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Not long to go: making the most of your tax-efficient investment allowances

By Intelligent Partnership

There are still a few weeks left to make applications for open tax-efficient investment opportunities, with the end of the tax year creeping closer.

A lot of offers may have deadlines up to 5 April, and some will close before this, so time is of the essence before clients miss the boat.

Here, we break down some of the key considerations for both tax wrappers.



VCTs vs. EIS: Key Differences in Venture Capital Schemes

Venture Capital Trusts (VCTs) and the Enterprise Investment Scheme (EIS) are the most popular government-backed investment options, especially for those who have maxed out their pension and ISA contributions. Here's how they compare:

⊕ HOLDING PERIOD & TAX RELIEF

Both offer 30% income tax relief, but VCTs require a five-year hold, while EIS only requires three years. EIS investments can also be carried back one year, unlike VCTs.

⊕ INVESTMENT LIMITS

VCTs cap at £200,000 per year, while EIS allows £1m (or £2m if £1m+ is invested in knowledge-intensive companies).

⊕ TAX-FREE DIVIDENDS & CGT EXEMPTION

VCT dividends are tax-free, whereas EIS dividends are taxable. However, both benefit from 100% CGT exemption on share disposal.

⊕ FUND STRUCTURE VS. INDIVIDUAL SHARES

VCTs operate as funds, providing diversification. EIS investors hold individual shares, though providers often offer portfolios to spread risk.

⊕ INHERITANCE TAX (IHT) & BUSINESS RELIEF

EIS investments qualify for Business Relief, making them IHT-exempt after two years. VCTs do not offer this benefit.

⊕ LIQUIDITY & SECONDARY MARKET

VCTs are listed on a secondary market, making them theoretically more liquid than EIS. However, they often trade at a discount and do not qualify for income tax relief when purchased second-hand.

⊕ PRIMARY RETURN

VEIS shares tend to provide capital growth on exit and VCT shares can provide an income stream via dividends.

Both VCTs and EIS have unique advantages, so the right choice depends on your client's investment goals and tax strategy.

In this latest EIS + VCT Industry Update, we take a look at some of the latest commentary from the investment managers across the EIS & VCT universe to help advisers inform client conversations.

How VCTs power great British ideas

VCTs are 30 this year. It's time to celebrate their successes.

By **Nick Britton**, Research Director of the Association of Investment Companies (AIC)

Speak to a financial adviser about venture capital trusts, and they'll tell you about the tax breaks: the upfront 30% income tax relief that can slash your tax bill, and the tax-free dividends that can provide an attractive stream of income.

But there's much more to VCTs than tax planning. Some of the most outstanding new businesses of recent years owe their sensational growth to VCTs and the visionary entrepreneurs they support. It's not just about the money they invest, but the intellectual capital they inject into a business, along with the ongoing support and advice.

VCTs are structured for success because everybody has the same goal. The interests of investors, VCT managers and entrepreneurs are aligned around building thriving businesses and maximising their value. When it works, everybody wins.

The success of the scheme was recognised last year when the government announced it would extend VCTs' tax breaks for a further ten years, giving entrepreneurs and investors the certainty they need to plan ahead.

As the VCT scheme celebrates its 30th anniversary, we spoke to a variety of VCT-backed entrepreneurs for our report, **'Giving great companies a flying start'**

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But there's much more to VCTs than tax planning. Some of the most outstanding new businesses of recent years owe their sensational growth to VCTs and the visionary entrepreneurs they support.

In our conversations, the same themes kept cropping up. The business founders spoke about VCTs' experienced managers, invaluable advice, networking with other entrepreneurs, empathy during tough times and guidance where they lacked knowledge, from sales advice to HR and incentivising staff.

What is clear is that many feel they would not have been able to build the -business they have today without the help of VCTs.



Just this month, Quantexa, a pioneer in AI and so-called “decision intelligence solutions”, was awarded the inaugural Lord Mayor's Award. It's just the latest in a string of achievements.

