We are aware of a practice among some Venture Capital Trusts (VCTs), but which could equally happen in other investment companies, where key employees of the investment manager are permitted or obliged by their employer the investment manager to co-invest in the equity of the investee company alongside the VCT. Many view these arrangements as a good way of incentivising employees by creating an alignment of interest between the employees making the investment on the VCT’s behalf and the fund itself. However, others argue the VCT loses out to the manager’s employees as the VCT cannot invest its full ‘quota’.

Regardless of the commercial rationale, investors must be able to form a view on these arrangements based on clear and adequate disclosure. Accordingly, when a VCT (or indeed any other listed fund) producing a prospectus has these arrangements in place or where a listed fund produces a circular seeking authority to establish these arrangements, we will seek to ensure full and balanced coverage of the arrangements.

Listed VCTs or any other listed fund that considers introducing these arrangements should bear in mind that in most cases key employees of the manager will be treated by the UKLA as ‘person(s) exercising significant influence’ for the purpose of LR 11. Unless an exemption is available, establishing these arrangements will be a classifiable related party transaction. Where co-investment actually occurs and the arrangements are such that employees have no discretion whether to invest, and must invest on the same terms as the VCT, then we may deem the investment not to be a related party transaction. In other cases, each time an investment is made, class tests will need to be run to establish what action the company should take.