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1.	Do a material number of firms in the UK lack the long-term finance that they need to scale up successfully?	It is important to distinguish between high growth knowledge based firms which require capital investment and the vast majority of SMEs which are able to rely on Bank debt, invoice discounting, asset finance and increasingly peer to peer lending. Our experience lies primarily with high potential knowledge based firms which represent a tiny proportion of the overall start-up population but nearly half of all new employment as these companies mature. Importantly, these companies are likely to create a disproportionately large number of high wage tax paying jobs. It is clear to us that there is not nearly enough capital available to support such companies. The result is that they tend to ask for what they think they get rather than what they actually need. This results in numerous financing rounds which are a distraction of management time and result in sub-optimal performance.
2.	Where is the gap most acute by type of firm, stage of firm development and amount invested?	Our experience lies primarily with start-ups through to companies seeking up to £5 and occasionally £10 Million. There is certainly a big shortfall of capital in the £500K - £5 Million range. We know from those companies which have successfully raised money that they have generally found the process difficult and time consuming and that they have often not been able to raise as much as they need to achieve their objectives. What we do not know is how many companies have simply given up trying because they have found the process too difficult. Anecdotally, we think that a significant number of companies have failed to get past the embryonic stage because they have been unable to access the capital they need. Most of the Angel Finance is taken up with follow-on rounds, leaving very little for new start-ups. There may be an arrangement for increasing the SEIS limit to try and address this issue.
3.	Have we correctly identified the UK's current strengths in patient capital?	Yes. We identify EIS/SEIS, VCTs and ECFs as the key successful policy initiatives. We work very closely with a number of Business Angel Syndicates and we are quite certain that this market

		is very substantially, if not wholly, dependent upon the available tax reliefs. Over the years a syndicated model of Business Angel investment has evolved in Scotland which has been very successful and offers a more co-ordinated approach than the "network" model which is currently prevalent in England. The Syndicate model could and should be more widely adopted as it would be a good way to attract more capital into the market and improve overall investment and company performance. We think this divergence of practice has happened for the following reasons:- • The Scottish syndicates are all lead by successful entrepreneurs who undertake transactions on a properly co-ordinated basis. They are interested primarily in making successful investments rather than in making money out of the investment process. This enables more effective due diligence, sharing of risk, more effective monitoring of portfolio companies and a better all round result for all parties. The networks on the other hand appear to be run either by public sector agencies or by financial intermediaries who make money out the process rather than out of a focus on successful investment; It should be noted that substantial amounts of time is often committed by members of Business Angel Syndicates to assist portfolio companies. This is not fully accounted for although it can have a significant positive impact on performance. • There is also a regulatory issue which would be easy to fix. Article 51 of the Financial Promotion Order 2005 (the "FPO") gives an association of high net worth individuals the right to exist but it does not say what it can do. This does not sit comfortably with the provisions of the Regulated Activities Order 2001 (the "RAO") which results in "form without the function". We do not see any need for a Business Angel Syndicate to be authorised unless it is also running a "sidecar" fund and it should be made clear that the relevant provisions of the RAO do not apply to a Business Angel Syndicate which exists under Article 51 of the FPO.

		Any new regulations should take account of current Business Angels Syndicate structures and not impose unintended regulations on syndicates which operate effectively without charging members the fees that would be necessary to meet the compliance costs of regulation. There should be an easier way of enabling well informed private investors to invest without breaching the regulations. Some concessions have been made for crowd funding platforms but friends and family investment remains technically in breach of the regulations and not all well qualified investors may meet the FPO criteria. Could a de minimis level be applied together with some statutory declaration/waiver in relation to the investor's decision to invest.
4.	In what order would you prioritise the UK's weaknesses in patient capital?	• We agree that the difficulty in obtaining substantial rounds of follow on funding is a major problem. One of the issues is that Business Angels are frequently reluctant to agree to follow on rounds with Venture Capital Investor Preferences. • It is clearly of critical importance that any shortfall of funding arising from the withdrawal of the EIF from the UK market is made good so that we do not end up in a worse position as a result of Brexit. • We also agree with your assessment that the market requires an additional £3/6 Billion of funding a year on the assumption that the EIF shortfall is made good. • This coincides with a research report which was carried out for The Royal Society of Edinburgh in 2014 - https://www.rse.org.uk/wp-content/uploads/2016/09/AP14_06.pdf. That report did not provide a specific figure but the working group involved in producing the report felt that the Scottish market required between 3 and 5 times the amount which is currently being invested excluding the two very large investments which were made into Edinburgh's two unicorn companies.

