL CHANGES

In this section we will take a look at how the VCT market breaks down and what the open offers look like following the traditional autumn fundraising season.

Unless otherwise stated, the analysis is based on data obtained from MICAP and is correct as of 27 January 2020.

→ Advisers are searching for VCT opportunities

Activity from advisers using the MICAP platform gives a good indication of how the industry views the VCT market. Compared to the other venture capital scheme, the Enterprise Investment Scheme, VCTs are more in demand from advisers researching these products.

Given that the last few months of the calendar year are when VCT fundraising traditionally starts to heat up before the race to invest before the end of the tax year, it is perhaps no surprise to see the number of searches higher at this time of year. However, across six and even 12 months, VCTs remain the most popular choice for advisers using MICAP.

The data also suggest that the implementation of the risk to capital condition has not reduced adviser interest in the market. There is no indication that they are transferring their attention to wealth preservation strategies, with searches remaining strong across the year.

The data also revealed that, on average, an individual user will search MICAP 11.8 times over the course of a year looking for VCT information, and 11.2 times for EIS offers. This underlines the nature of VCT and EIS products, which will often open and close at intervals throughout the year and therefore require constant review.

Open offers

There were 25 open offers in the MICAP platform as of 27 January 2020. All of them had a Growth & Income strategy. This is the same as in our January 2017 Report (relying on figures from the end of 2016), published almost a year before the new rules were announced, demonstrating that the VCT world was already firmly focused on growth companies even before the risk to capital condition was brought in. What might be in question is the level of growth targeted then versus now.

Nevertheless, the impact of the risk to capital changes is unlikely to be as significant for the market as for EIS, where, in the January 2017 Report, 27% of open offers had a Capital Preservation & Growth strategy - which would be incompatible with the new rules.

It appears that another of the government's changes included in the 2017 Autumn Budget has also yet to have a major impact on VCTs' approach.

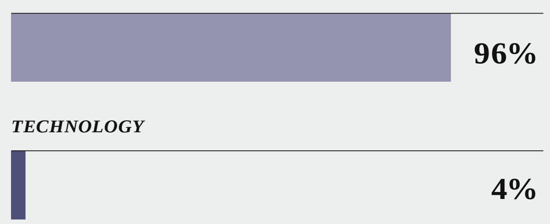
The vast majority of VCTs continue to focus on General Enterprise as their investment sector, with just one focused on Technology. Given the government's increased focus on knowledge-intensive companies, this is perhaps a little surprising, as areas such as technology and biotechnology are well-placed to take advantage of the increased limits on offer.

NO. OF ADVISER SEARCHES ON MICAP

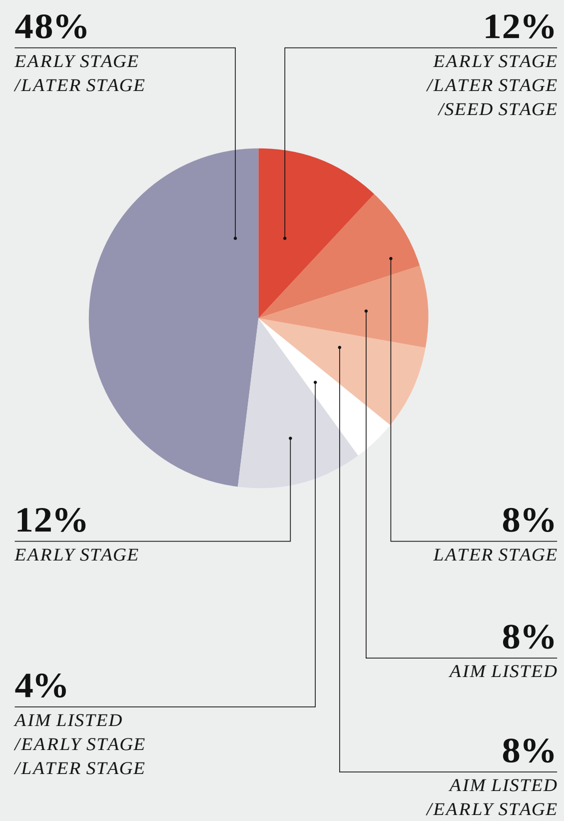
	3 months	6 months	12 months
VCT	2080	3076	6589
EIS	1551	2766	5966

MARKET COMPOSITION: OPEN OFFERS

BY INVESTMENT SECTOR



BY INVESTEE COMPANY TYPE



However, it may be that many of the VCTs are investing in knowledge-intensive companies, whether in the technology field or elsewhere, but are maintaining the ability to cover a broad range of sectors and industries by positioning themselves as a General Enterprise fund, rather than specialising in one sector.

Although the number of knowledge-intensive companies is increasing at a fast pace, they remain a small proportion of the overall potential market for VCTs.

Investee company type

Almost half of open VCTs are investors in Early Stage/Later Stage companies. Notably, there are only three open offers for VCTs investing in purely early stage investments and none for seed stage. This suggests that, while the risk to capital requirement means VCTs must ensure every pound invested is at risk, this can be achieved by blending early stage with later stage investments.

There are only two offers investing in purely AIM-quoted companies, which may be to do with the recent volatility seen on the AIM market. Since the fall in global equities in the final quarter of 2018, the AIM market has rallied, but still proved itself to be vulnerable to issues such as Brexit, where uncertainty and changes in policy direction have frequently affected the market. Anecdotally, some in the VCT market have suggested that AIM is currently too volatile to launch new offers.

Charges

There has been very little change in most charges compared to the figures in our 2017 Report. This offers more evidence that the market has not been particularly affected by the risk to capital condition, when a repositioning might have seen fees rise to mitigate against the increased work in finding and monitoring the best deals with a higher risk profile and potential for success.

Both the initial charge and AMC are the most commonly applied fees by managers.

Unlike in 2016, none of the open VCTs charge an exit performance fee. There was also no exit deal fee, as in 2016, or initial deal fee.

CHARGES: 2016 VERSUS 2019

	2016	2019
Total Initial Charge	2.91%	2.96%
Total AMC	2.06%	1.97%

VCT OPEN OFFER CHARGES JANUARY 2020

	Average (%)	Mode (%)	Min (%)	Median (%)	Max (%)
Initial Charge to Investors Excluding Adviser Fee	2.72	2.5	2.5	2.5	3.5
Initial Charge to Investee Company	0.46	0	0	0	3
Total Initial Charge	2.96	2.5	2.5	2.5	6
AMC Charged to Investor	2.14	2	1.75	2	2.5
AMC Charged to Investee Company	0.25	0	0	0	2.5
Total AMC	1.97	2	0	2	4.5
Annual Performance Fee	15.4	20	0	20	20
Annual Performance Hurdle	5.92	0	0	0	120
Annual Admin Charge	0.06	0	0	0	0.5

Target dividend

Given the introduction of the risk to capital rules since 2016, it might be expected that the target dividend on offer from VCTs would have dropped considerably, as they look to mitigate the threat of investing in more risky companies. However, there has been a barely perceptible change - from 4.94% to 4.91%. The minimum and maximum have stayed the same.

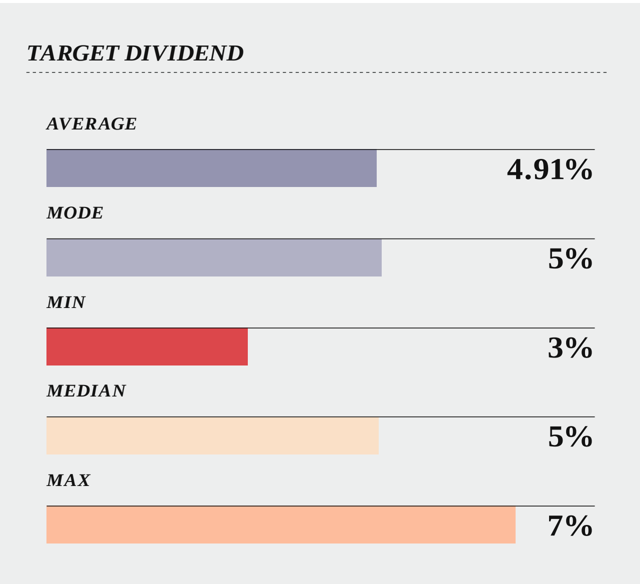
This may well change as more risky investments are included in the VCT portfolios over time, replacing the more stable propositions that have made exits and regular dividend payments possible over the years. As these are replaced by less liquid investee companies, providing dividends at all could become more difficult for VCTs.