In the space of just nine years, Quantexa has gone from startup to both unicorn and centaur status. That means it has a valuation of more than £1 billion (£1.8 billion) and more than £100 million a year in recurring revenues. Its customers include global brands such as Microsoft, HSBC, Accenture, ING and Vodafone.

Speaking to us last November, CEO Vishal Marria said: “We are a UK-founded business working with global industry leaders. Albion VCTs and Dawn Capital have supported us from the beginning, providing invaluable advice. Venture capital funds and the support of our investors continue to play a vital part on our growth trajectory.”

Another VCT world beater is Unbiased, founded by Karen Barrett, who was crowned Great British Entrepreneur of the Year 2024 at the Great British Entrepreneur Awards on 18 November 2024.

Founded when Barrett couldn't find suitable financial advice after the birth of her first child, Unbiased now matches clients with advisers in under 60 seconds and delivers \$20 billion in assets under management to its customers each year. It is backed by the British Smaller Companies VCTs.

VCTs have had a huge impact on innovation and economic growth since they were first conceived in the 1995 Finance Act.

In the intervening 30 years, VCTs have raised £12.5 billion to invest in thousands of small companies, leading to the creation of businesses worth hundreds of millions – sometimes billions – of pounds. Though many of these operate in specialist fields and are not household names, more famous success stories include Zoopla, Virgin Wines and Secret Escapes.

In the past six years alone, despite the pandemic disrupting economic activity, VCTs invested £2.9 billion into 783 small businesses. These businesses are job creators: the average VCT-backed SME employs 68 people, compared to just 11 in the average UK SME according to the Office for National Statistics. As of January 2024, VCT-backed companies were employing 92,000 people in the UK.

It's a real British success story – backing home-grown ideas with UK savers' capital. VCTs have had a successful first 30 years – it will be exciting to see where they will go next.



NICK BRITTON

Research Director,
Association of Investment
Companies (AIC)



www.theaic.co.uk



Nick.Britton@theaic.co.uk

An update from Christiana Stewart- Lockhart

***Director General of the Enterprise
Investment Scheme Association (EIS
Association)***

2024 was a challenging year for businesses globally, but the UK continues to be a world leader when it comes to startups, largely due to schemes like the EIS and SEIS.

Since the Autumn Budget, we have seen renewed interest in the EIS and SEIS, driven in part by changes to CGT and IHT. More investors are now exploring the EIS as part of a diversified portfolio and this government scheme offers the opportunity to invest in high risk, high reward startups whilst benefiting from significant tax reliefs including 30% income tax relief and CGT exemption.

Unfortunately, there are many potential investors who are missing out, largely due to a lack of awareness about the schemes. One common misconception is that the EIS and SEIS are only for those investing very large sums. And, whilst there are a significant number of very large investors, it is important to recognise that the EIS has helped to democratise access to early stage investing and we can see from HMRC data that the majority of those using the EIS invest up to £10,000 each year.




Encouragingly, despite the economic challenges in 2024, we have seen green shoots emerging with a number of new S/EIS funds having recently launched. This may be partly driven by the recent extensions to the SEIS limits as well as the 10 year extension to the EIS, which was confirmed by the Government last September. With greater awareness and continued government backing, the EIS and SEIS will continue to play a crucial role in driving innovation and supporting economic growth across the UK.



**CHRISTIANA
STEWART-LOCKHART**

Director General,
EIS Association (EISA)

 eisa.org.uk

 christiana@eisa.org.uk



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30 years of Venture Capital Trusts – a diverse market for investors today

By Kristy Barr, Co-Head of Retail, Octopus Investments

The UK government launched Venture Capital Trusts (VCTs) with a bold vision: make investing in small, entrepreneurial companies more attractive by offering tax incentives, and in return, unlock the funding these businesses need to thrive.

We're now 30 years on and the results speak volumes. VCTs have delivered more than £12 billion in funding to start-up companies.¹ Numerous of these have gone on to become household names – the likes of Depop, Graze and Zoopla.

