

UK Small Companies ISA

Stimulating investment in the UK economy

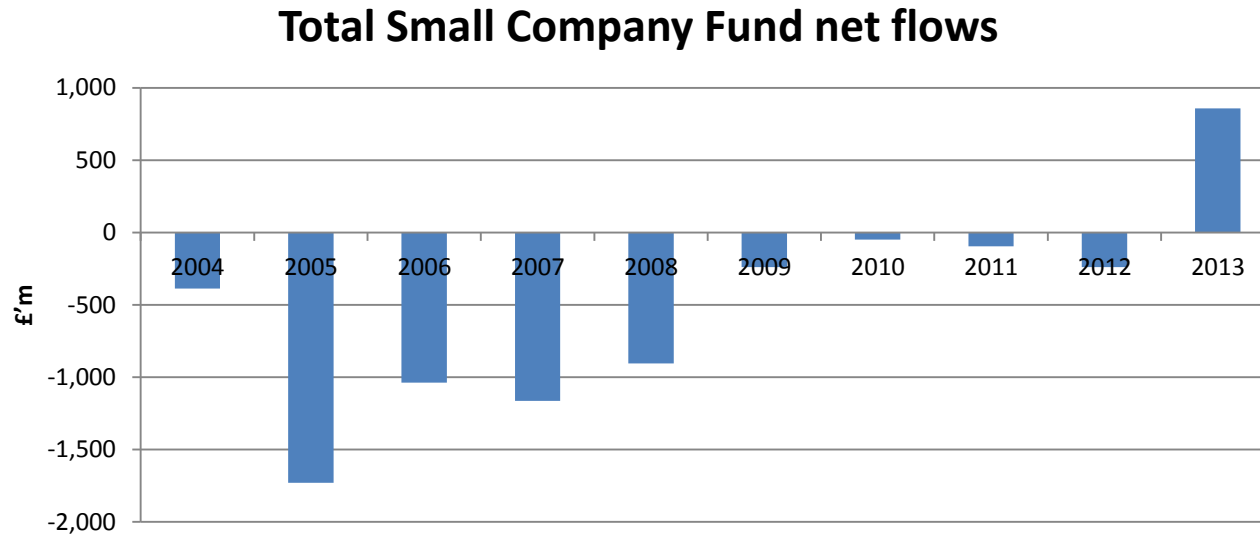
Robin West

Small Cap - a difficult sector to sell

- Between 2004 and 2013 £5.1bn was withdrawn from UK Small Company Funds^{*1}
- 2013 was the first year in the last 10 years to see net inflows into UK Small Company Funds
- Small companies are over-looked by many investors due to perceptions of higher risk and volatility

**1 source IMA*

Sector seen consistent outflows



Why the government should care

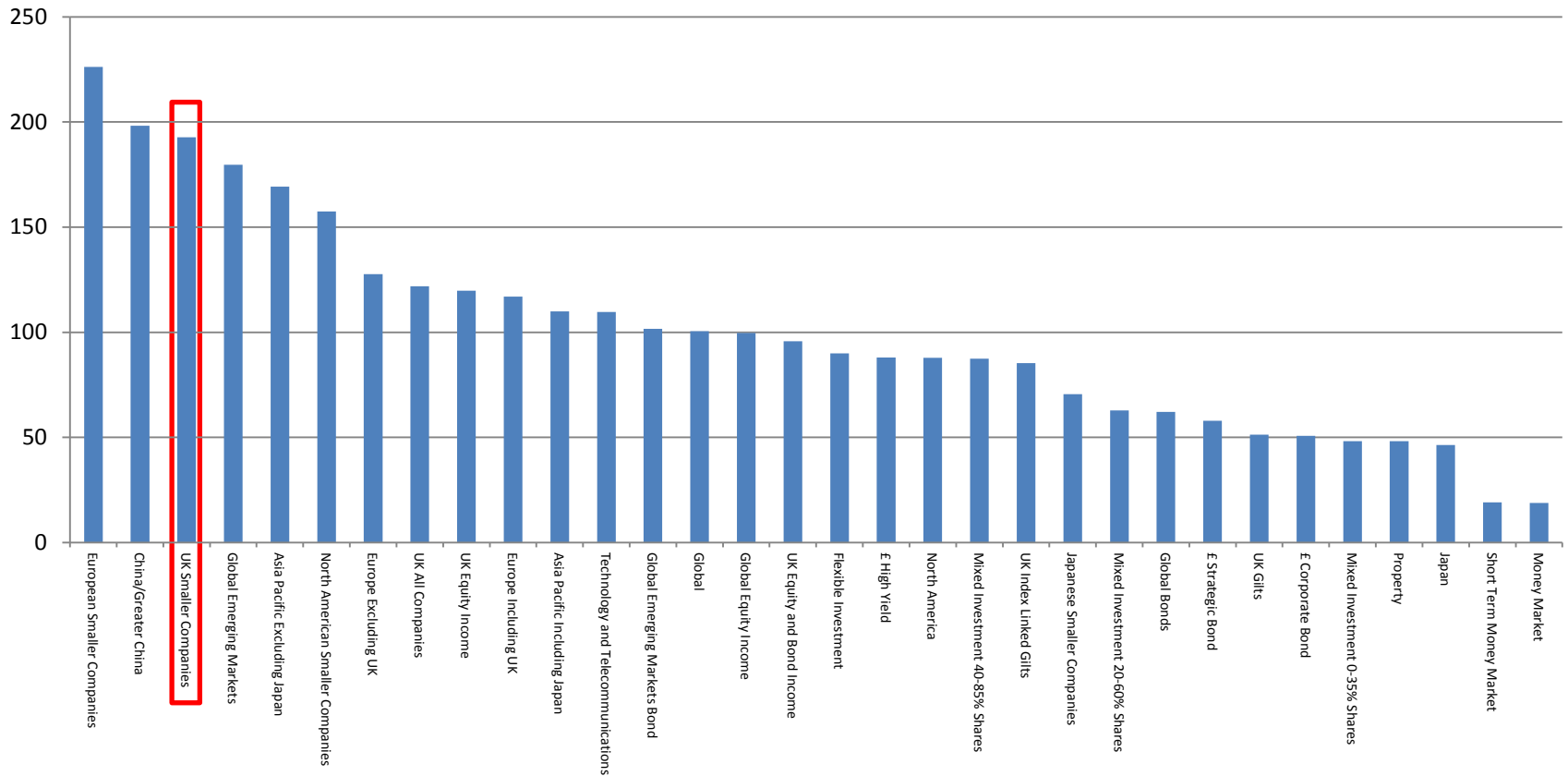
- UK Small Companies are key to the health of the UK economy - they create UK jobs and invest in their UK assets.
- Small companies need support from institutional investors to provide capital for growth.
- Without a strong Quoted UK Small Company sector, British companies will be acquisition targets for overseas companies or IPO on overseas stock exchanges.
- Helps keep UK innovation owned and exploited by UK businesses.
- Minimal tax impact as low interest rates mean low taxable income on individual's surplus cash.