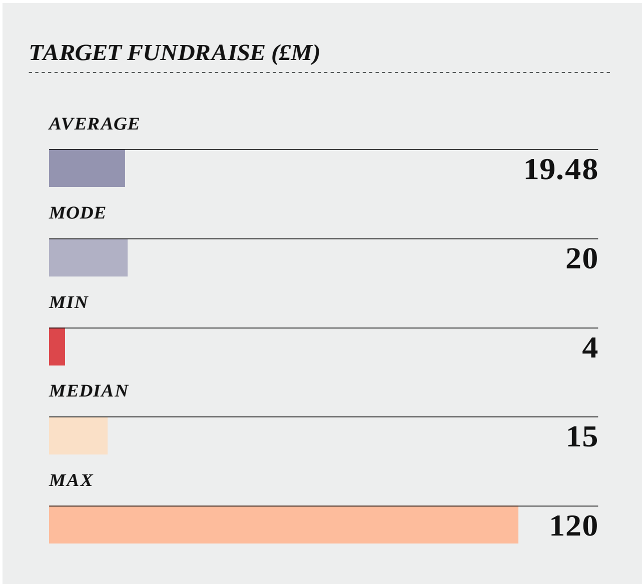
Another issue here is that the focus on growth could see NAV increase and discounts could narrow at the same time as dividends stagnate.

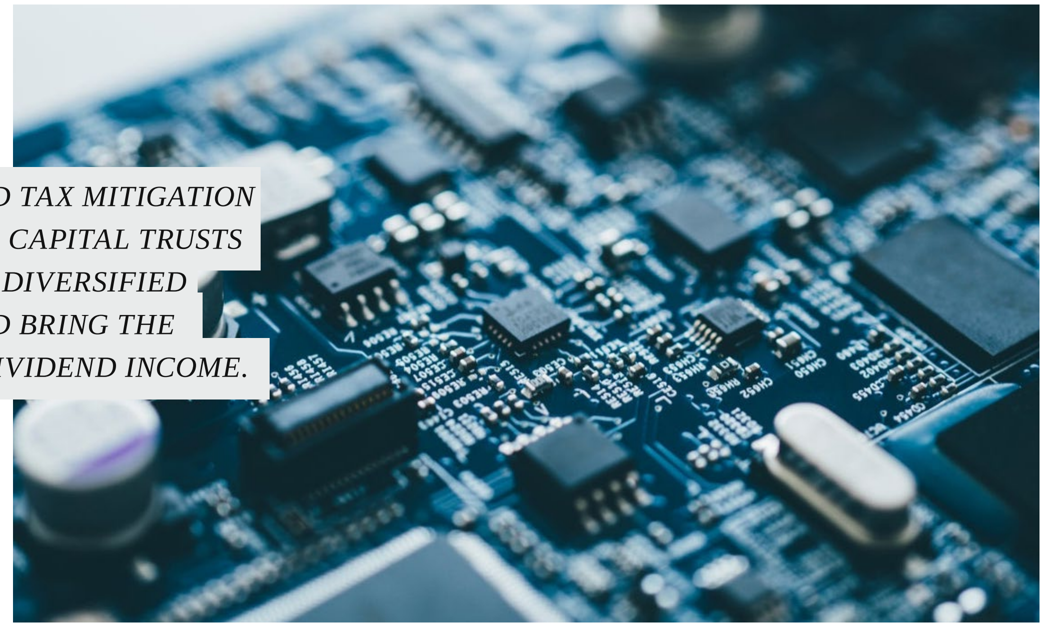
Target fundraise

The average target fundraise at £19.5 million is broadly comparable with 2016, when it was £21 million. However, this appears to be skewed by the one VCT offer in 2019 with a target of £120 million - substantially above the £70 million maximum in 2016.

The slightly lower average, plus the minimum of just £4 million, may reflect the types of companies that VCTs are now investing in, which may need less money because they are earlier on in their development.







> *AN ESTABLISHED TAX MITIGATION TOOL, VENTURE CAPITAL TRUSTS HELP CREATE A DIVERSIFIED PORTFOLIO, AND BRING THE PROSPECT OF DIVIDEND INCOME.*
>
> **—DR REUBEN WILCOCK,**
> VENTURES DIRECTOR,
> BLACKFINCH

Minimum subscription

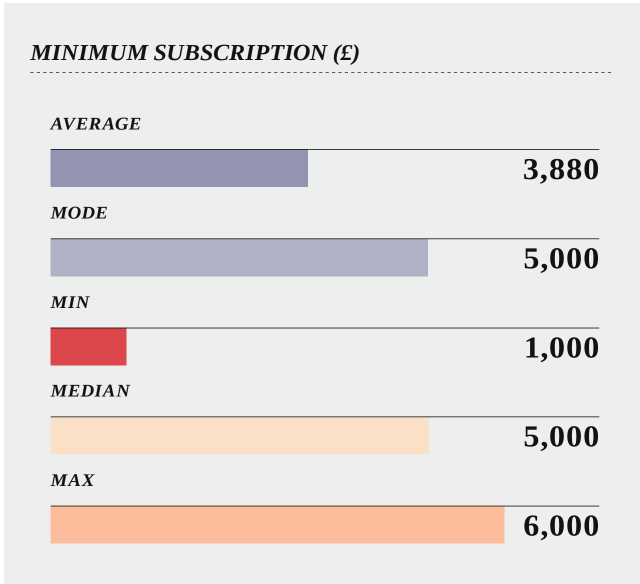
Underlining the fact that investee companies are likely to be at an earlier stage than in the past, the average minimum subscription has reduced since 2016. While in 2016 the average hovered around the £4,500 mark, it is now at £3,880, while the minimum is now as low as £1,000, compared to £3,000 in the previous report.

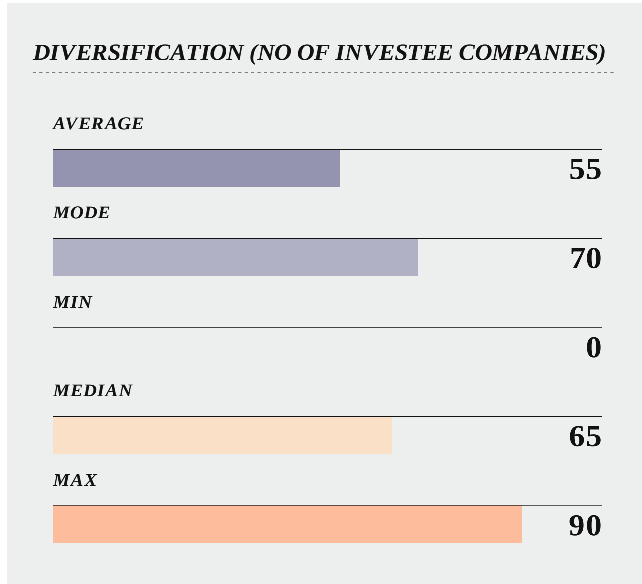
Diversification

VCTs are known to be among the more diversified options for investors, offering a far greater number of underlying companies invested in than, for example, EIS investments.

With the focus firmly on higher risk investments, it is perhaps no surprise that VCTs are now investing across an even more diverse portfolio of investee companies, with an average of 55 different firms, compared to less than 40 in 2016. This also fits with the fact that VCTs are targeting smaller fundraisings than in the past, as they seek to put smaller amounts of cash into a greater number of small businesses.

