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The Structure, Governance and Performance of UK Venture Capital Trusts

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Abstract

Venture Capital Trusts (VCTs) are publicly traded venture capital companies in the UK. Since their inception in 1995, 71 VCTs have been launched, collectively raising more than £1.4 billion (as at November 2002). Investors have tax incentives to contribute capital to VCTs; in exchange, VCTs agree to be governed by statute. In this paper we argue VCT statutory governance mechanisms are less efficient than contractual governance among private venture capital limited partnerships. In support of this view, the available evidence is suggestive that VCTs have underperformed relative to other types of venture capital funds in the UK. Despite this apparent underperformance, in 2002 the British Venture Capital Association (BVCA) lobbied for statutory changes to facilitate VCT fundraising efforts through the expansion of allowable tax-exempt contributions, among other things. The available evidence on VCTs to date, alongside similar evidence from a comparable type of tax-subsidised public venture capital fund in Canada, is suggestive that these changes are not justified. A significant amount of

further empirical research on VCTs and related public venture capital schemes in the UK is warranted before legislative changes expanding the scope of VCTs are adopted.

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