Through investing in smaller companies, VCTs have supported job creation, supercharged innovation and boosted the British economy.

Octopus has proudly played its part in this, becoming the largest provider of VCTs in the market² by working with financial advisers to help clients invest tax-efficiently in UK businesses. We've backed hundreds of businesses to date and continue to see intense demand for VCTs, which is promising news for UK entrepreneurship.

Recent budget measures have highlighted the importance of VCTs. The extension of VCT legislation until 2035 provides long-term stability for investors. With higher capital gains tax rates, reductions in dividend and savings allowances, and changes to pension tax rules, VCTs have become an attractive option for tax-efficient planning. As a result, financial advisers are increasingly incorporating VCTs into their clients' planning strategies for their tax benefits and investment diversification. But this is one half of the story. The other half is a story of a market evolving to deliver a great deal of nuance and choice to investors.

After 30 years, there are now plenty of VCTs in the market. Each has its own approach and points of difference.

It's not unusual to see 40 or more VCTs raise funds in a tax year. And at the most fundamental level, all of these will invest in a portfolio of early-stage UK companies. But as any financial adviser familiar with VCTs will know, every VCT will have its own unique mandate and approach, offering something different to investors.

This is a win for investors because they can build a portfolio of VCT investments whereby capital is spread across a diverse range of underlying investments. As with any kind of diversification, this gives greater confidence that wealth will grow over the long term while spreading risk. If a particular sector or company is underperforming, while others are performing better, the ups and downs are smoothed out.

But with such a wide array of choices, how can an adviser ensure they are selecting the 'right' VCT for their client?

This is where the importance of relying on a trusted brand comes into play. Octopus offers a range of VCTs which vary significantly in their mandates, but each is supported by the strength of the Octopus infrastructure and team, providing advisers and their clients with confidence in their investment choices.

The Octopus range includes Titan VCT which invests in tech-enabled businesses with high growth potential, while Octopus AIM VCTs focus on companies listed on the Alternative Investment Market. Future Generations VCT targets businesses aiming to build a sustainable planet, empower people, or revitalise healthcare and Apollo VCT stands out by investing in business-to-business software companies that have successfully brought their products to market and are seeking capital to accelerate growth.

Due to strong demand, the Board of Apollo VCT recently announced that they have added £25 million of fundraising capacity to its original £50 million. This strong demand reflects the confidence investors have in Octopus as a trusted brand.

After three decades, the VCT market has matured into one where there is an investment right for any suitable client looking diversify their portfolio. We look forward to supporting the growth of the market and UK businesses for the next 30 years.

If you'd like more information, you can [compare Octopus VCTs](#).

Bear in mind the risks of investing in a VCT




- The value of an investment, and income from it can fall as well as rise. Investors could end up getting back less than they invest.
- VCT shares are by their nature high risk, their share price may be volatile and they may be hard to sell.
- Tax treatment depends on individual circumstances and tax rules could change in the future.
- Tax reliefs depend on the VCT maintaining its qualifying status.



KRISTY BARR

Co-Head of Retail,
Octopus Investments

 [octopusinvestments.com](https://www.octopusinvestments.com)

 support@octopusinvestments.com

Notes

¹ [Venture Capital Trusts statistics: 2024 - GOV.UK](#)

² By funds under management. The Association of Investment Companies

VCT investments are not suitable for everyone. Any recommendation should be based on a holistic review of your client's financial situation, objectives and needs. This communication does not constitute advice on investments, legal matters, taxation or any other matters. This communication is not a prospectus. Any decision to invest should only be made on the basis of the information contained in the prospectus, supplementary prospectus (where applicable), AIFMD supplement (where applicable) and the Key Information Document (KID) of each VCT which can be obtained from [octopusinvestments.com](https://www.octopusinvestments.com). Issued by Octopus Investments Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 33 Holborn, London EC1N 2HT. Registered in England and Wales No. 03942880. Issued: February 2025. CAM01478

Why now is the time to re-think flexibility within your EIS portfolio

By Seneca Partners

There are usually two ways in which an investor buys shares in EIS-qualifying companies.

