The Association of Investment Companies

# Going for growth

A guide to venture capital trusts

www.theaic.co.uk

Venture capital trusts provide finance to some of the most dynamic small businesses in the UK to help them grow.

This guide explains the benefits and risks of investing in VCTs, and takes a closer look at some of the exciting businesses that VCTs have helped to flourish.

**New to investment trusts?**
Read ‘A guide to getting started’ to learn the basics


Available at www.theaic.co.uk or by calling 020 7282 5555

## Introduction

Young, innovative businesses often struggle to raise finance to help them expand. They may still be developing their products or services, so haven't been able to generate any profits from sales yet. They may be pioneers in new technologies or services which are untested. They may not have been around long enough to generate a strong financial track record, which lenders often look for when deciding which businesses to support.

These businesses can find it hard to raise finance from traditional sources such as banks. However, they often need a lot of capital in these early stages, well beyond the means of most individual investors. VCTs help to bridge this 'finance gap' by allowing smaller investors to pool their resources and invest in a diversified portfolio of companies. This diversification helps to mitigate the risk of any one company failing.

Though the companies VCTs invest in start small, and are high risk, they can become household names in the future, helping to create jobs and economic growth. So, the government offers generous tax benefits to compensate you for the risks involved. But you should not invest in a VCT just for these tax benefits and should make sure you fully understand all the risks. If you are in any doubt, you should take independent financial advice.

**This guide is aimed at individual investors aged 18 or over who are UK income tax payers.**

**Seeds of potential**
Although the companies VCTs invest in start small, they can become household names

# Liftango

**Malcolm McLaren,**
Partner at Maven Capital

### The business

East Lothian headquartered Liftango provides a demand responsive transport platform for governments, transport authorities, operators and corporations around the world to implement public and private transport networks.

Its cloud-based technology enables Liftango customers to optimise vehicle scheduling and route mapping, improving efficiency and lowering carbon emissions.

### The opportunity

Liftango's multi-faceted platform offers diverse ways to optimise shared mobility solutions, from car-sharing for work to coordinating transport services for corporations, local councils and transport companies. Its impressive service has won long-term contracts with blue-chip clients including Tesla (6,000 trips a week), Unilever, and Amazon. It has also partnered with IKEA, and several UK regional bus operators, including National Express.

### The results

Since Maven initially invested £1.75 million, headcount has increased by 111% and revenue is up by 257%. Maven has since committed a further £1.9 million investment alongside an additional £1.5 million from Scottish Enterprise to continue to support international expansion. As of 31 May 2024, annual recurring revenue was £2.5 million and is forecast to increase to £4.5 million by 31 December 2024 – given the potential new clients in contract negotiations.

www.liftango.com

*"Liftango powers some of the most successful systems in the world that help people access more convenient and sustainable transport services, all while helping companies reduce their carbon emissions."*

**Malcolm McLaren**

## The risks

As with all stock market investments, when you invest in VCTs your income and capital is at risk and may fall as well as rise. You should not invest in VCTs if you need a guaranteed income or if you cannot afford to lose any of your money. There are some other specific reasons why VCTs are considered to be higher risk.

- **VCTs invest mostly in small, younger companies**
  These tend to be much more risky than well established public companies, which may have large cash resources to fall back on in tougher times.

- **The value of the underlying investments can be uncertain**
  Unlike companies that are traded on public markets, shares in private companies do not have an exact market value. A VCT will use well established methods to estimate the value of any investments they have in private companies, but they can only be estimates. Given the work involved in performing these valuations, VCTs will often only value the portfolio every three or six months, and so any valuation may have been calculated some weeks, or even months, before you invest.

- **Compliance with tax rules**
  VCTs have to meet strict tax rules in order to obtain their preferential tax status. If the VCT does not meet these conditions, you could lose your income and capital gains tax benefits.

- **Selling your shares**
  VCTs are small companies and their shares do not trade on the stock market as frequently as those of other companies. Most VCTs offer to buy back shares to provide you with a way to exit your investment, but you can expect a wait before you can access your money and there is no guarantee you can cash in your shares when you want.