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5.	What are the main root causes holding back effective deployment of and demand for patient capital?	• We believe that there must be potential to secure significantly more EIS investment. The main issue here is that the IFAs and wealth managers who are the gatekeepers to this vast pool of potentially available wealth are unable to recommend this type of investment and will steer clients away from it because it reduces their earnings from their Funds under Management. They also cite compliance issues in relation to investment risk. • At the institutional level the problem arises partly through aversion to risk and partly through the inability of institutional funds to manage small "pots" of money economically. However, we understand that the major venture capital houses in America who have financed so many of our recent successful global companies obtain their Commitments largely from institutional investors. • It is worth noting that, according to the quarterly report produced by www.cbinsights.com, approximately half of the venture capital invested globally is invested in America, about 35% in Asia (principally China and India) and only 15% in Europe.
6.	What are the main barriers holding back effective supply of patient capital by major investors?	As above.
7.	Which programmes (investment programmes, tax reliefs and tax-incentivized investment schemes) have most effectively supported the investment of patient capital to date?	• Based on the figures in the review and our own knowledge of the market, EIS/SEIS is now by far and away the biggest single and most effective intervention. • We have also been involved in setting up 7 ECFs and are currently working on another two. The ECFs are an ingenious and cost effective way of bringing additional capital into the market, at the same time avoiding the problems of moral hazard and postcode investing which were associated with the Regional Venture Capital Funds.

		• We are very heavily involved in EIS/SEIS investments into start-up and early stage technology companies. The investors will frequently have to commit to three of four subsequent rounds of investment and this investment is substantially or wholly dependent upon the available tax reliefs. It should also be noted that the companies concerned would not have got started without investment and it should be possible to demonstrate on an ongoing basis that the payroll taxes paid by the portfolio companies of a Business Angel Syndicate are likely to substantially exceed the amount of EIS relief given to investors in any tax year.
8.	Are there areas where the cost effectiveness of current tax reliefs could be improved, for example reducing lower risk 'capital preservation' investments in the venture capital schemes?	The companies and the investors we work with are, without exception, involved in bona fide investment without any attempt being made to create artificial structures for the purposes of capital preservation or additional tax relief. Our clients, both companies and investors, aim to stay both within the letter and the spirit of the regulations and we would have no objection to the rules being tightened to avoid artificial schemes.
9.	Are there other ways the venture capital schemes could support investment in patient capital, in the context of State aid restrictions and evidence on cost effectiveness?	• Within the context of cost effectiveness, we think it is essential that the Treasury should evaluate not only the direct cost of providing the tax relief to investors, but also the additional payroll taxes which are created as a result of such investments. We believe that the existing schemes all work well and should be developed. • You may wish to consider whether the regulations should be changed to enable EIS funds to be established as conventional funds rather than as virtual funds. We think that it is difficult for small sub-scale EIS funds to perform properly without a disproportionate amount of the investors' capital being absorbed in management fees. However, if such funds could be established as conventional funds it would help to facilitate the creation of larger funds with appropriately resourced management teams. If it was possible for existing Business Angel Syndicates to establish "side car" funds without the burden of regulation, we think this would be a useful innovation.