The most hands-on way is where an investor makes their own decision to invest in a single company, which relies on that investor sourcing an opportunity for themselves through their own network or perhaps an investment club. Alternatively, an investor can leave the investment decision to a specialist EIS provider, which usually sees them invested in a portfolio of companies chosen by the manager of that portfolio.

Investing into a portfolio has a huge number of benefits. Firstly, it leaves the sourcing and selection of investment to a manager who is likely to have far more experience of investing in EIS qualifying companies than the average investor. An experienced investment team with deep sectoral knowledge of the businesses that they are funding can give investors some peace of mind that there is ongoing oversight, and in some cases, investment teams may hold board positions and be key decision-makers to influence the trajectory of the business. This can be particularly advantageous when it comes to advancing exit discussions later down the road for investors.



Then, there is the opportunity to diversify across a range of businesses that focus on, for example, different sectors or geographies. This can act as a key foreseeable risk mitigator and protect the wider fund from being acutely impacted by industry-specific or localised economic downturns. Overall, this can enhance portfolio stability and smooth out returns should there be any dips in performance or at worst, a complete investee company failure.

Of course, investing in a fund means that the fund manager is making investment decisions to the benefit of investors as a group rather than as individuals. That's all very well but amidst a constantly shifting marketplace which has overseen recent regulatory changes and further change on the horizon following recent announcements from the latest Budget, one investor may want different things from their portfolio when compared to another investor.

Reintroducing the Seneca EIS Portfolio Service

Seneca has identified a growing need to broaden the flexibility of the service to better reflect this growing trend of transient investor needs, so after offering its EIS Portfolio exclusively through a fund from 2022 to 2024, it has recently taken the decision to revert back to only offering a discretionary service.

Through this service, investors can still benefit from the expertise of the Seneca investment team, who will create a bespoke portfolio to provide enhanced flexibility and align more closely with the investor's goals and preferences.

Why might this flexibility be welcome? Here are some examples of types of preferences an investor may have when investing in the service:

- An investor may be happy to hold more investee companies in the portfolio to optimise access to growth opportunities and/or diversify holdings, willing to accept that it may take longer to have them fully invested;
- An investor may wish to be fully invested more quickly in order to access tax reliefs, willing to accept that they will likely have fewer companies within their portfolio;
- An investor may be looking to reduce the amount of IHT due on their estate by as much as possible following the changes to Business Relief in the Budget. In this case, an investor may prefer to invest in entirely private companies;
- An investor wishing to keep liquidity a priority may want some or most of their investment in AIM quoted companies, in the belief that these might be exited more quickly than private company investments, accepting that AIM quoted shares may offer less IHT mitigation from 6th April 2026.

One size does not fit all

Unlike the comparative rigidity of a fund-based approach, Seneca's discretionary service aims to be more client-centric, considering each investor's unique circumstances to build a tailored portfolio. With Consumer Duty remaining a priority, such personalised services stand out by delivering bespoke experiences that resonate more closely with investors' needs.

An update on fees

Seneca's commitment to alignment with investors is reflected in its fee structure. The Annual Management Charge (AMC) is now set at 1.5% and is only charged as an exit fee based on the proceeds achieved. Simply put, if no exit occurs, no AMC fees are charged. This model keeps the investment team motivated to achieve profitable exits.

Strong exit performance

As of 31st October 2024, the Seneca EIS Portfolio Service has generated over £56 million in exit proceeds for investors. This includes full and partial exits from 38 investee companies, delivering an average return of £1.52 per £1 invested (before tax reliefs and charges). Notably, this performance includes eight companies that failed. Since 2012, Seneca has generated more than £85 million in EIS exit proceeds across all its EIS products.

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Unlike the comparative rigidity of a fund-based approach, Seneca's discretionary service aims to be more client-centric, considering each investor's unique circumstances to build a tailored portfolio.