## The tax benefits

To compensate you for the extra risks of investing in small, growing businesses, there are a number of tax benefits available when you invest in a VCT.

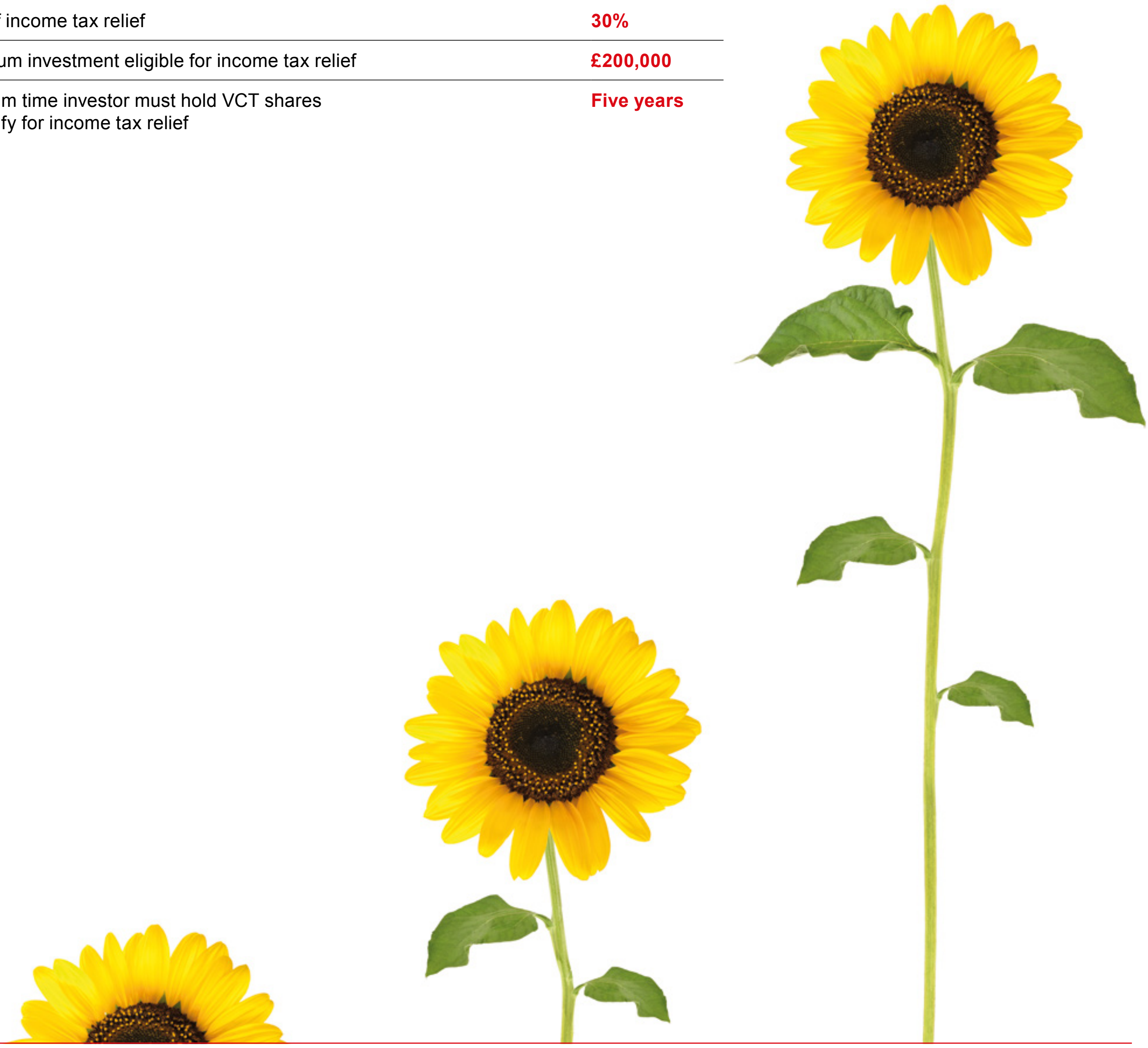
For example, you will pay no income tax on any dividends you receive, and no capital gains tax on any profits you make when you sell your shares. These two reliefs are available at all times, irrespective of how much you invest, how you buy the shares or how long you hold them.