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10.	When is it more appropriate for government to support patient capital through investment rather than through a tax relief?	It would appear from the review that EIS relief is the most effective intervention at least in terms of bringing new investment into the market. However, the ECFs appear to very cost effective and there is certainly room for both in the market as they sit comfortably alongside each other.
11.	Is there an optimum minimum length of time of investment for entrepreneurs and investors to focus on the long-term growth of their company and, if so, what is it?	As you have observed in the Review, there is a tendency for UK companies to exit earlier than American ones because of the challenges associated with subsequent rounds of funding and IPOs. The BGF has indicated that it is able to offer exits to Business Angels and partial exits to entrepreneurs as part of a funding round. This may be part of the solution but it is not widely known in the market.
12.	What other steps could government take to make current tax reliefs more efficient and effective, to provide the best support in line with their policy objectives?	• It would be helpful if you could also resolve the RAO/FPO issue as this would help to facilitate the creation of more Business Angel Syndicates. • We believe that IFAs and wealth managers may be reluctant to make clients aware of EIS investment because of the perceived risks and compliance issues. It would be helpful if this could be resolved. • We think it would be worthwhile exploring the concept of conventional EIS Funds which may help to bring more capital into the market. • The technical interpretation of EIS rule must not undermine the intended purpose. We have seen examples of "mission creep" where the consequences of a technical point of interpretation were not predictable, denied relief in bona fides situations and appeared contrary to the intended policy. For example (i) prejudicial effect on EIS relief if an investor buys shares from another shareholder on arms' length terms in pursuance of his transfer pre-emption rights and (ii) employees being granted "growth shares", allowing them a

		share of the sale proceeds based on a sliding scale but inadvertently prejudicing investors' EIS as ordinary shares are then deemed to have a preference. • The EMI limit should be reduced below 5%.
13.	What scale of new investment should the government seek to unlock and over what timeframe?	• It is critically important that any gap left by EIF leaving the market is filled so that we do not find ourselves in a worse position as a result of Brexit. • Beyond that, we believe that ideally an additional £3/6 Billion a year should come into the market. There is also a real need to see this additional capital spread more evenly across the regions and <u>not</u> concentrated on London. There is talk of a Scottish National Investment Bank but it is currently little more than an idea. • We think it is better to maintain and develop the existing range of policy interventions rather than try a "one size fits all" solution. Regional Investment Banks such as SNIB may assist provided they do not duplicate the excellent work currently being done by BBB and BGF. • We should also point out that investment in new renewable energy projects has been seriously negatively impacted by the removal of other incentives.
14.	Should resources be focused on one intervention (e.g. a single fund of significant scale) or spread over a number of different programmes?	There may well be a good case to be made for a new National or Regional Investment Fund(s) to be run by the British Business Bank to replace the funding gap left by EIF and possibly bring additional funding into the market. However, this would clearly be a long-term project and existing interventions should continue as we do not believe that there is a "one size fits all" solution. It is critically important to ensure that current investment levels are maintained during the Brexit process.

15.	When considering how to replace EIF investment if the EIF were no longer an investor in the UK, to what extent should the government seek to replicate the EIF's current activities in (a) venture capital and (b) private equity?	In our view, private equity is a commercial activity which ought to be able to stand on its own feet without direct Government intervention. The real need is to ensure an adequate flow of venture capital to finance innovative new businesses but this is best administered in partnership with private investors, as with ECFs.
16.	Beyond replicating existing EIF investment if required, what areas should government focus on to increase investment in patient capital?	• Government should be looking for ways to facilitate more investment by pension funds into new venture capital funds. The ECF model is a good example of how this could be done. It is possible that some pension funds might be willing to adopt the ECF model and take preferred Commitments in new venture capital funds in exchange for a lower risk profile. • We understand that approximately 30% of all income tax is paid by about 1% of all income tax payers. However, only a small proportion of higher rate income tax payers are involved in EIS investment. We therefore think that it should also be possible to attract much more private capital into the EIS market but an effective way must be found of engaging with the IFAs and wealth managers who currently act as an effective barrier to unlocking this capital.
17.	When considering how to support increased investment, should the government consider supporting one or more of the setup of a public-private partnership, a new incubated fund in the BBB to be sold in part or full to private investors once it has established a successful track record and a series of private sector fund of funds to invest in patient capital?	This sounds like a longer term initiative which may well have its place. However, with Brexit uncertainty, we think that Government should be doing all that is required in the short term to maintain an adequate flow of capital to innovative young companies through existing policy interventions which should be maintained and developed.

