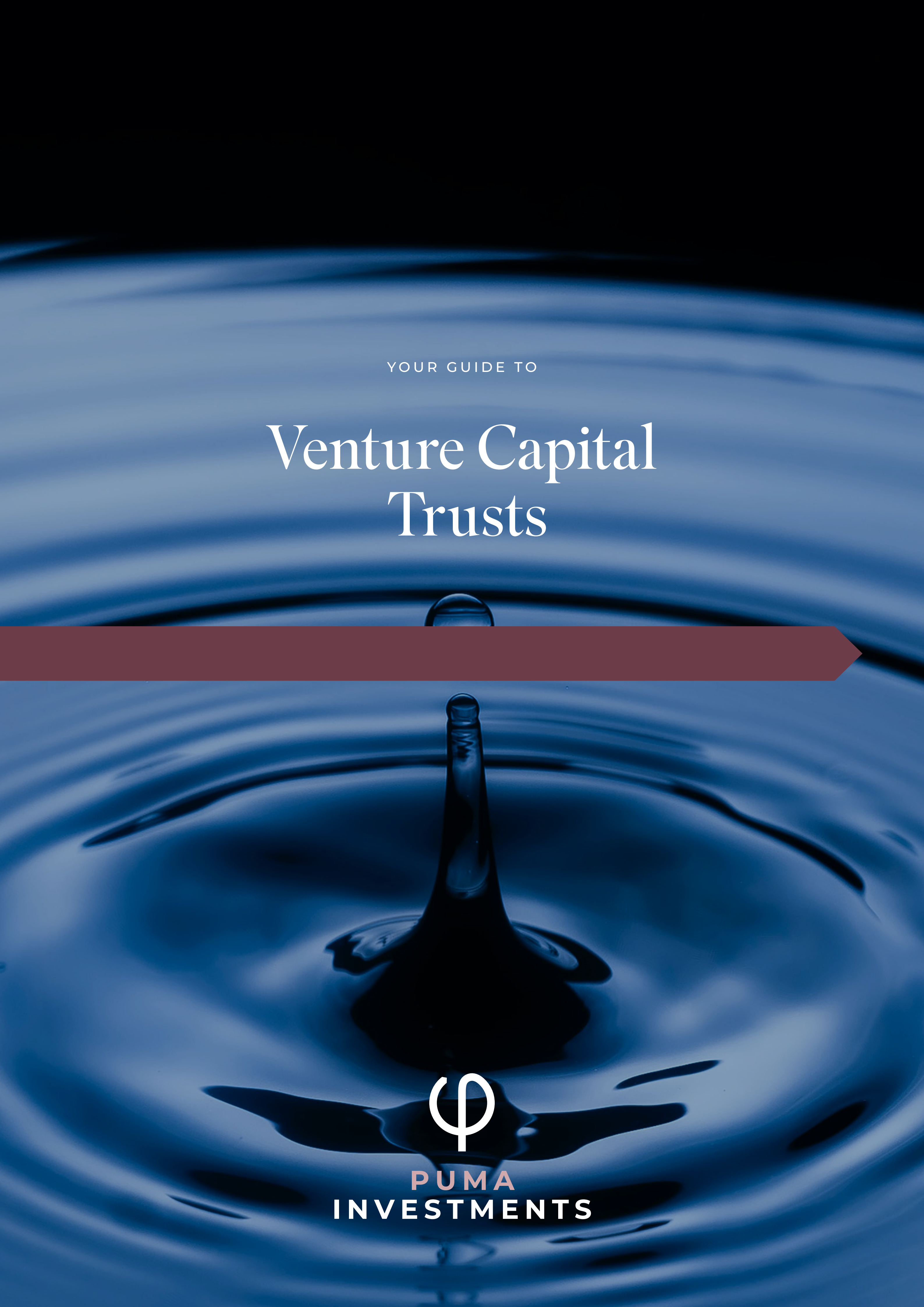
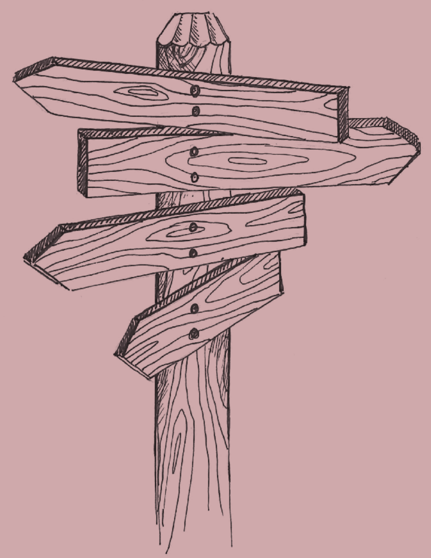


YOUR GUIDE TO

Venture Capital Trusts

PUMA INVESTMENTS

Contents



Please note that this document is intended as an introduction. Seek independent financial advice.