How to structure your multiple EIS portfolio

By **Mark Brownridge**, Strategic Relations Director, Blackfinch Investments

The first thing that usually springs to a financial adviser's mind when discussing EIS funds is the risk profile.

While EIS investments are indeed classed as high-risk and may not be suitable for everyone, they can also offer attractive growth potential and valuable tax reliefs. Structuring a multiple EIS investment portfolio with a strategic blend of sector allocations, investment strategies, and even different providers can be key to mitigating risk and maximising returns.

“How much of your portfolio should you be allocating to EIS investments?”

It's a very common question and will likely be the first port of call when it comes to considering this type of investment.

Generally, when thinking about the wider context of ISAs, pensions, and other investments, it's typically recommended that EIS allocations make up at least 10% of a high-net-worth individual's investment portfolio. This is primarily due to the high-risk, high-reward nature of EIS investments. Interestingly, research from Hardman & Co suggests that including exposure to venture capital (VC) within a portfolio can improve the overall risk/return profile.

With this in mind, if EIS investments are suitable for a client, it might be worth considering a diversified EIS portfolio managed by an experienced investment manager. Opting for a managed approach rather than direct investments allows for a more diversified portfolio and ensures robust due diligence is conducted, which could further enhance diversification, increase returns and mitigate foreseeable risk.

Strength in numbers?

Choosing to invest in lots of EIS funds could end up proving to be counter-intuitive and reduce the chance of a high overall return. Simply put, the more companies a client invests in, the more likely the return could be diluted by poor performers and average out the superstars of a portfolio. So, when it comes to thinking about how to structure a multiple EIS portfolio, it may be worth looking beyond just numbers. Here are a few key strategies to think about:

1

Sector-specialist or generalist funds

While investing with an EIS provider provides access to a portfolio of companies and a certain level of diversification, it's worth remembering that some managers may specifically target sectors, regions or even company stage. Therefore, thorough research into the chosen manager's investment approach will be crucial to determine whether it aligns with a client's risk tolerance and investment goals. A generalist fund that spreads investments across the above criteria could reduce exposure to industry-specific risk or localised economic downturns. Alternatively, it could provide investors with the opportunity to access untapped growth opportunities in specific regions. On the contrary, a specialist fund can draw upon a manager's in-depth sector expertise and industry contacts. This value-add approach can help drive company growth and can often be a key differentiator for fund managers in the marketplace to attract high-calibre companies who are looking for more than just a source of capital. Both funds have their different merits, and there is no right or wrong answer, simply just investor preference.