18.	If desirable, what steps should government take to encourage investors to form a new public-private partnership to increase investment in patient capital?	This is a long-term project for discussion with institutional investors to assess their appetite for risk and develop an appropriate structure. In the meantime, it is critically important to our entrepreneurial eco-system that the existing flow of capital is not diminished in any way.
19.	What steps should the government take to support greater retail investment in listed patient capital vehicles?	• You may wish to consider whether it would be appropriate to enable the creation of EIS funds using a conventional fund structure. This would help to facilitate the creation of larger funds which would be able to support stronger management teams. This would in turn help to bring more capital into the market and would hopefully help to produce better outcomes for all parties. • It would be helpful to resolve the RAO/FPO regulatory point to facilitate the creation of more Business Angel Syndicates. • You should also assess whether it is possible to make IFAs and wealth managers at least aware of the EIS market without encountering compliance issues.
20.	Will focusing resources on increasing investment provide better value for money than changes to the tax environment?	Apart from considering the possibility of EIS Funds, we do not think that any big changes need to be made to the tax environment although EIS investment will rapidly evaporate if the tax relief is diminished or withdrawn, with attendant consequences for our Tech Eco System.
21.	Beyond measures already being considered to support more effective asset allocation decisions by DB pension funds across their portfolio of investments, what further steps should be taken to support investment by DB pension funds in patient capital?	For discussion with institutional investment managers. Pooling of assets across smaller DB Pension Funds might help to facilitate the allocation of more capital to this asset class.

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22.	How can individual DC pension savers be best supported to invest in illiquid assets such as patient capital?	It is very difficult for SIPP investors to invest in this market and you should assess what regulatory changes need to be undertaken to facilitate such investment.
23.	Are there barriers to investment in patient capital for other investors that the government should look to remove?	We think there may be some evidence of a recovery in the corporate venturing market. It may be appropriate to consider the renewal of some form of Corporate Venturing tax relief to facilitate more corporate investment.
24.	What steps should government take to support the next generation of high potential fund managers to develop their knowledge and skills and to raise their first or next fund?	We are very impressed with the teams who have come together to manage the ECFs with which we have been involved and mandates are awarded by BBB only after extensive due diligence on the management teams. Typically they involve a mix of skills involving successful entrepreneurs, investment managers, people with relevant domain experience and regulatory/legal/accountancy experience Training is high on the agenda of the UK Business Angels Association and it is something which should be left to private sector organisations such as BVCA, UKBAA and EISA, other professional bodies and possibly University Business Schools.
25.	What further steps, if any, should government take to increase investment into university spin-outs specifically?	This is a big subject on its own as we encounter a large gradient of ability and enthusiasm across the University networks. The ownership of IP in particular is one area which holds back commercialisation by those institutions which take too restrictive an approach. There are two very successful programmes operating in Scotland:- • www.convergechallenge.com aims to identify and nurture the best of the spin-out and student start-up companies emerging from all of Scotland's universities. They are given business training and there is a business planning competition with a substantial cash prize which helps those involved to move on and obtain their initial funding; and • www.eie-invest.com is an early stage investment conference which now attracts about 1,000 delegates with investors from all over the world listening to pitches from our best early stage companies.

		These are both university initiatives and there is much more which the universities themselves could do to replicate this type of initiative on a regional basis.
26.	What further steps should be taken to increase investor capability in the public markets to invest effectively in firms requiring patient capital to grow to scale?	As the world's biggest investment management companies turn increasingly to ETFs and other algorithmic investment products, we think that there must be scope for "human" investment managers to deploy their investment management skills to the analysis of smaller, younger companies where they could make a real difference. As you have identified in the Review, the UK lags well behind America in terms of young company IPOs. One of the reasons given is that our investment analysts and managers do not have the "bandwidth" to analyse and track small companies. If it was possible to deploy some institutional capital into investment trusts set up specifically to invest in AIM listed companies, that may be part of the solution.

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