However, if you buy shares issued on the launch of a VCT or when it raises new money, then further tax relief is available to reduce your income tax bill, providing you hold the shares for a minimum period of time and subject to certain limits and conditions. This is known as 'initial' (or 'upfront') income tax relief.

Although the tax benefits are generous, you should not invest in VCTs just for tax reasons

### Current 'initial' income tax reliefs, limits and conditions

| | |
|---|---|
| Rate of income tax relief | **30%** |
| Maximum investment eligible for income tax relief | **£200,000** |
| Minimum time investor must hold VCT shares to qualify for income tax relief | **Five years** |



### How you buy VCT shares

As with all investment trusts, you can buy existing VCT shares through the stock market. You will still benefit from tax-free income and capital gains, but you won't get any further income tax relief. If you want to benefit from initial income tax relief, you will have to invest in new shares either on the launch of a VCT, or when it raises new money.

The VCT will issue a prospectus, which is a document that provides a lot of information about the VCT and the risks involved. You can apply for VCT shares directly via the prospectus, or you can use an independent financial adviser to help you decide which VCT would be best for you and help you make an application. There are also other financial firms that can help you to apply for VCT shares, though they do not provide advice as part of this service.

Whichever route you choose, you should read the information provided carefully and make sure you understand the risks involved. You should also consider the costs and make sure you are happy with them.

### The economic benefits of VCTs

VCTs are a boost to the UK economy providing vital finance and expertise to smaller British companies and stimulating high levels of job creation. VCT-backed businesses have high levels of exports, indicative of their potential value to the UK economy.

# Pelago

### The business

Pelago partners with employers, health plans and pharmacies to help individuals conquer substance addictions through behavioural therapy treatments and approved medications. Employees can access the service with complete anonymity and success rates are impressive, with large drops in drug use following treatment.

### The opportunity

One in five Americans has a substance abuse disorder but less than 10% can get treatment. Yet such addictions are among the top factors driving up the cost of health insurance. Employers therefore have a great incentive to tackle substance abuse amongst their workforce.

### The results

Octopus Titan VCT's investments followed strong employer and health plan demand. This resulted in revenue growth of 287% in 2023 together with 100% client retention.

www.pelagohealth.com

**Maroof Ahmed, Sarim Siddiqui and Yusuf Sherwani.**
Founders, Pelago

*"We're keen to build global businesses in the healthcare space and are super excited about the potential of Pelago"*

**Will Gibbs, Octopus Ventures**

## The basics of VCTs

In many ways, VCTs are like other investment trusts. They give you access to a diversified portfolio of investments managed by a professional manager.

However, they differ in a number of ways:

- they invest most of their money in small, up-and-coming businesses
- in return for the higher risks, they offer additional tax benefits
- the way you normally invest in them is different

**Rich variety**
A VCT can give you exposure to a range of up-and-coming companies

### The businesses VCTs invest in

VCTs can invest in small, private businesses, as well as similar investments traded on the Alternative Investment Market (AIM), which is the London Stock Exchange's market for smaller growing companies.

There are limits on the size of companies VCTs can invest in. Most VCT investments must be in small companies (up to £15m in size). These businesses are much more risky than the large, established companies other funds tend to invest in. Some of these companies will struggle even with the support of VCT investment and may fail altogether. However, those that succeed can develop into some of the most exciting businesses in the UK.

## Things to consider


**Are VCTs suitable for you?**

VCTs are generally for more experienced investors who have already built up a solid 'core' of other investments and who fully understand the risks. If you are not sure whether, or which, VCTs might be suitable for you, you should take independent financial advice.

**What type of VCT?**

Most VCTs invest in unquoted, private companies. These companies can be active in a variety of different sectors of the economy. Others invest in a range of companies quoted on the Alternative Investment Market (AIM). All invest to support high-growth firms in the early stages of their expansion.