Why investors should care

- UK Small Companies are one of the best performing global asset classes over the last 10 years.
- But investors clearly need a further “carrot” to encourage investment e.g. tax incentive.

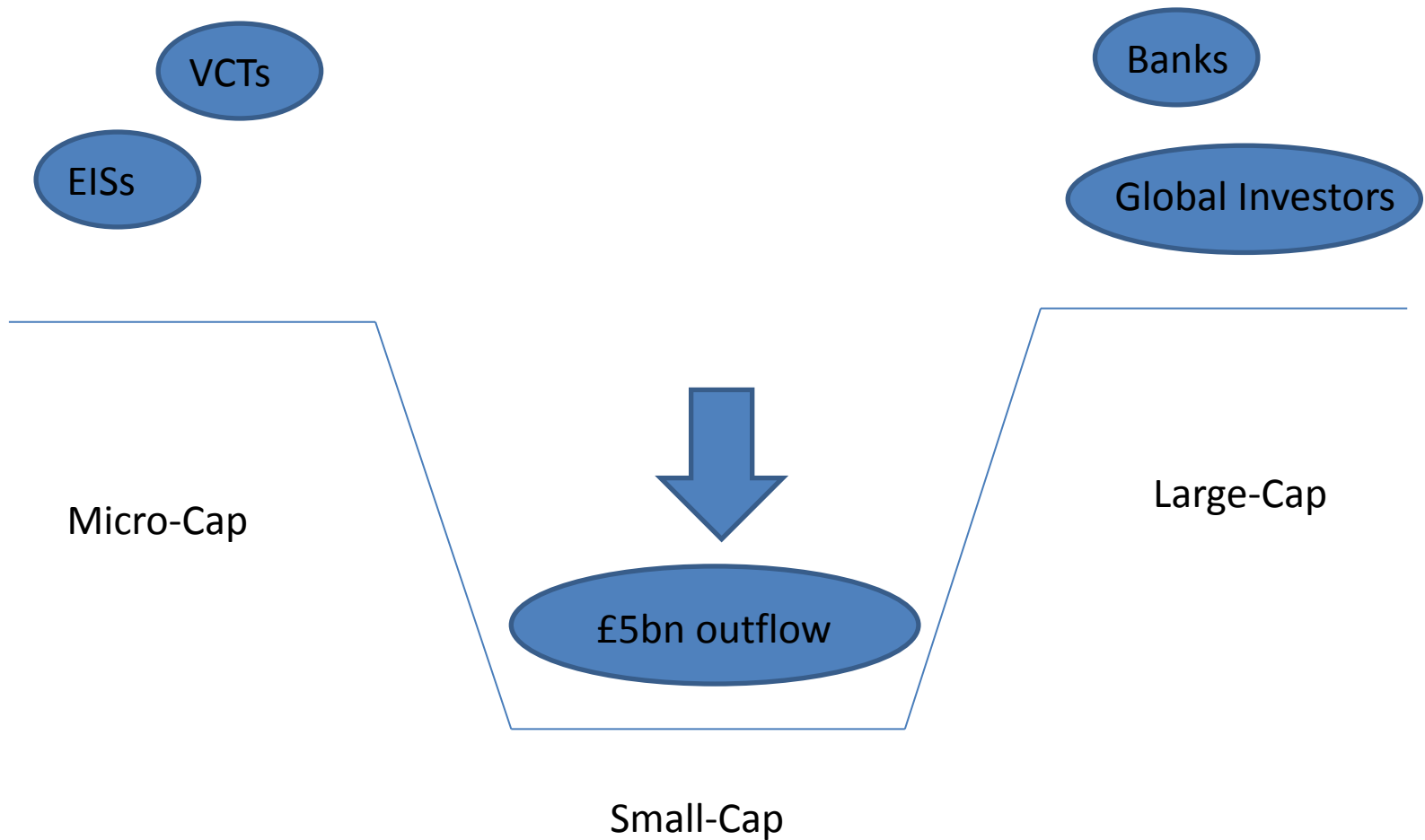
Sector attractive for long-term investors