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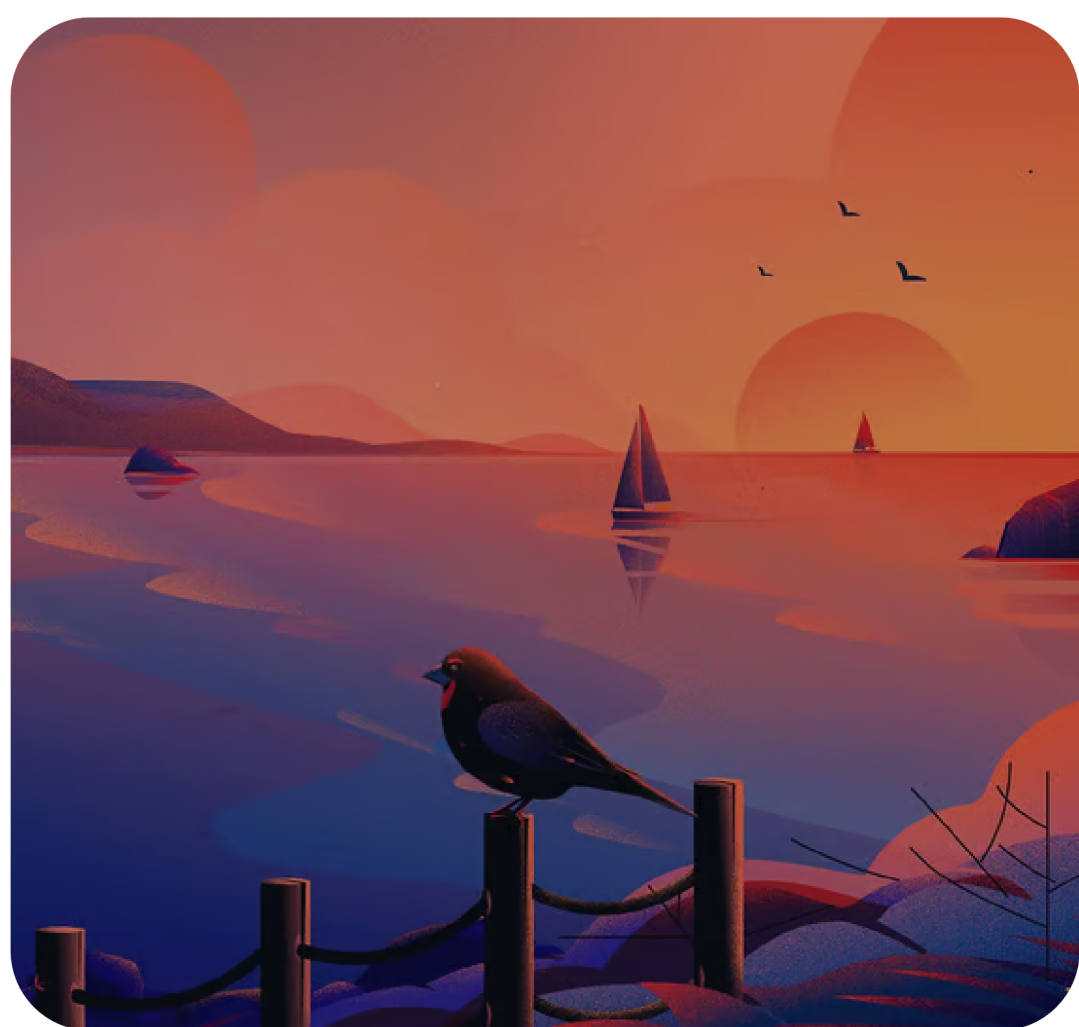
Investing across different managers

While investors may not want to saturate EIS portfolios with too many providers, carefully selecting a few different EIS funds may reduce systematic risk. This may be especially true when considering fund managers who have a particular approach that leads them to seek out particular characteristics in the investable companies. This can allow for diversification across a greater number of companies than a single manager can actively manage.

3

Investing at different company stages

As previously mentioned, it may be worth considering to diversify a portfolio of investee companies across different stages of maturity, such as start-ups and later-stage businesses. This balanced approach means that fund managers can limit downside risk of the fund by diversifying into later-stage companies, while simultaneously engaging in riskier early-stage companies, which could enhance the fund's expected returns.



The Blackfinch approach

The Blackfinch Ventures team exemplifies a strategic approach when it comes to structuring a multiple EIS portfolio, with investors accessing high-growth technology companies throughout the UK. The fund spreads investments across a selection of diverse industry sub-sectors such as wearables, EdTech, consumer electronics, and AI-powered Software-as-a-Service (SaaS). Typically investing between £250k and £1.5m at the seed stage, Blackfinch Ventures has raised over £48m and made 43 investments to date, with a target of at least 10 investments per investor.

The proposition can offer as a natural diversifier within a client's portfolio in a number of key ways. Firstly, the fund is run by ex-founders and serial entrepreneurs who understand more than anybody the extreme highs and lows of building early-stage businesses. This sets the team apart with their hands-on management style, often attracting the most high-calibre companies who are looking to partner with a manager who can offer more than just a source of capital. Unlike more passive investors, Blackfinch appoints Venture Partners to boards of the investee companies and conducts ongoing KPI monitoring.

In addition, the fund diversifies across sectors, geographies and company stage, ensuring a balanced portfolio. Blackfinch allocates investment weights based on a structured approach, with later-stage companies receiving higher allocations, typically ranging from 5%-15%. To streamline this process, the team uses a Dealing Simulator Platform which optimises deal allocations and ensures swift execution, especially around the financial year-end.