The highest number of investee companies is 90, compared with 80 in 2016. However, it is worth pointing out that at least one VCT has no minimum target number of investee companies, presumably giving it the flexibility to only take a handful of companies if it so wishes.





4. Industry analysis

A CLOSER LOOK AT VCT FUNDRAISING

A PROMISING PICTURE

Figures published by HMRC[10] in December 2019 have confirmed that the VCT market continues to grow and flourish.

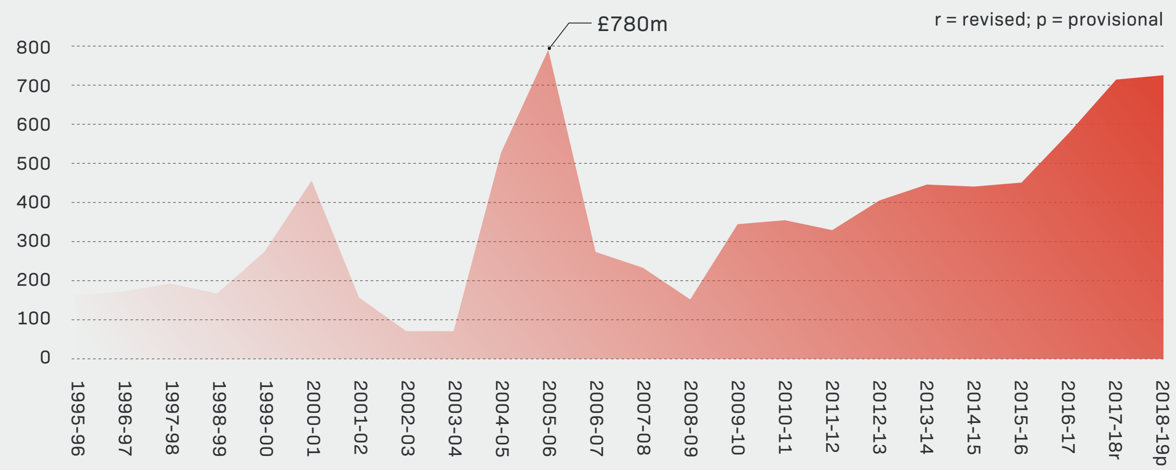
There was a 1.6% increase in the amount raised by VCTs in 2018-19, compared to the previous year, making it the second highest amount raised in the history of VCTs and the highest since the income tax relief was set at 30% (the highest raise of £780 million coming in 2005-06, when the rate of income tax relief was 40%). This is despite the fact that this was the first year in which the new risk to capital requirements had been in force.

This growth follows a significant jump between 2016-17 and 2017-18, which might have been due to a 'buy now while stocks last' culture created by the lag between the announcement of the new risk to capital condition in the 2017 Autumn Budget, and those rules coming into force the following April.

The fact that fundraising continued to rise even after that is promising for the market. However, this growth in 2018-19 may in part be driven by top-up offers, where investors are buying into an existing portfolio. This is because these portfolios will currently be dominated by assets acquired before the new risk to capital rules came into force, meaning they may be less risky than new assets. As a result, investors may be looking to invest now, while those older stocks remain in play, offering a less risky option than a portfolio of brand new stocks that must all meet the risk to capital condition.

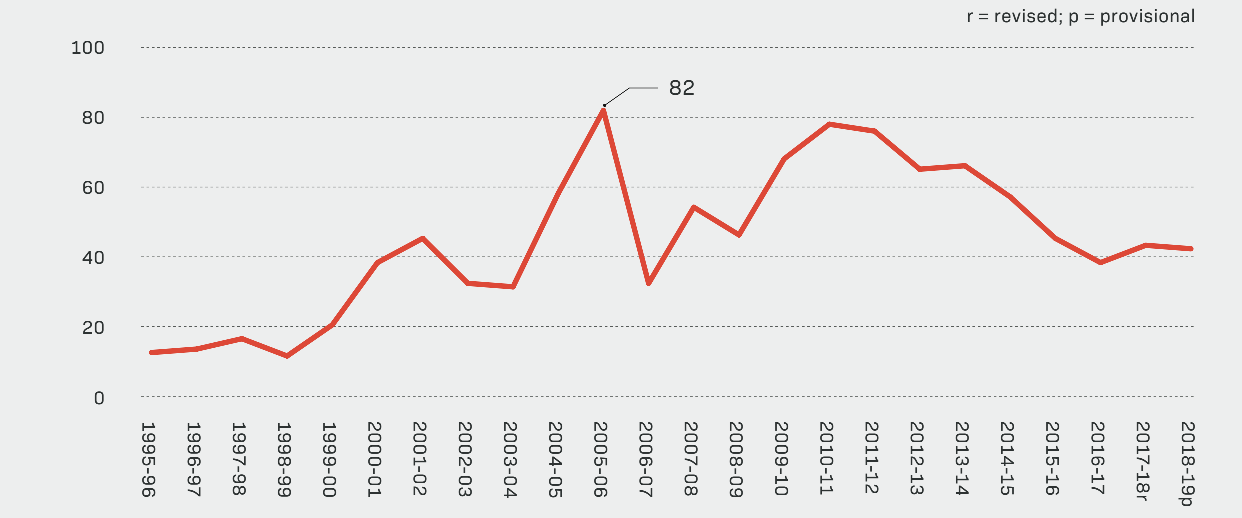
> *THE LEVEL OF ENTREPRENEURIAL ACTIVITY IN THE UK TODAY IS INCREDIBLE WITH AN APPETITE FROM INVESTORS TO BACK COMPANIES WHICH HAVE MOMENTUM AND STRONG GROWTH PROSPECTS AHEAD.*
>
> —**JOHN GLENCROSS,** CEO AND CO-FOUNDER, CALCULUS CAPITAL

FUNDS RAISED (rounded to the nearest £5M)



Source: *HMRC - December 2019*

NO. OF VCTs RAISING FUNDS IN THE YEAR



Source: *HMRC - December 2019*

Meanwhile, the number of VCTs looking to raise money fell by one from the previous year, to 42. However, this remains higher than the 38 VCTs raising funds in 2016-17. Indeed, the rise in the 2017-18 figure had been the first increase since 2013-14.

Given that 2018-19 is the first year since the risk to capital changes were introduced, it will be interesting to see whether the number of VCTs increases or decreases next year, as it's possible that some VCT managers have been repositioning themselves or waiting to see how the market develops before launching any new raises.

“

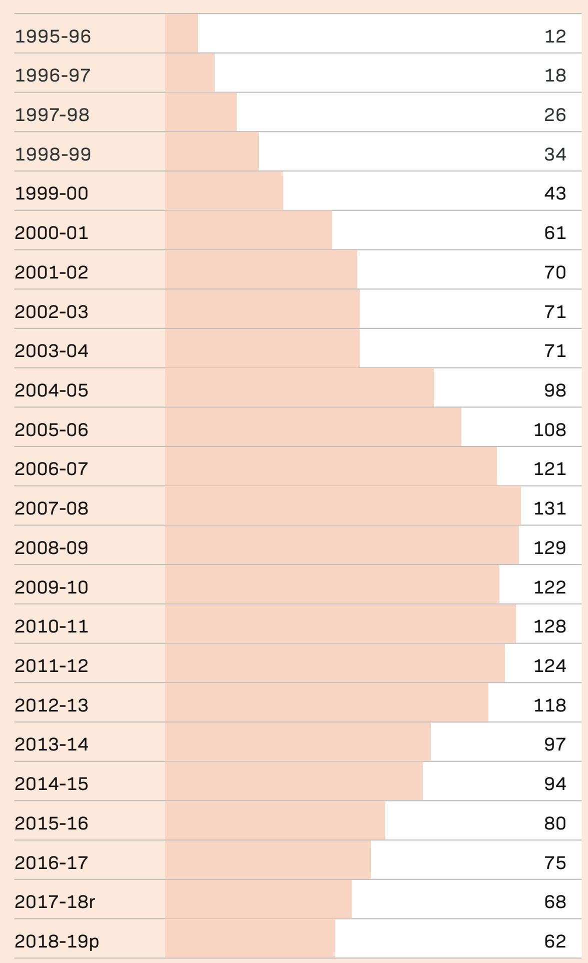
VCTs REMAIN AN IMPORTANT COMPONENT IN CLIENTS' FINANCIAL PLANNING, OFFERING ACCESS TO TAX BENEFITS THROUGH SUPPORTING UK ENTREPRENEURIALISM

— **DR REUBEN WILCOCK,**
VENTURES DIRECTOR, BLACKFINCH

When we last published a report on the VCT market, we noted the fall in the number of overall VCTs managing funds and raised the prospect that, should this continue, it will make the market less diverse for investors. The 2018-19 figures confirm this trend, with just 62 VCTs managing funds, having fallen every year since the high of 131 in 2007-08.