What is a Venture Capital Trust (VCT)?

First launched in 1995, VCTs were established to provide a vital source of funding to small and medium-sized businesses in the UK. Since then, they have helped to create thousands of jobs, fuel innovation and stimulate the growth of some of the country's most promising smaller companies.

Young, entrepreneurial businesses often struggle to raise finance from traditional sources like banks. Yet they often need significant capital investment in the early years to fuel growth. VCTs can bridge this gap. They achieve this by pooling money from investors to invest in a diversified portfolio of private companies to spread risk. Though these companies may start small, some will eventually become household names in the future.

The government encourages investment in VCTs by providing generous tax benefits, but you should not invest in a VCT just for the tax benefits. If you are in any doubt as to the suitability of a VCT for your individual circumstances, you should always seek professional independent financial advice.

VCTs pool together capital to invest in growth companies. That means they accumulate money from multiple investors and use this money to invest into VCT-qualifying companies. A VCT is a listed company in its own right.

How do VCTs work?

Your investment in a VCT grants you shares in the VCT itself rather than shares in the individual investee companies.

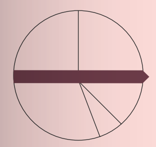
VCTs must uphold strict governance rules to qualify for the intended tax reliefs designed to benefit you as an investor.. These rules, coupled with stringent criteria around the types of companies that qualify for VCT investment, means that your money is likely to be directed towards those companies most in need of finance to grow. Bear in mind that VCTs are a high-risk investment. Some or all of the money you invest could be lost.

VCTs provide funding for new businesses and small businesses that are not listed on any recognised stock exchange. Companies listed on the Alternative Investment Market (AIM), or the AQSE Growth Market, are considered to be not listed. VCT-qualifying companies must have fewer than 250 full-time employees (or 500 for knowledge intensive companies) and can raise up to £5m per year (£10m for knowledge intensive companies). Knowledge intensive companies are typically businesses that are carrying out research, development or innovation at the time that they issue shares.

Types of VCT available

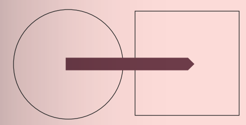
There are three main types of VCTs in the UK

Generalist VCTs



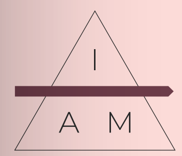
This is the biggest sector. As the name suggests, these VCTs invest across a range of different sectors and industries to create a diversified portfolio. Generalist VCTs do vary in their objectives. Some invest in new start-up businesses, others will look to invest in more established businesses.

Specialist VCTs



Specialist VCTs invest in specific industry sectors such as technology or healthcare. The focus on a single industry or sector can carry more risk as the portfolio is less diversified. In contrast, if the VCT is concentrated on a rapidly growing sector, the returns might be higher.

AIM VCTs



AIM VCTs invest predominantly in the Alternative Investment Market (AIM) quoted companies. AIM is the London Stock Exchange's market for smaller, growing companies from the UK and across the globe. AIM is the world's most successful and established market for dynamic high-growth companies. In 1995, AIM launched with ten companies valued at £82m. Today, AIM is home to around 835 companies with a combined market cap of £105bn[1]. Fever Tree and YouGov are two of the better-known companies quoted on AIM.

[1] London Stock Exchange, 30 June 2022 (https://www.londonstockexchange.com/reports?tab=aim)

Which companies can be included in a VCT?

There are a number of qualifying conditions:

Please note tax reliefs depend on the VCT maintaining its qualifying status. Qualifying conditions may be subject to change.

1

COMPANY AGE

Companies must be less than seven years old from the date of their first commercial sale at the time of an investment. This is increased to 10 years for knowledge intensive companies.

