

# Venture Capital Trusts: investment options 2017

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clarity



A Venture Capital Trust (VCT) is a collective investment scheme, similar in structure to an investment trust. VCTs offer significant tax reliefs to individuals who are prepared to invest indirectly in a range of unquoted smaller, higher-risk trading companies.

**Following recent changes to the types of company eligible for VCT investment, there is currently a shortage of open VCTs.** The changes are designed to more closely target funds at development capital and restrict the age of investee companies.

A number of VCT providers are not fundraising currently, as their previous investment models (such as management buyout funding) do not comply with the new regulations. Other providers are seeking less funding than has been the case in the recent past. **VCT offers could therefore be filled relatively swiftly** and potentially be withdrawn well before the closing date.

**For those who would like to consider VCT investments this year, this update summarises our views on the options available.** The generalist is the most prevalent style of VCT again this year.

There is always a risk with a VCT that a launch will not bring in enough funds and will either not go ahead or will be such a small fund that the expenses have a disproportionate effect on the returns. We have borne this in mind when making our selection.

The primary reason for considering VCT investment should be a desire to invest in small companies with ambitious business models and innovative products that will inevitably be high-risk investments. Whether listed on an exchange or currently unlisted, investments are hard for the manager to sell, and any decision to invest should normally be made for the long term. Listed share prices are often volatile, and there may be no buyers if a VCT company's performance is disappointing.

On the plus side, investment returns can be highly impressive, and VCT management teams usually have many years' experience of managing this sort of investment.

Remember, VCTs are fairly high-cost vehicles. They usually invest in tiny companies and, historically, returns have often been disappointing for investors.

It is, however, an interesting period for this type of investment at present.

With banks still reluctant to lend, venture capitalists often have the pick of investment opportunities.



## Tax reliefs available

- Individuals aged 18 or over can obtain **income tax relief of 30% on contributions up to £200,000 per tax year** in newly issued ordinary shares in VCTs.
- Investors **can only reclaim tax that they have paid**.
- **Income tax relief is withdrawn if the shares are disposed of within five years** (exceptions apply on transfer to a spouse and on death).
- Individuals are **exempt from capital gains tax (CGT) on purchases made up to the £200,000 level when they dispose of their VCT shares**. There is no minimum holding period to qualify for this CGT exemption.
- **Dividends paid by VCTs are free from any additional income tax**, although the notional 10% suffered at source is non-reclaimable.

Whilst these tax benefits are attractive, your motivation for considering VCTs should be the opportunity to invest in new and innovative companies, not solely the tax breaks.

To **benefit from all the tax advantages, you must hold a VCT for at least five years**. After this time, the VCT could be sold via the stockmarket. However, **there is no guarantee that a buyer would be found and, as such, VCT investments can be very illiquid**. Even where the funds are listed, they are usually structured as investment trusts and are likely to be trading at a discount to net asset value (NAV) - and NAV itself is an inexact science for unquoted companies.

Although VCT shares are fully listed on the London Stock Exchange, there is very little buying and selling because most shareholders face a tax penalty by selling early. Accordingly, very few shares are actually traded. Dealing spreads are often wide and there is only one market maker for some shares.

**Most VCTs have powers to repurchase shares** in the event of a large seller or an excessive discount arising. Some VCT managers have been much better than others at 'managing the discount'.

**There are few VCTs currently on offer, and the investment focus of these varies**. We have described three available schemes on the following pages. Each of these VCTs invests in a different way, although the fundamental characteristics are similar. These schemes are also highly rated by other independent analysts.

## Recent changes to the type of company eligible for VCT investment

In summary:

- VCTs will not be able to buy existing businesses. That rule also affects buy and build strategies. VCT money cannot be used to acquire shares in another company or the trade of another company (including goodwill and other intangibles).
- The first commercial sale by a company must be less than seven years ago (with certain caveats).
- There is a lifetime investment limit of £12million (£20million for knowledge intensive companies).

Before reading ahead, please note that this information is provided as a 'direct offer' promotion. This means that, although clarity is offering product-specific selection, we are not testing the suitability or affordability of a VCT to your individual circumstances. We can only do this as part of our individual advice service (in which case, please contact your normal adviser or email: [enquiries@clarityglobal.com](mailto:enquiries@clarityglobal.com)).

Please contact clarity if you would like an application form to invest in any of the following VCTs. You can also apply directly to the VCT provider, should you wish. However, please note that only applications submitted via clarity will benefit from the charge discounts we have negotiated.

## ProVen Growth & Income VCT

This offer provides top-up access to the ProVen VCT, which was launched in April 2000 and is managed by Beringea LLP. This is a generalist VCT currently investing in 42 companies.

The key selection criteria for investee companies will normally be:

- a strong, balanced and well motivated management team with a proven track record of achievement
- a defensible market position
- good growth potential
- an attractive entry point for the fund
- the ability to structure the investment with a proportion of secured loan notes to reduce risk
- a clearly identified route for a profitable exit within a 3-4 year period

The ProVen VCT targets a dividend yield of 5%, and as at 31 May 2016 it had assets of £74million.

The managers are now seeking funding of £30million, with a closing date of 5 April 2017 (unless the offer is fully subscribed beforehand). There is a minimum subscription of £5,000. Investing in a top-up offer has the benefit that there is an existing mature, diversified portfolio, whose performance has been very good. Beringea has a strong management team, which has been together for over ten years and has achieved attractive prices for mature companies that it has sold.

Trevor Hope and Robert Hodgkinson, formerly chief investment officer and investment manager respectively, have now left Beringea, which is clearly a loss to the company. Although a new investment director and two associates have been recruited, this does weaken the team somewhat.