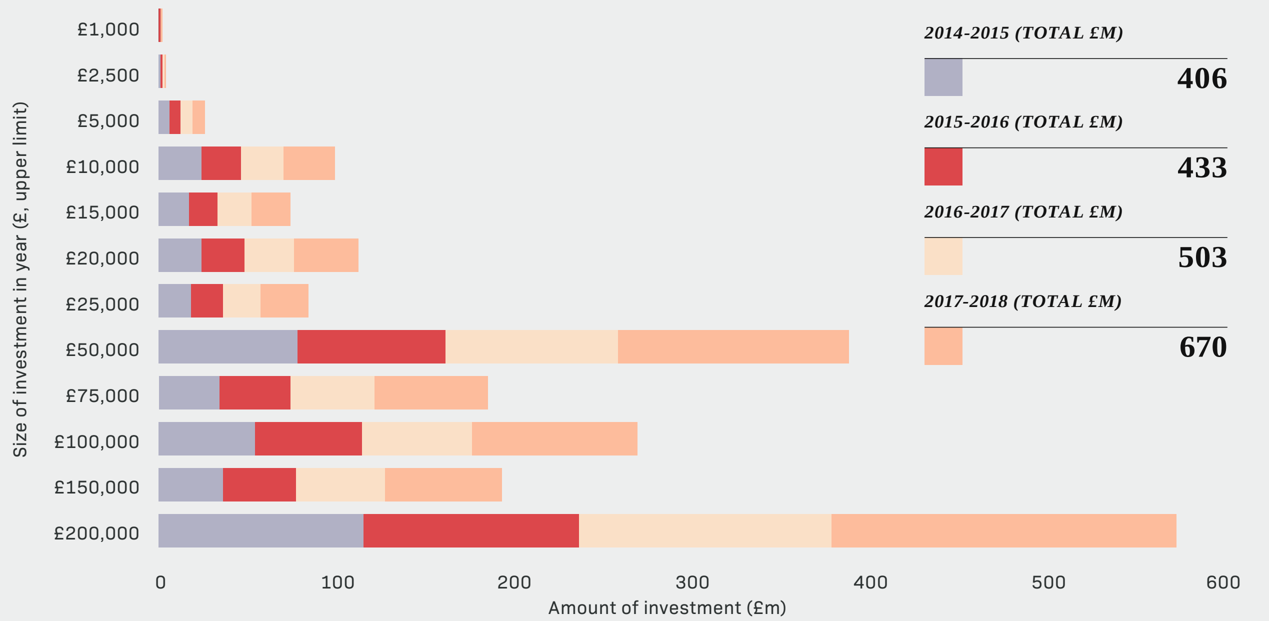
This means that 42 of the 62 VCTs are raising funds, with the remaining 20 - around a third of the total - not looking for new money. This is consistent with recent years and over the past decade the number of offers not looking for any new money in a given year has generally been somewhere between a third and a half of the total number of VCTs in the market. As the overall number of managers reduces, if the trend continues for only around two-thirds of funds to raise money, that will raise issues over the level of competition and potential for fee increases.

VCTs MANAGING FUNDS



Source: *HMRC - December 2019*

SIZE OF INVESTMENT



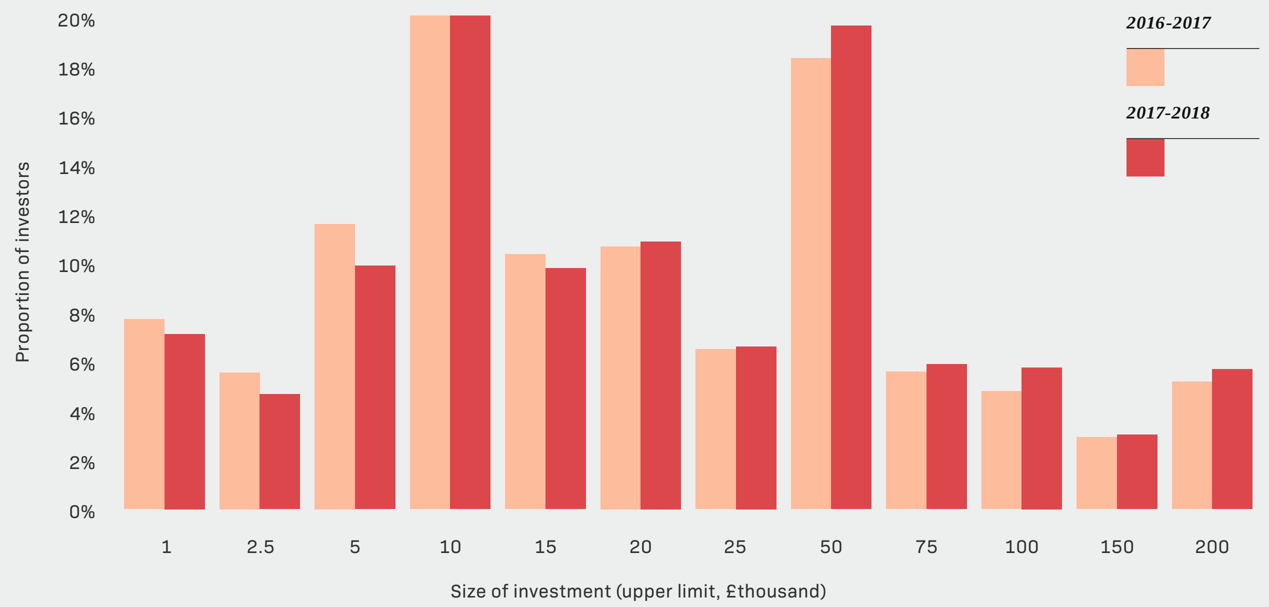
Source: *HMRC - December 2019*

Nonetheless, investors still appear to recognise the potential of the VCT market, and remain eager to invest in the sector despite the fact that the rules since 2018 require every pound invested to be at risk. Figures for 2017-18 (the latest for which information is available) show that the amount of investment on which relief was claimed increased by a third compared to the previous year, reaching £670 million.

