ROUNDTABLE

An adviser discussion on EIS and SEIS, covering:

- Best of both worlds: advisers get wise to EIS returns
- Picking the right investments
- Due diligence
- SEIS set to "boom"
- Regulation and insurance
- Pension curbs place EIS and SEIS in the spotlight

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Lucius read Engineering Science at Trinity College, Oxford and then did an MBA at Harvard Business School. He founded his first business in 1972. Then a second, Venture Capital Report, in 1978, and then OTM in 1983.

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Best of both worlds: advisers get wise to EIS returns

The tax advantages of using EIS and SEIS are starting to take a back seat as advisers and their clients are attracted by the returns offered by alternative investing.

At a GB Investments EIS roundtable in London, advisers and alternative investment providers, made it clear that EIS and SEIS were no longer primarily used as tax planning tools.

While there are obvious tax advantages to investing in both EIS and SEIS, which both offer income tax relief at 30% and 50% respectively, as well as capital gains tax (CGT) relief and CGT deferral, there was a strong attraction to the returns and personal nature of investing in early-stage companies.

Mark Brownridge, Director General of the Enterprise Investment Scheme Association (EISA), said the tax reliefs could sometimes be a hindrance to the other benefits the investments bring.

However, he believes the improvement in the investment returns of these types of investments are starting to speak for themselves.

'The tax reliefs don't help EIS sometimes,' he says. 'The investments are powering through now. Five or 10 years ago, the investment story wasn't so good.'

For Anna Sofat, Founder and Managing Director of London-based advice firm Addidi, it is always about the investment. In fact, Sofat is so keen on early-stage investing, she started up her own angel investor group exclusively for female clients called Addidi Enterprise.

Sofat encourages investors and clients to look beyond the tax benefits of investing through an EIS or SEIS structure.

'If there's one message from me; it's for goodness sake, don't focus on [the tax benefits],' she says.

She adds that 'a section of our client base will be really attracted' to the tax elements but maintains that if clients invest purely for tax reasons then they will find themselves with investments they may not wish to hold.

'No amount of tax relief [can] compensate for that disconnect on what we were advising on [and the end result in terms of investment],' she says.

Sofat says when it comes to advising clients on alternative investments there should not be an emphasis on either the tax advantages or the high-risk nature of the investments, both of the elements of EIS and SEIS that clients tend to focus on. Sofat says clients need to look at the middle ground between tax relief and high-risk investment.

'You appeal to the greed with tax relief, within that the sensibility in the middle is lost,' she says. 'At the other end is fear [of the investments]. You really want the middle bit, a sensible, reasoned case for investing.'

Personal touch

It is not just the investment returns that are drawing advisers and clients to alternative investments, but the ability to get underneath the skin of the company being invested in and take an active interest. Gone are the days when all clients were happy to be put into a fund, the information age has made it easier than ever for clients to do their own research and make informed decisions about where they want their money invested. Putting money into early-stage investments is a good way for many clients to engage with their investments, with the rise of peer-to-peer lending helping to normalise this direct style of investing.

This could explain the growing popularity of EIS investments, which continue to raise an increasing number of funds.

Since EIS was launched in 1993/94 a total of 24,620 individuals companies have received money, and almost £14.2 billion of funds have been raised, according to EISA.

Figures for 2014/15 show 3,265 companies raised a total of £1.8 billion, compared with the £1.5 billion raised by 2,840 companies in the previous year. Of the companies that raised money in 2014/15, 1,660 were raising funds for the first time and raised a total of £1 billion.

In 2014/15 the business service sector accounted for over £600 million of investment, one third of all the EIS funds raised that year. London and the South East accounted for the largest proportion of investment geographically, receiving 65% of investment in 2014/15.

Gary Collins, Managing Director of film investment company Red Rock Entertainment, says it is not just the returns that attract investors to the film industry but the chance to take advantage of other perks.

'We're in a more unique position from a film point of view. We try to encompass a lot more engagement,' he says. 'I [have] had people on set, they were being extras [in a film] in fact. Once they've invested in one film, we invite them to screenings of other films, [to have] photographs with the star...we get them to meet them. They wanted to put money in [to films].'

He says one investor was a fan of the now-deceased John Hurt, who starred in many films including playing John Merrick in The Elephant Man, and the actor had dinner with them.