Percentage Growth over 10 years



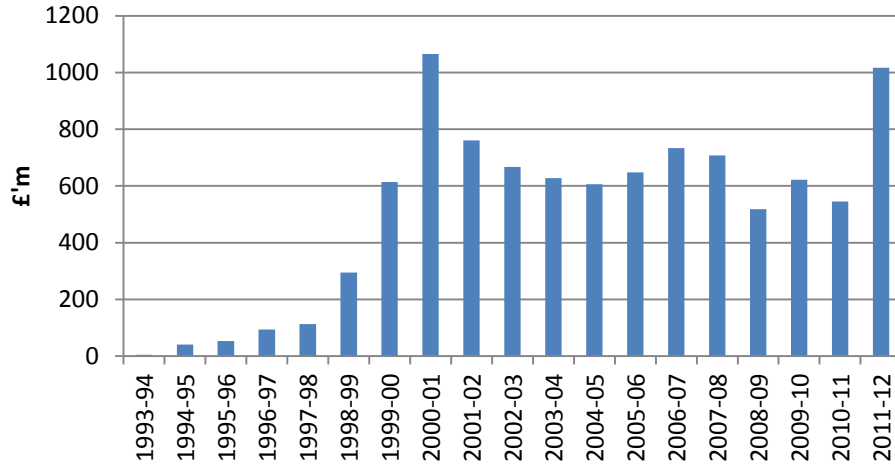
Source: IMA 10 years to Jan'14

Bridge the funding gap

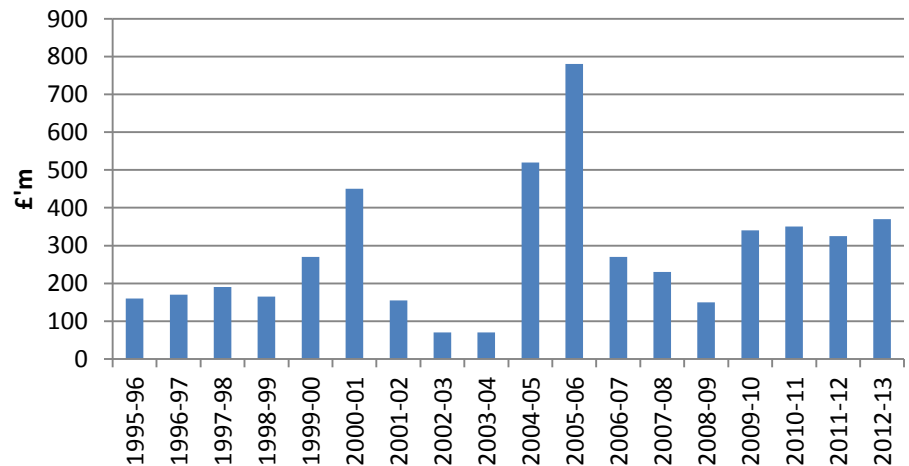


Tax incentives work for small cap

EIS Funds raised



VCT Funds raised



Tax incentives work for small cap

- VCTs and EISs support micro-cap businesses (sub £15m market capitalisation)
- EISs have raised £8bn over the last 20 years (£1bn in 2013)
- VCTs have raised £5bn over the last 18 years (£370m in 2013)
- This compares to £11bn currently held in UK Small company Mutual Funds and the £5bn withdrawn over the last 10 years

Proposal: UK Small Company ISA

- Create a further ISA allowance of £[15,000] that can only be invested in UK Small Companies or eligible UK Small Company Funds.
- Only investors who have fully utilised their normal ISA allowance would invest in a UK Small Company ISA. By inference these investors will have sufficient spare capital to take the longer term investment horizon required by such a product.
- Will appeal to investors who use VCTs and EISs – although would be less generous tax incentives reflecting the somewhat lower risk than micro-cap companies.
- Define small companies as bottom 10% of the UK market.