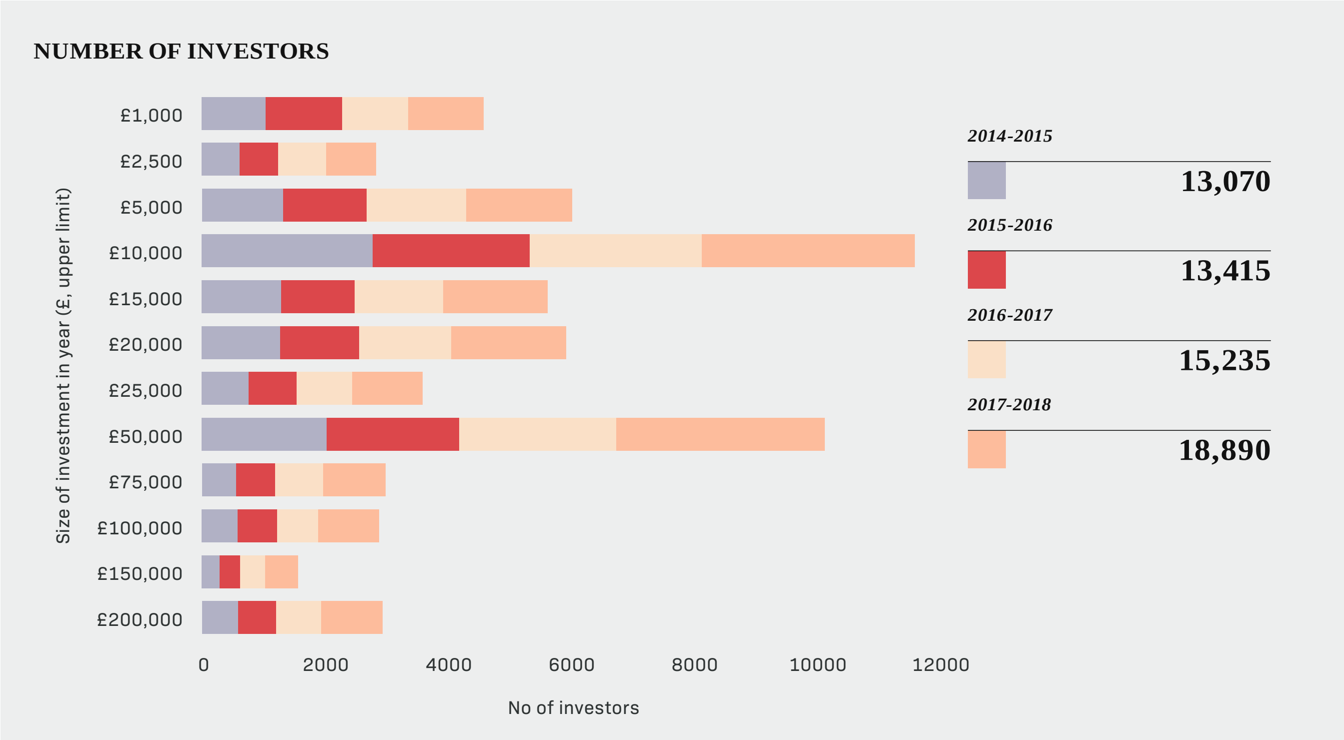
HMRC's figures also show that the majority of investors into VCTs tend to invest relatively small amounts of money each. In 2017-18, 63% of VCT investors claimed tax relief under the VCT scheme for an investment of £25,000 or less, while just 8% of investors made a claim for an investment over £100,000.

This focus on smaller investments is likely to continue following the introduction of the risk to capital condition, for two reasons. First, investors may be reluctant to put larger sums of money into VCTs when the risk to that investment is greater than in the past; and second, the targeted companies may well be smaller than in the past, so may not require as much investment at this stage.

DISTRIBUTION OF PROPORTION OF INVESTORS CLAIMING VCT RELIEF BY SIZE OF INVESTMENT



Source: *HMRC - December 2019*



Source: *HMRC - December 2019*

There is a notable jump in the number of investors in 2017-18 compared to the previous year. This may in part have been driven by the announcement of the rule changes at the 2017 Autumn Budget, as investors sought to take advantage of the old rules before the new ones took effect in April 2018. It will be interesting to see if this remains the case in the 2018-19 figures, which will be the first since the risk to capital condition has been in force.

However, given the amount of money that has continued to be raised by VCTs, it suggests that plenty of people still see VCTs as a viable investment option.

> *VCTs ALLOW FUND MANAGERS LIKE PUMA TO GIVE RETAIL INVESTORS EXPOSURE TO SOME OF THE UK'S MOST PROMISING PRIVATE COMPANIES – AN ASSET CLASS THAT'S OTHERWISE ALMOST COMPLETELY INACCESSIBLE TO THEM – AND THE EXPOSURE IS ENHANCED BY COMPELLING TAX INCENTIVES.*

—**RUPERT WEST,**
MANAGING DIRECTOR,
PUMA PRIVATE EQUITY

5. Managers in focus

BLACKFINCH

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01452 717070
enquiries@blackfinch.com

ABOUT THE MANAGER

Blackfinch Group is an award-winning investment firm with a heritage dating back over 25 years, and specialisms in early stage and tax-efficient investing. Blackfinch is entrusted with over £350 million in assets under management and administration.

Founded on evolutionary principles, Blackfinch continuously adapts to market change, to offer strong solutions. It works in partnership with advisers, to help build even more profitable businesses alongside meeting client aims. This includes providing support to open up business opportunities with professional connections. Blackfinch serves customers by delivering value through expertise and high-quality service with a transparent approach.

Blackfinch's tax-efficient range covers Enterprise Investment Schemes and Venture Capital Trusts. The expert Blackfinch Ventures team enables investment in fast-growing UK companies, supporting start-ups and early stage businesses. Blackfinch co-invests alongside clients, ensuring alignment of interests.

OUR OFFER

The Blackfinch Spring VCT launched in November 2019. It remains open until 30th October 2020 for investment, with a share offer of up to £20 million ordinary shares and over-allotment facility for a further £10 million.

The VCT brings clients the chance to further diversify their portfolios through exposure to the technology sector. This is alongside access to VCT tax benefits including 30% income tax relief and the prospect of tax-free dividends.

The VCT plans to invest in a diversified range of early stage technology firms operating across sectors. The focus is on firms at a growth-stage of development, bringing a higher chance of success. Investee firms will be sourced from high-quality new deal flow. The VCT will also make follow-on investments in the highest-performing firms emerging from the Blackfinch Ventures EIS Portfolios. By 2024 we plan to return the profits to investors as tax-free dividends of 5% per annum.

INVESTMENT CASE STUDY

Kokoon is a sleep technology company offering noise-cancelling headphones incorporating bio-sensors that monitor as the wearer falls asleep; fading out audio and introducing white noise. A connected app offers guided content to improve sleep and relaxation.

The passion and drive of the Kokoon team was evident when they pitched to us in July 2019. They had already sold £4 million-worth of headphones while still at an early stage. In August 2019, Blackfinch invested circa £550,000 in Kokoon and in January 2020 led a second funding round, investing a further circa £550,000.

The firm has now achieved significant traction through direct-retailer channels, including its headphones becoming available at Selfridges, and InMotion stores nationwide. The product also featured in British Airways publication The Club as an essential travel gadget. Alongside its over-ear headphones, Kokoon is now developing a new in-ear model which will open up a more price sensitive market.

Blackfinch is providing ongoing support to Kokoon including via our value-add non-executive director Seb Chakraborty. Seb is a founder and Chief Technology Officer of smart home technology provider Hive.

Kokoon is a great example of the kind of high-growth technology-enabled company in which the Blackfinch Spring VCT invests.

KOKOON

MANAGERS IN FOCUS

Calculus CAPITAL

calculuscapital.com
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info@calculuscapital.com

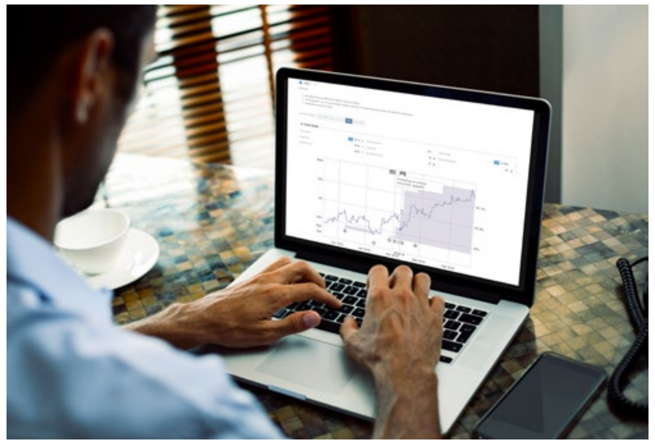
ABOUT THE MANAGER

Calculus Capital has been investing in smaller UK companies for 20 years, making them a trusted choice for investors for over 20 years. Having created the UK's first approved EIS Fund in 1999, Calculus is a pioneer of the tax efficient investment space.

Calculus' unchanged focus on providing development and scale-up capital to high growth UK companies, through both the Calculus EIS fund and Calculus VCT, has enabled it to continue to successfully deploy funds in a range of growing companies with robust business models addressing clear market needs.