**Need advice?**
You should speak to an independent financial adviser

**How long can you invest for?**

VCTs, like all investment trusts, are intended as long-term investments. If you are likely to need the money in the near future, you should not invest in VCTs. Remember that to qualify for the initial income tax relief, you have to hold on to your VCT shares for at least five years.

**The costs**

Managing a VCT takes specialist expertise. For example, the VCT manager has to undertake more due diligence when making an investment. They may even appoint someone to the board of the investee company. When they sell an investment, they need to find willing buyers and negotiate with them to get the best price. This additional work means that VCTs often have higher running costs than other investment trusts.

# BioAscent

### The business

BioAscent is a leading provider of integrated drug discovery services based in Biocity in Glasgow, a 20-acre biotech incubator site. The company was founded by former big pharma executives responsible for delivering numerous clinical trial candidates over the past 30 years.

### The opportunity and how VCTs have helped

The Maven VCTs invested £1.6 million in June 2018. This funding enabled BioAscent to expand its service offering, adding complementary chemistry and biology services. It has also grown a high quality customer base.

Maven also assisted by introducing an experienced Finance Director who has become a key member of the executive team. The VCT manager has been active in shaping the company's strategy, exploring funding options and incentivising staff.

**Paul Smith,**
CEO, BioAscent

### The results

Since investment, revenues have increased more than five-fold. The headcount has increased from seven staff in 2018 to over 80 staff as of March 2024 (with most recruited from Scottish universities).

BioAscent has been recognised in the Alantra Pharma Fast 50 as the UK's fastest-growing drug discovery Contract Research Organisation (CRO). It was recognised in the management category in Scotland's Life Sciences Awards 2021, and was awarded a Vision 2022 award by the British Venture Capital Association (BVCA).

*"Investment from Maven has helped accelerate our growth."*

**Paul Smith**

www.bioascent.com

**Support where it’s needed**
VCTs help young businesses in the UK that might otherwise struggle to obtain finance

## Key things to remember

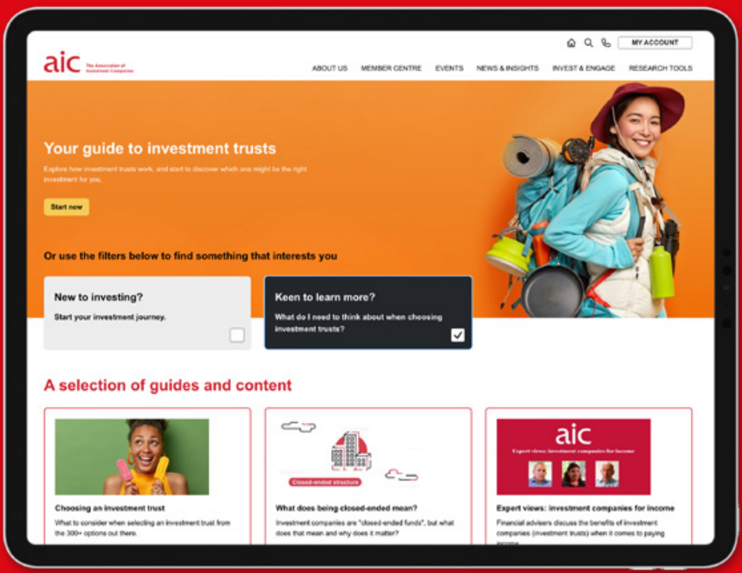
- VCTs help to support some of the most dynamic young businesses in the UK, which might otherwise struggle to obtain finance. These businesses can grow to become household names, helping to create jobs and economic growth.
- In return for the higher risks, VCTs offer generous tax benefits, but you should not invest in them just for these.
- VCTs are intended as long-term investments. You will have to hold on to the shares for at least five years to benefit from the full range of tax reliefs available.
- Your income and capital are at risk, and you should not invest in VCTs if you need a guaranteed income or if you cannot afford to lose your capital.
- If you are not sure whether, or which, VCTs are suitable for you, you should take independent financial advice.

**Don’t forget**
If you are uncertain about whether, or which, VCTs might be suitable for you, you should take financial advice

Visit the AIC website to find out more about investment trusts and VCTs

**www.theaic.co.uk**



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