2

BUSINESS ACTIVITIES

Companies must be permanently based in the UK and conduct a 'qualifying trade'. Most trades are allowed, but there are exceptions. These include financial activities, forestry, farming, hotels and energy generation.

3

SIZE

A company can qualify for VCT investment if it has no more than £15m of gross assets immediately prior to any investment (and £16 million immediately after the investment). It must also have fewer than 250 employees (500 employees in the case of a knowledge intensive company).

4

INVESTMENT

A VCT can invest up to 15% of its money in any one company. Each company is eligible to receive up to £5 million of VCT or other tax-efficient funding (such as via the Enterprise Investment Scheme) in any 12 month period with no more than £12 million in funding over its lifetime (£20m for knowledge intensive companies).

5

RISK TO CAPITAL

The Finance Act 2018 introduced a new "risk to capital" condition for qualifying investments. This is designed to direct investments towards earlier stage, growing businesses and away from investments which could be regarded as lower risk, in order to provide a capital supply to those companies that need it most.

Benefits of a VCT

To encourage investment in VCTs, there are attractive tax reliefs for investors.

30% income tax relief

You'll receive 30% income tax relief upfront on investments up to £200,000 in any one tax year, provided you hold your shares for at least five years.

Tax-free dividends

If your VCT pays out dividends you won't have to pay tax on them or declare them on your tax return.

Tax-free capital gains

If you sell your shares to realise any gain from growth in the underlying companies in your VCT, the gain will be exempt from capital gains tax.

While the tax advantages offered for investments in VCTs are attractive, deciding to invest in a VCT shouldn't be made solely on the basis of the tax incentives. Tax treatment will depend on your individual circumstances, and is not guaranteed. And remember, it may also be subject to change in the future.

Please note: VCT shares could fall or rise in value more than other shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

There are other reasons to consider investing in VCTs

GROWTH POTENTIAL

VCTs invest in smaller VCT-qualifying companies. Smaller companies have the potential to grow much faster than their larger counterparts.

DIVERSIFICATION

VCTs can provide an important source of portfolio diversification for investors. The companies VCTs invest in often have a low correlation with portfolios of traditional investments.

COMPANY DIVERSIFICATION

VCT investing gives you exposure to more than one underlying investment (because it's a pooled investment) rather than if you bought shares in a single named stock.

SECTOR DIVERSIFICATION

Generalist VCTs invest across a range of industry sectors.

Benefits of a VCT

To encourage investment in VCTs, there are attractive tax reliefs for investors.

Income tax relief

You'll receive 30% income tax relief upfront on investments up to £200,000 in any one tax year, provided you hold your shares for at least five years.

Tax-free dividends

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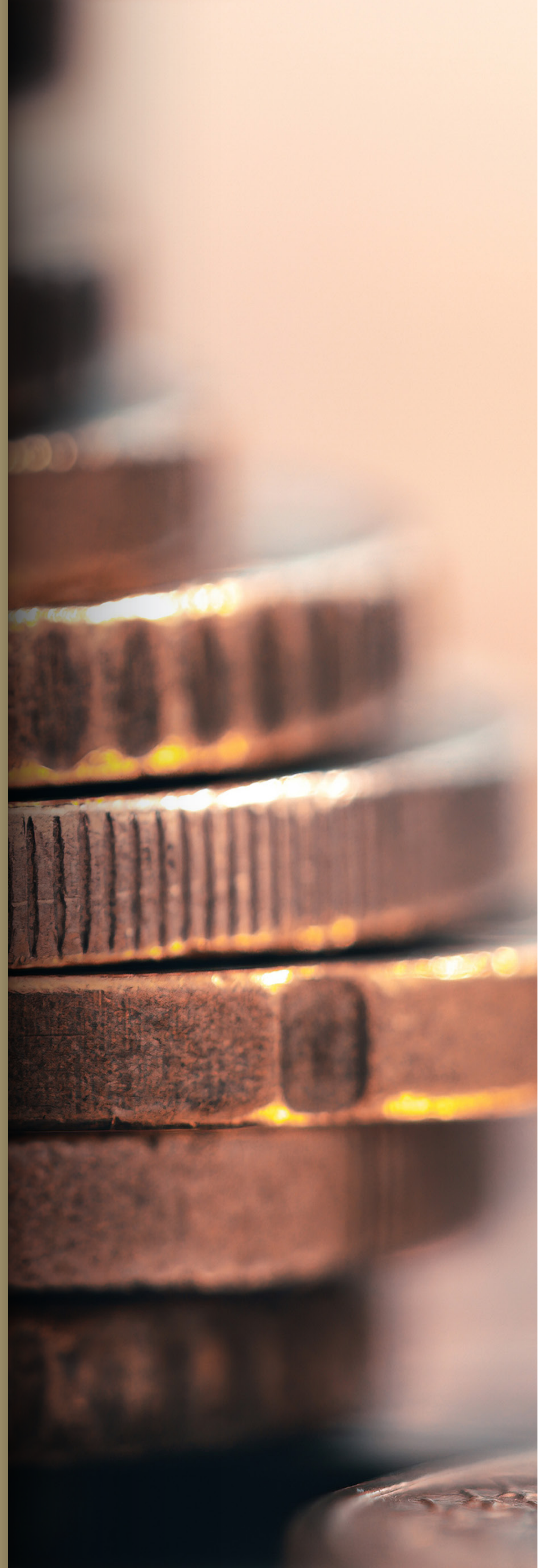