OUR OFFER

The Calculus VCT provides exposure to a diversified portfolio of smaller, growing UK companies. The key objective for each investment is capital growth, alongside robust investment and monitoring processes to manage risk. Targeting an annual dividend of 4.5% of NAV.



INVESTMENT CASE STUDY

Calculus invested £2.5m development capital in Essentia Analytics in January 2019.

Essentia Analytics is a fintech company based in London and New York, that applies behavioural analytics to improve the performance of asset managers. Essentia's proprietary software conducts a full algorithmic analysis, using machine learning of all past investment decisions, to identify each individual portfolio manager's behavioural biases. The software then continuously monitors their portfolio including individual stock performance and trading and creates proactive behavioural 'nudges' to help the fund manager improve his or her performance.

One of its features, the 'Vulnerable Positions List' nudge, is an automated report listing those positions exhibiting the same price and trading dynamics that have ended up being negative to the fund manager in the past. Analysis of data from 27 fund managers has shown that, if they had followed all such nudge recommendations, their annualised performance would have improved by almost one percent.

The monies invested are being used to drive growth by strengthening the US and European sales and marketing capability, as well as to expand their product offering including new features such as fund analysis and risk evaluation to attract new types of clients.
In 2019 performance has been bolstered by some impressive client wins.

ESSENTIA ANALYTICS

PUMA INVESTMENTS

pumainvestments.co.uk
0207 408 4070
opportunities@pumainvestments.co.uk

ABOUT THE MANAGER

Puma Investments is part of an organisation that raised its first private equity fund in 1996 and has a 24-year track record of investing in small and medium-sized enterprises in the UK. Our parent company, Shore Capital, started operating VCTs in 2004 and Puma Investments was created specifically to focus on VCT investing. Today, VCTs remain core to what we do: we now have 14 under our belt and launched our latest, Puma Alpha VCT, in 2019.

Our other offers include Puma Alpha EIS (an Enterprise Investment Scheme fund), the Puma AIM IHT Service (investing in the Alternative Investment Market) and the Puma Heritage Estate Planning Service (investing in private trading companies that qualify for business property relief). Our mission is to provide the best tax-efficient investment opportunities for our customers and we are proud to have helped thousands of clients access investments that deliver attractive tax reliefs whilst also supporting the UK's economic growth.

OUR OFFER

Puma Alpha VCT is our 14th VCT and the 26th Puma fund. It seeks to provide the full range of tax reliefs that come with VCT investing and to deliver exposure to companies that have graduated from 'start-up' to 'scale-up' across any sector. Avoiding the volatility attached to the riskier start-up space, it aims to provide attractive but stable returns from more established companies that are still small enough to create meaningful investment exits.

Our private equity division manages both Puma Alpha VCT and Puma Alpha EIS, which was launched in 2017 and has the same investment mandate. Puma Alpha VCT has the capability to raise up to £50 million and merges our Alpha EIS experience of investing in higher-growth companies with our expertise in managing VCTs. Currently, the team manages a portfolio of 21 companies across nine sectors, accounting for £96 million of invested capital.

INVESTMENT CASE STUDY

In 2018, we invested £2.35 million into the fast-growing British cycling brand, Le Col, via our Alpha EIS and VCT 13 offerings. Founded in 2011 by ex-professional cyclist Yanto Barker, Le Col has its DNA in professional bike racing and brings high-performance kit to consumers. Since investment, it has achieved continued strong growth through a focus on product, marketing and e-commerce, with the business's revenues more than doubling in the first half of 2019 versus the previous year.

A collaboration with Sir Bradley Wiggins that produced the 'Le Col by Wiggins' collection has continued to go from strength to strength – in addition to new partnerships with Eurosport, Colnago, Sigma Sports and Wiggle. To assist the company in creating a truly global brand and accelerate its already successful growth strategy, we recently increased investment to £4.85 million through funds including our new Alpha VCT – whilst providing scale-up guidance as a member of Le Col's board.

LE COL

VCT SOLUTIONS COMPARISON

BLACKFINCH | Calculus CAPITAL | PUMA INVESTMENTS

	BLACKFINCH INVESTMENTS	CALCULUS CAPITAL	PUMA INVESTMENTS
Offer name	Blackfinch Spring VCT Plc	Calculus VCT	Puma Alpha VCT
Year founded	1992	1999	1985
AUM (in total) / AUM (VCT)	£359m / £1.5m	£172m / £15m	£480m / £240m
Type of VCT	Generalist	Generalist	Generalist
Description of offer	Blackfinch Spring VCT plans to invest in a diversified range of early stage innovative technology firms operating across sectors. These companies are poised for growth and success and by 2024 we plan to return the profits to investors as tax-free dividends of 5% per annum	The Calculus VCT provides development and scale-up capital to companies with growth potential over a diverse range of sectors. Targeting a regular annual dividend of 4.5% of NAV from year 1 and value appreciation	Puma Alpha VCT is Puma's fourteenth VCT and builds on their 24 year track record of investing in small and medium-sized companies. Puma Alpha VCT provides scale-up capital to companies with high growth potential
Launch date	Nov-19	Sep-19	Jul-19
Investment objective	Growth & Income	Capital growth and tax free dividend income over the longer term	The company aims to give investors exposure to quality operating businesses with strong and experienced management teams in sectors providing structural support for growth
Target fundraise	£20m with an over allotment facility of £10m	£10m	£30m with an over allotment facility of £50m
Type of fundraise	New share issue	Generalist	–
Target return/yield	Targeting an annual dividend of 5% from 2024 plus the potential for special dividends	Target annual dividend of 4.5% of NAV	Targeting average dividend yield of 5% plus special dividends generated through exits of portfolio holdings
Minimum investment	£3,000	£5,000	£5,000
Initial fee	2.5% advised, up to 5.5% execution-only	3% advised, 5% direct	3% of amount subscribed
AMC	2.5% with any adviser ongoing charges, execution-only intermediary commission and direct investor ongoing fees being rebated from this sum. Monies left over will be used to purchase new shares in the VCT	1.75%	2% of net asset value p.a.
Performance fee	20% over 130p hurdle or high watermark	20% after hurdle of 105p	20% over 120p hurdle or high watermark
Other fees	Admin fee being the higher of 0.3% of Net Asset Value or £60,000 (plus VAT if applicable)	0.5% loyalty discount for existing Calculus VCT shareholders	Annual costs cap of 3.5% of net assets. Refer to prospectus for full details

6. What's on the horizon?

FROM BREXIT TO THE BUDGET AND BEYOND

In December, the new government passed legislation committing the UK to leaving the European Union on 31 January.

Nonetheless, this was still, to coin a phrase, not the end, but merely the end of the beginning, with plenty of trade negotiations to be carried out. So what we can say is that between now and our next VCT Update in three months' time, there will still be plenty of issues left to resolve.

With a large majority, Boris Johnson's new administration has hit the ground running, having already delivered a Queen's Speech which promised to target growth and improve social care, among other things.

> *WE WILL ENSURE THAT 2020 IS A YEAR OF GROWTH AND OPPORTUNITY*
>
> —**BORIS JOHNSON,** PRIME MINISTER[11]

> *MY MINISTERS WILL SEEK CROSS-PARTY CONSENSUS ON PROPOSALS FOR LONG TERM REFORM OF SOCIAL CARE.*
>
> —**HER MAJESTY THE QUEEN**[12]

Budget

In January, it was confirmed that the government would deliver its first Budget on 11 March, meaning that the administration's plans for small businesses and the UK's tax regime as a whole should become clearer.

However, on 13 February, Chancellor Sajid Javid resigned and former Chief Secretary to the Treasury Rishi Sunak was appointed in his place, meaning that, Sunak has less than a month to prepare.