Beringea levies an initial fee of 2.25% for applications through financial advisers. The scheme also levies annual fees of 2% of net asset value plus fixed monetary amounts. In addition to annual fees, a performance-related fee may apply.

Full details can be found from the link:

<http://www.provenvcts.co.uk/funds/literature/5>.

If you would like us to send you an application form, please email [enquiries@clarityglobal.com](mailto:enquiries@clarityglobal.com).

## Octopus Titan VCT

This is a top-up offer into the VCT that was formed in November 2014 from the merger of Octopus Titan VCTs 1-5, with net asset value of £309million as at 31 July 2016.

The fund aims to invest in early stage companies that have the potential to deliver a 5- to 10-times return on investment. The dividend target is 5p per share, with the potential for special dividends in addition, typically following significant realisations from holdings. In a change to the company's Articles of Association, it may now borrow up to 50% of its net asset value to make investments. Whilst the prospectus says that there is no intention to use borrowing for this purpose in the immediate future, the potential should be borne in mind.

Two aspects distinguish this VCT:

1. the focus on early stage, expansion and development
2. the 'Octopus Venture Partners' approach to investing

The Octopus Venture Partners are a group of at least 100 leading entrepreneurs and business angels who introduce investment opportunities, assist with due diligence and offer support to and co-investment into the companies within the VCT. This VCT will not normally invest in a company unless members of the Venture Partners are also willing to invest. The Octopus Titan VCT is managed by a very well-resourced and experienced team.

The managers are currently seeking £70-120million funding and the minimum investment is £3,000. There is also a monthly contribution option with a minimum payment of £1,000 per month.

The scheme carries an initial charge of 3% and annual fees of 2% (5.5% and 2.5% respectively for direct applications) plus fixed monetary amounts. There is a discount of 1% for existing shareholders in any of the Octopus VCTs. In addition to annual fees, a performance-related fee is likely to apply. Potential investors should be aware that a VCT targeting early stage companies is inherently more risky than those investing in more mature businesses and that returns may not compensate for the additional risk.

Full details can be found from the link:

<https://www.octopusinvestments.com/investor/our-products/venture-capital-trusts/octopus-titan-vct>.

If you would like us to send you an application form, please email [enquiries@clarityglobal.com](mailto:enquiries@clarityglobal.com).



## Albion VCTs

This offer provides top-up access to the range of Albion VCTs with total net asset value of £302million:

- [Albion VCT](#)
- [Albion Enterprise VCT](#)
- [Albion Development VCT](#)
- [Albion Technology & General VCT](#)
- [Crown Place VCT](#)
- [King's Arms Yard VCT](#)

The minimum investment is £6,000; either equally spread across Albion's six VCTs or in specific VCTs, subject to a minimum of £1,000 in each. We recommend spreading the investment equally across all six funds. Taking this option, Albion targets an immediate dividend yield of 5%, although it is currently achieving over 5.7%, and dividends are expected to be received monthly. This offer, targeting fundraising of £24million, is substantially smaller than the 2015/16 offer, which closed early at £36million.

This scheme provides the opportunity to invest in a pool of funds comprising around 65 unquoted businesses. Around 54% of the portfolio is in asset-backed businesses (mainly operating in the leisure, renewables, education and care home sectors), 32% in growth companies (including technology) and 14% in cash. A high proportion of the investment in asset-backed businesses is via secured loan stock.

There is an initial charge of 3% and annual fees of between 1.75% and 2.5% depending on the VCT plus fixed monetary amounts. In addition to annual fees a performance related fee may apply.

Full details can be found from the link:

<https://www.albion-ventures.co.uk/current-offers>.

If you would like us to send you an application form, please email [enquiries@clarityglobal.com](mailto:enquiries@clarityglobal.com).

The three VCTs detailed in this update are all from companies who believe they comply with the new regulations.

The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. This investment is considered to be speculative and could involve considerable fluctuations both up and down in value. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England and Wales. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA). The FCA does not regulate all types of pension, mortgage or taxation advice.

## Risk warning: VCT investment

This warning notice draws your attention to the risks associated with investments in VCTs.

Because this investment may go down in value as well as up, you may not get back the full amount invested.

Although the VCT is or will be quoted on the Stock Exchange, many of the investments made by the VCT are not quoted on any market. These unquoted investments carry a higher risk than those quoted and it may be difficult to obtain reliable information about their value or the extent of the risks to which the VCT is exposed.

If the VCT shares are sold within five years any income tax relief obtained at outset will be forfeited.

The tax reliefs which currently apply to VCTs are, like all tax legislation, subject to change.

**You should not subscribe to a VCT until you:**

- have read and understood the terms and conditions of the scheme particulars; and
- are aware of the risks involved in such shares and such schemes.

## Commissions and Fees

For the ProVen and Octopus VCT offers above, clarity will make a one-off charge of 2% to cover research and administration, which will be paid from the amount subscribed. Where the standard fee would be greater than this, the difference will be rebated to you in the form of additional shares. For the Albion offer, as this option is not available, clarity will take a charge of 0.4% per annum for five years.

## Next steps

If you are considering a VCT investment this year, you have two options:

### 1. Direct Offer Transaction

Assuming you are happy to make your own decision as to risk, suitability and affordability, then please request a copy of the respective application pack(s) by emailing: [enquiries@clarityglobal.com](mailto:enquiries@clarityglobal.com).

### 2. Advice

If you have any questions, please do not hesitate to contact your usual clarity adviser on **0870 242 2043** or email [enquiries@clarityglobal.com](mailto:enquiries@clarityglobal.com).