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SECTOR DIVERSIFICATION

Generalist VCTs invest across a range of industry sectors.

There are risks with any investment. Here are the main risks you should be aware of, before you invest in a VCT.

Key risks

If in any doubt, you should discuss these with your financial adviser, and please make sure you fully understand the pros and cons of these products in relation to your individual needs.

Tax relief

Tax reliefs are not guaranteed and depend on an individuals' personal circumstances. In order to fully qualify for tax relief, there is a requirement to hold the investment for a minimum of five years. It is worth noting that tax reliefs may also be subject to change in the future.

Liquidity

It is highly unlikely there will be a liquid market in the ordinary shares VCTs, and it may prove difficult for investors to realise their investment immediately, in full or at all.

Capital at risk

An investment into a VCT is mostly an investment into smaller, younger companies. These are considered high risk. Your original capital investment may be at risk, and there is a possibility that you could lose some or all of the money you invest.

Meet Mandi

Mandi owns and operates a successful IT company. She has built up substantial retained profits within her business and now wishes to extract some of it in a tax-efficient way. Mandi wants to retain some funds within the business for operational purposes and cashflow management. However, due to her business's success, the amount of surplus cash will allow her to pay a dividend.

Mandi currently pays herself a salary from her business and is a higher rate taxpayer. She is in the fortunate position of being able to decide how to invest her dividend.

The solution

Mandi contacts her financial adviser, who conducts a suitability assessment for investing based on her risk profile, attitude towards investing in smaller companies and her target investment time horizon. Given this, her adviser recommends investing in a VCT.

Mandi's financial adviser suggests that she pay herself a £100,000 dividend and invest all of it into a VCT, holding the investment for at least five years. With a VCT investment Mandi can claim up to 30% income tax relief on investments up to £200,000 in each tax year, provided she holds the VCT shares for at least five years.

Other tax benefits include tax-free dividends, which could provide an additional source of income, as well as no capital gains tax to pay when she sells the shares. Mandi can claim the tax refund as soon as she receives her Income Tax certificate from the VCT's share registrar.

Mandi wants to pay herself £100,000 in dividends

She will have to pay a **33.75%** rate of tax since she is a higher rate taxpayer.

Without VCT Investment

£100,000
paid to Mandi

£2,000
annual dividend allowance[1]

- £33,075
tax due on dividend

£66,925
net position

With VCT Investment

£100,000
paid to Mandi and invested in a VCT

£2,000
annual dividend allowance

-£33,075
tax due on dividend

£30,000
tax rebate

£96,925
net position

[1] Please note the assumptions used in the scenario are tha the annual dividend allowance will decrease to £1,000 in April 2023. The allowance will decrease further to £500 in April 2024.

Should not be read as advice. For illustrative purposes only and assumes no gains or losses on investments. Tax reliefs are not guaranteed, depend on an individuals' personal circumstances and a five-year minimum holding period, and may be subject to change. Investors should take independent tax advice. Read key risks on page 13.

CASE STUDY

Meet Robert

Robert is a high earning dentist. He has accumulated significant Individual Savings Account (ISA) savings and pays large amounts into his Self-Invested Personal Pension (SIPP) each year. As he is restricted in what he can pay into his pension, he is looking for other tax-efficient options to invest his income.