Given the government's desire to shore up British businesses ahead of future trade deals, it is not unreasonable to expect the Budget to include some measures designed to support SMEs. The question here will be how the government goes about this: efforts that potentially lower the risk profile of certain types of businesses could end up reducing the pool of businesses eligible for VCT investment under the risk to capital condition. On the other hand, setting up a different funding pot for small businesses could end up competing with VCTs if it is not carefully thought through.

Part of the government's support here could be through changes to business rates. It's thought that the Chancellor will increase the discount for small retailers from 33% to 50%.

The government is also aware that large parts of the country turned blue in last year's election for the first time in decades, so efforts to support businesses outside London and the South East may well be a priority. This could give greater impetus to VCTs and their investment options outside of the capital.

50%

BUSINESS RATE DISCOUNT FOR SMALL RETAILERS EXPECTED IN THE BUDGET

One area that seems almost certain to receive some attention in the Budget is the tapered annual allowance for pensions. This received plenty of criticism in 2019 when it emerged that senior clinicians had been refusing to work overtime for fear that it would tip them over their tax-free pension limits.

New Chancellor Sunak has several options here: he could simply increase the annual allowance, so that the vast majority of doctors are no longer affected. Instead, or as part of that, he could also abolish the taper. Or he may simply be minded to get rid of the whole annual allowance. If he chooses this last option, he may only do that for NHS employees, or it could be expanded to all public sector workers, or simply the whole UK workforce (the last of these being the only realistic way to avoid a twin-track tax system).

Assuming Sunak chooses one of these options, the upshot could be less available cash to be invested in VCTs. Since the tapered annual allowance has been in effect, it has been hailed as helping to drive more money into VCTs and EIS. This is because people with money that is over and above their pension allowance will look to these sorts of tax-advantaged investments to reclaim some of the tax benefits their pension money enjoys - albeit that VCTs and EIS are far more risky ventures than a pension and should never be considered a direct alternative.

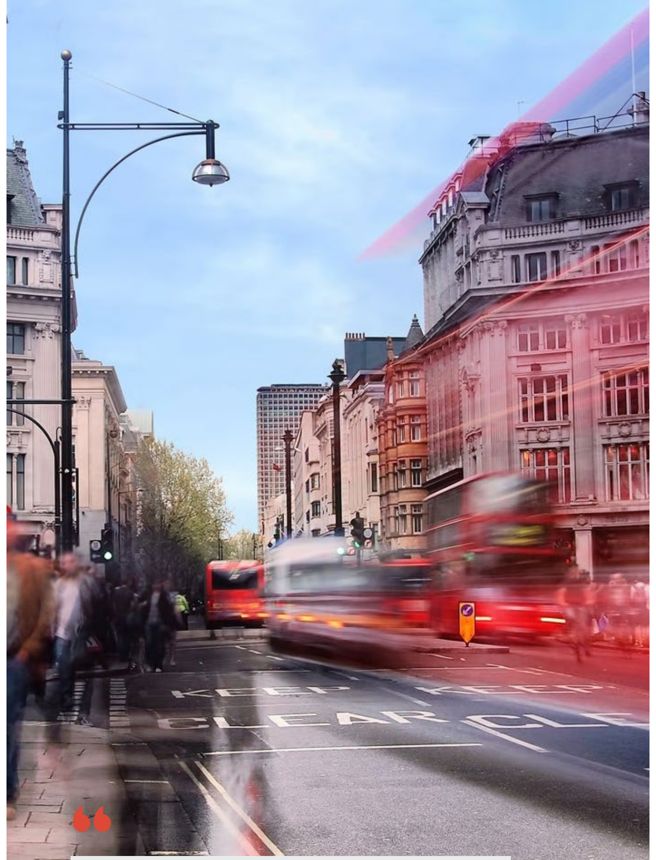
> *THE CURRENT RULES ON TRADE, TRAVEL, AND BUSINESS FOR THE UK AND EU WILL CONTINUE TO APPLY DURING THE TRANSITION PERIOD. NEW RULES WILL TAKE EFFECT ON 1 JANUARY 2021.*
>
> —**UK GOVERNMENT**

“So far, there have been few signs that the government is looking to scrap the annual allowance taper across the board, but clearly any changes in that direction have the potential to affect demand for VCTs,” said Nick Britton, Head of Intermediary Communications at the AIC.

The government has bound itself to continue following EU rules under the transition period, running until the end of the year, which means that we won’t see anything in the Budget that would change that. So for this year at least, changes to the State Aid rules that might result in an increase in the amount that can be invested into VCTs appear to be off the table.

However, former Chancellor Sajid Javid had suggested the UK will look to diverge from EU rules from 2021, meaning next year’s Budget could be radically different in this area. His successor may well come under increased pressure next time around, with the EIS Association already having called on the government to increase the threshold for EIS investment, “and possibly remove it altogether”. If that were to happen, one could expect a similar approach would be taken for VCTs as well.

Having said that, a document photographed by a long lens camera in February (before the change of Chancellor) suggested the UK’s “opening position” in negotiations with the EU would be to seek a “permanent equivalence” regime for financial services that will last for “decades to come”[13].



> *THIS IS A NEW GOVERNMENT AND WE WILL HAVE TO WAIT AND SEE WHAT THEIR APPROACH IS.*
>
> —**NICK BRITTON,** HEAD OF INTERMEDIARY COMMUNICATIONS, AIC

VCTs: Safe from change?

The good news for the VCT market is that all recent Conservative-led administrations have supported the model, describing it as “spectacularly successful” in their recent manifesto, and after the changes introduced in March 2018 it is unlikely that the new government would look to make any significant changes in the near future. It therefore seems most likely that, if anything, the new administration would look to support and even strengthen the model.

“We have not seen any sign that the government wants to overhaul the VCT rules,” said Britton. “The changes in 2015 and 2017 were pretty major and seem to have got the results that policymakers want. However, this is a new government and we will have to wait and see what their approach is.”

Britton also pointed to another trend that he noticed during Intelligent Partnership’s recent VCT Showcase events. “We saw a number of new advisers looking at VCTs for the first time, as well as advisers who had traditionally been putting their business with one provider starting to look to spread across different providers. That will have an impact on the market.”

The fundraising push

At the start of February, figures from MICAP showed VCTs had raised £423.4 million in the tax year 2019-20. In the full tax year for 2018-19, £604.7 million was raised, meaning the market still has just under £200 million to find if it is to match last year’s position.

However, as many in the industry are keen to point out, fundraising generally speeds up towards the end of the tax year, meaning the 2018-19 figure is well within reach.

Underlining the continued popularity of VCTs is the number that have opened during the course of the 2019-20 tax year. MICAP’s figures show 33 opened - albeit some are part of the same top-up offer. That is five more than opened during the previous tax year.

Of those that have opened over the course of 2019-20, 11 had closed by the start of February.

Evidence from previous years suggests that few, if any, new offers are likely to open between now and the end of the tax year, although Unicorn opened a new offer in mid-February

When we next publish, the end of the tax year will have passed, giving us a first indication of how these shifting trends among advisers may have affected the market. While it is hard to know how much will be raised - with money traditionally flowing quickly in the final few weeks of the year - there is plenty of confidence in the industry that 2019-20 will be another strong year for VCTs.

Therefore, our next edition will look more closely at the amount that the various VCTs have raised and what that says about the market - as well as giving us an idea of whether there has been any boost in confidence as a result of the new government, or the hoped-for ‘Brexit bounce’.

£423m

RAISED IN THE TAX YEAR TO FEBRUARY 2020

33

VCT OFFERS OPENED IN 2019-20 TAX YEAR

WHAT THE MANAGERS SAY

We've asked our partners to give their views on the market over the next few months:

DR REUBEN WILCOCK

VENTURES DIRECTOR, BLACKFINCH

"Since the December election we have seen rising demand for EISs and VCTs, no doubt buoyed by greater stability and the government advocating an entrepreneurial economy.

"This year is the 25th anniversary of VCTs. We think it's unlikely that the March Budget will hold many surprises given how positively VCTs have been driving innovation and high-tech jobs nationally. The introduction of EIS-approved knowledge-intensive company funds will focus on companies undertaking significant research and development, with tax relief at fund closure. How this will impact the VCT space is yet to be seen."