Excitingly, Blackfinch has recently introduced an entirely new and innovative EIS, the Blackfinch Energy Transition Portfolios, targeting companies driving decarbonisation and the global energy transition. The team has identified this as an emerging sector that few other EIS funds currently focus on, giving investors an opportunity to invest in a genuinely new and diversified investment sector.



MARK BROWNRIDGE
Strategic Relations Director,
Blackfinch Investments

blackfinch.com
enquiries@blackfinch.com

Unveiling the key benefits of EIS for Inheritance Tax planning

Recent interview and analysis from Ewoud Karelese of Evelyn Partners and Kealan Doyle of Symvan Capital

The pension landscape is set to change.

From April 2027, unused pension funds will be included in a deceased's estate for IHT, making them taxable. Even after IHT is paid, beneficiaries face further taxation - as a result, higher-rate taxpayers could see up to 45% income tax on withdrawals.

Consequently, financial advisers are increasingly turning to tax-efficient schemes like EIS to help their clients.

In this latest interview, Ewoud Karalese, Head of Tax Advantaged at Evelyn Partners, and Kealan Doyle, CEO & Co-Founder of Symvan Capital, sit down to discuss how these recent changes affect investors and their financial planning strategies.



The recent Budget has brought the need for effective tax planning to the forefront of people's minds - and with that a renewed interest for the tax benefits on offer through the Enterprise Investment Scheme (EIS).

Kealan Doyle, CEO of Symvan Capital interviews industry partner Ewoud Karelese of Evelyn Partners

KEY TAKEAWAYS

➔ With pension change afoot, high-net-worth individuals are beginning estate planning conversations much earlier than before, recognising the importance of reassessing their pension contributions in this shifting landscape. Using the overall risk exposure.

➔ Another potential change, though not addressed in this budget, is the possibility of capital gains tax (CGT) no longer being written off at death. While speculation continues, financial planners must continue to focus on current legislation rather than making premature financial moves. Some investors are already using EIS to defer capital gains tax when transferring assets into trusts, a strategy that can be beneficial in the current tax landscape.

➔ For those seeking inheritance tax mitigation, EIS presents a viable long-term alternative to pensions. It offers income tax relief and loss relief while supporting high-growth UK businesses. However, investors must carefully consider the risks and discuss their estate planning strategies with beneficiaries, as EIS relief does not transfer to heirs. This is when a well-diversified approach can come into play, incorporating AIM-listed investments, non-AIM investments, and business relief products to help optimise estate planning outcomes.





About Intelligent Partnership

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

We organise focused events and provide a suite of materials to keep advisers and industry professionals up to date with the latest developments and on course to meet their training and unstructured CPD targets.

Our range of engaging and accessible resources includes:



Quarterly industry updates

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.

www.intelligent-partnership.com/eseach-format/publications



Accreditation

Our CPD tax planning online accreditation programme is aimed at regulated advisers, wealth managers, paraplanners, accountants and solicitors that require a recognised level of knowledge and understanding in EIS, SEIS, VCT and Business Relief.

www.accreditation.intelligent-partnership.com



Weekly investment briefings

A weekly snapshot of the latest articles, commentary and market data for financial services professionals on tax efficient investment and estate planning. These are sent alongside our regular CPD emails, providing the opportunity to earn unstructured CPD time based on relevant articles and content provided by ourselves and external providers.

Please retain a copy of all emails and publications to be able to claim unstructured CPD hours.



Provider spotlight emails

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.



Awards, conferences, webinars and workshops

Our dedicated programme includes a variety of in-person and virtually hosted events, across the country. Supporting financial advisers and the tax planning community, we facilitate knowledge building of tax wrappers in a workshop environment. We host webinars and conferences that focus on specific areas of tax and estate planning, celebrating the role of the UK SME investment and finance communities through our annual Growth Investor Awards.