With a high annual tax bill, a substantial tax-efficient pension and ISA investments already, Robert is interested in other government-backed ways to reduce the amount of income tax he pays. He would consider investing in UK smaller companies with the associated investment risk.

The solution

Robert talks to his financial adviser, who makes an assessment based on his risk profile, attitude towards investing in smaller companies and his target investment time horizon. Given this, his adviser suggests investing £25,000 of his annual income in a VCT.

With a VCT investment Robert can claim up to 30% income tax relief on investments up to £200,000 in each tax year, provided he holds the VCT shares for at least five years. After five years and subject to the liquidity of the VCT shares, Robert could sell his first VCT investment, then reinvest any sales proceeds in another VCT and use the additional income tax relief to reduce his year six income tax bill. Similarly, Robert's year two VCT investment could be sold and reinvested in another VCT in year seven, giving him additional income tax relief, and so on.

Other tax benefits of investing in a VCT include tax-free dividends, which could provide an additional source of income, as well as no capital gains tax to pay when he sells the shares. The tax refund can be claimed as soon as he receives his Income Tax certificate from the VCT's share registrar.

On the right we show how Robert plans to claim income tax relief from each VCT investment he makes across consecutive tax years. We have used seven years as an example but he could use this method to keep claiming income tax relief indefinitely. This is, of course, subject to certain conditions including the requirement to hold the VCT shares for at least five years in order to retain the 30% upfront tax relief and subject to being able to sell VCT shares which can be illiquid. Please note that when selling shares in a VCT, Robert cannot claim tax relief on his new shares bought in the same VCT within six months of the sale date.

Using Venture Capital Trusts to reduce income tax

In year six, Robert plans to sell his first year's VCT investment which should not incur any tax liability. By investing the proceeds of the sale into another VCT, he will be able to use the capital from his first year's investment to claim further income tax relief. Robert plans to sell the second year's VCT investment in year seven. By reinvesting sales proceeds again in year seven and in subsequent years, Robert could continue to use this cyclical approach to claim 30% income tax relief on his new investment each year, without having to invest more than his initial allocation of £25,000 per year, over the first five years.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
VCT Investment	£25,000	£25,000	£25,000	£25,000	£25,000	Re-invest sales proceeds from the original £25,000 VCT investment made in year 1	The amount will vary depending on how much Robert can sell his shares for
30% Income tax credit	£7,500	£7,500	£7,500	£7,500	£7,500	30% income tax credit	30% income tax credit

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Things to consider

Is a VCT right for you?

VCTs are usually more suitable for experienced investors who already have a balanced portfolio of other investments and who understand the risks associated with VCTs . If you aren't sure whether VCTs are right for you, consider taking independent financial advice.

What type of VCT should you choose?

Generalist VCTs invest in a wide range of companies in different sectors. In contrast, specialist VCTs invest in particular sectors, such as technology and healthcare. AIM VCTs invest mainly in companies quoted on AIM or other similar markets.

How long can you invest for?

VCTs should be long-term investments. If you think you'll need to withdraw money in the early years, you should not invest in VCTs. Remember you have to hold on to your VCT shares for at least five years to qualify for the tax relief.

What happens to VCT shares on death?

On your death, your VCT will form part of your estate. However, your estate will not have to repay any upfront income tax relief already claimed if you die within five years of investing in a VCT. Any dividends payable will still be tax-free, and there's no capital gains tax to pay when your beneficiaries choose to sell.

Charges

VCTs often have higher running costs than other investment companies, so you may pay higher fees. For example, there's a need for greater diligence when choosing which companies to invest in. When an investment is sold there's a need to find buyers and negotiate prices.

This document was published in December 2022 and all figures are quoted as at 30 November 2022, unless otherwise stated.

Get in touch

We're here to help

INVESTORS

We recommend you speak to a Financial Adviser in the first instance, as we cannot offer investment or tax advice.

If you have any other questions contact us on **020 7408 4100** or email us at **investorsupport@pumainvestments.co.uk**

ADVISERS

Our expert national Business Development team are here to help, and would be happy to discuss any of our offers in more detail with you either by phone or by visiting your offices.

Contact us on **020 7408 4070** or email us at **advisersupport@pumainvestments.co.uk**

For further information, please visit **www.pumainvestments.co.uk**

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