WE HAVE SEEN RISING DEMAND FOR EISs AND VCTs.

JOHN GLENCROSS

CEO AND CO-FOUNDER, CALCULUS CAPITAL

"2020 looks set to be another very promising year as the market is strong and we now have a supportive macro environment in terms of political stability. The three areas that we are most active in are also the three fastest and strongest growing in the UK economy: Healthcare, Technology and the Creative Industries.

"As an investor, we must look at where the value is. There is value in certain areas of technology, other areas are a little overheated where the in price is very important to consider in terms of return. There can also be considerable value in life sciences, diagnostics, new drug therapies and the creative industries. We are seeing strong management teams which is fundamental to good investment."

THE MARKET IS STRONG AND WE NOW HAVE A SUPPORTIVE MACRO ENVIRONMENT.

RUPERT WEST

MANAGING DIRECTOR, PUMA PRIVATE EQUITY

"The last two years were characterised by benign economic conditions but very weak consumer confidence - which has now made a tentative step towards recovery (moving to -9 from -14!).

"Over the next 10 months the government will try to minimise the publicity around Brexit negotiations (we will have to see whether the press lets them) but it is almost inevitable that at some point they will threaten something radical, and sterling will take a sharp negative move. How consumer confidence reacts to that and any related fluctuations will have a big bearing on the year."

THE GOVERNMENT WILL TRY TO MINIMISE THE PUBLICITY AROUND BREXIT NEGOTIATIONS.

7. Further learning

APPENDIX

1. https://www.gov.uk/government/publications/income-tax-venture-capital-schemes-risk-to-capital-condition/income-tax-venture-capital-schemes-risk-to-capital-condition

2. https://www.screendaily.com/news/financiers-producers-upbeat-about-eis-future-at-screens-uk-film-finance-forum/5145454.article

3. https://www.gov.uk/hmrc-internal-manuals/venture-capital-schemes-manual/vcm60410

4. https://www.gov.uk/guidance/use-the-enterprise-investment-scheme-eis-to-raise-money-for-research-development-or-innovation

5. https://www.british-business-bank.co.uk/analysis-of-uk-vc-financial-returns

6. https://www.british-business-bank.co.uk/finance-hub/wp-content/uploads/2019/10/BBB-VC-Financial-Report-FINAL-VERSION-17Oct2019.pdf

7. https://portfolio-adviser.com/fca-liquidity-rule-changes-ignore-the-woodford-crisis

8. https://www.thetimes.co.uk/article/keep-retail-investors-in-own-funds-says-andrew-bailey-mvrqrdqhd

9. https://www.ftadviser.com/investments/2019/10/29/fca-criticised-for-plans-to-carve-out-retail-investments

10. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850880/VCT_National_Statistics_2019_Commentary.pdf

11. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853886/Queen_s_Speech_December_2019_-_background_briefing_notes.pdf

12. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853886/Queen_s_Speech_December_2019_-_background_briefing_notes.pdf

13. https://www.ft.com/content/9623b8a2-4c3a-11ea-95a0-43d18ec715f5

LEARNING OBJECTIVES

HOW DID YOU DO?

- ***Identify the main developments and news in the VCT market:*** Covered in section 2. The impact of the General Election; and changes introduced since January 2017
- ***Understand the developing impact of rule changes to VCTs:*** Covered in Section 2. More focus on higher risk investments; the difficulty this creates for potential new entrants; the role of knowledge-intensive companies
- ***Be aware of the key fees and charges applied by VCT managers:*** Covered in Section 3
- ***Recognise the various factors that will affect the VCT market in the coming months:*** Covered in Section 6. The impact of the General Election and the new government's approach to the market; the end of the tax year
- ***Understand the types of open VCT offers available in the market:*** Covered in Section 3
- ***Be able to benchmark current products and providers against each other on key investment criteria:*** Covered in Section 5

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Intelligent Partnership has achieved accredited status from the CISI, CII and PFS. Members of these professional organisations represent the majority of the insurance, investment and financial services industry. Readers of the VCT Quarterly Update can claim up to two structured CPD hours towards their CISI, CII or PFS member CPD scheme for the time spent reading this Update (excluding breaks).

The review process included an assessment of the technical accuracy and quality of the material against CPD Accreditation standards. Achieving the recognised industry standard afforded by these organisations for this Update, and our training, demonstrates our commitment to delivering only balanced, informative and high quality content to the financial services and investment community.

In order to obtain CPD and meet accreditation standards, readers must complete a short questionnaire and provide feedback on the report. This includes 10 multiple choice questions to demonstrate learning and a feedback form to assist in the compilation and improvement of future reports.

To claim your CPD please visit:

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FEEDBACK

Intelligent Partnership actively welcomes feedback, thoughts and comments to help shape the development of these Quarterly Industry Updates, with a particular interest in the topics readers would like to be covered in more detail in future. This Update has been compiled through the conducting of research and surveys with providers, promoters and practitioners within the tax-advantaged investment industry.

Greater participation, transparency and fuller disclosure from industry participants should help foster best practice and drive out poor practice.

To give your feedback please email:

publications@intelligent-partnership.com

Participation and feedback are gratefully received.

VCT ACCREDITATION

Intelligent Partnership has created a series of accredited e-learning courses for regulated advisers, paraplanners, accountants, and solicitors that require a recognised level of knowledge and understanding in all areas of tax-advantaged investments.

Our e-learning programme covers courses on EIS, VCTs, Business Relief, with new courses on Gifts and Trusts expected this year. These are designed to further your knowledge in these complex areas.

Containing an engaging mix of written and interactive content, videos, and infographics to enhance the learning experience, our programme provides learners with access to a suite of resources, including case studies, calculators, document templates, process flowcharts and decision making trees.

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CISI CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT ENDORSED CPD

FURTHER LEARNING

ABOUT US

Intelligent Partnership is the UK's leading provider of insights and education in the tax advantaged and alternative investments space.

We provide a wide variety of ways in which we keep advisers and industry professionals up to date with the latest developments. Alongside our E-learning courses, we provide a range of engaging, accessible and CPD accredited resources as well as industry leading events. These include:

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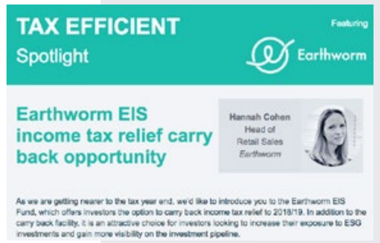
Free, award winning series including EIS, VCT, BR and AIM Updates offering ongoing observations and intelligence, the latest thoughts and opinions of managers and providers and a comparison of open investment opportunities. Visit:

intelligent-partnership.com/research-format/publications



PROVIDER SPOTLIGHTS

A deeper dive into individual providers giving their input on particular market issues and more detail on the strategies and offerings they have developed to address them.

WEEKLY INVESTMENT BRIEFINGS

A weekly snapshot of the latest articles, commentary and market data for financial services professionals, in two easy-to-read briefings on Tax Efficient Investments and Alternative Finance. Visit:

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SHOWCASES

Free events across the country, giving advisers the opportunity to build their knowledge of tax wrappers and less mainstream asset classes and ask questions. Providers present their investment opportunities on a like for like basis. For information about an event near you, go to:

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AWARDS

Heading into their sixth year, the Growth Investor awards and the Growth Finance awards celebrate the role of the UK SME investment and finance communities in job and wealth creation.

GROWTH FINANCE AWARDS | 2019

GROWTH INVESTOR 2019 | AWARDS

CONFERENCES

This year sees INTERGEN 2020, an event addressing wealth, tax and estate planning across the generations and both the challenge and opportunity of the largest wealth transfer event of all time. The programme will cater to a community of 1000 forward-thinking Financial, Legal and Accountancy professionals looking to learn, innovate, connect and collaborate. For more information, contact:

chris@intelligent-partnership.com

intergen 2020