'We like to engage people as much as possible,' says Collins. 'We have seminars, [with] actors, directors and producers [there]. There will be a film accountant who will talk about the tax side of it [but] I tell my staff: 'you don't sell this for the tax benefits'.

'That's an additional [tax] benefit to help protect your investment. I tell them not to talk about the relief. It's in the paperwork and they see it, but you don't say: 'you're covered if you lose money'. That's the wrong way to get people to invest. We look at each film we do and we genuinely believe each one will make money because of our [investment-picking] criteria.'

Lucius Cary, Founder and Managing Director of Oxford Technology Management, which specialises in investing in start-up and early stage technology companies, says often investors will put money into companies that have a personal relevance or interest to them.

He gives the example of Combat Medical, an Oxford-based company which has developed a better treatment for bladder cancer.

'People ring up wanting to invest,' says Cary. 'They're not after a return, but their father may have died of bladder cancer...We had [a company] called Curileum, looking at diseases of the gut. It didn't achieve its business plan.

'It needed to raise more money and it got beyond the point where we could finance it ourselves. We sent out an email to our investor group and that business was oversubscribed within a couple of days. We had to turn down investors who had sent cheques [to us].'

Sofat's angel investors have a large part to play in the picking of investments, studying business plans submitted by companies and making the decisions about where the angel money is invested, starting at £20,000 each.

'The members make the decisions,' she says, although she adds that the women do not have lots of time to trawl through all the business ideas so they have to be narrowed down first using a criteria.

Picking the right investments

Research is not just a problem for clients but also for advisers who want to put their clients into alternative investments. There are some concerns that advisers are not accessing enough, or suitable, information about EIS and SEIS to make a decision.

Daniel Rodwell, Managing Director of GrowthInvest, a platform which allows advisers to access alternative investments for their clients, says it is a 'mixed bag' when it comes to adviser understanding of the alternative investment market.

He says some advisers understand the entrepreneurial spirit needed to invest in early stage growth companies but others do not, or are unhappy with the risk levels.

'Coming historically from a single company-focused background, we have always been focused on the growth side of things,' he says.

'Some advisers are more entrepreneurial, and they have clients who understand the risks so they purely want growth assets. Other people want low-risk investments, whether single companies or growth-focused platforms more akin to capital preservation products we've seen historically.'

The good news is that there is a growing bank of data for advisers to consult when picking alternative investments for their clients, and technology is playing a large part in helping advisers gain access to that information.

'As well as our own due diligence, there are an increasing number of independent analysts in the market,' says Rodwell. 'In our view, the more the merrier...as these help increase competition and give advisers and clients the reassurances they need. In terms of accessing and comparing different offers in the space, we're trying to use technology to give advisers a level playing field.'

He says a wide range of alternative investments are now available alongside funds and 'we have highly

skilled people…enabling advisers to access all of those and view the multitude of independent reports out there'.

Anthony Villis, Founder and Managing Partner of First Wealth, an advice firm in London, says a level-playing field is needed to ensure advisers can compare 'apples with apples'.

Brownridge says the task for professional bodies is to try and filter the information into a format that makes it easier for advisers to make those comparisons.

'In the traditional platform space they go to town on giving information on how to compare and contrast,' he says. 'It's trying to get that information out there in a format [advisers] can digest. That's our challenge.'

Rodwell replies: 'There is an environment to compare and contrast established managers with new managers with certain skills and sector focus, set all on a level-playing field…that's what we're trying to do in this space.'

GrowthInvest has seen more interest in alternative investing from the adviser community but Rodwell says there was a lot of education that needed to happen, particularly around SEIS.

'We spent a number of years educating the market and overall take up wasn't quite as we'd hoped,' he says. 'Now we see more interest in SEIS, partly because there is starting to be a bit of data on performance… there's a definite change of attitude.'

Brownridge adds that 'it's now easier to filter through the data to get quality investments'.

Due diligence

Research and due diligence are key for advisers recommending higher risk investments and providers are keen to highlight the robustness of their due diligence processes.

Cary says his company ensures it has robust due diligence processes by taking a 'common sense' approach and only investing in 'novel science within an hour's drive of Oxford'.

'We get about 100 things a year that are possible to invest in. We're interested in the science…we only make about five investments a year,' says Cary.

One of those investments is Designer Carbon Materials, which manufactures different endohedral fullerenes, carbon C60 cages with an atom of another species inside. Cary says the £70,000 investment made by Oxford Technology made was 'really high risk' since, at the time the application for these novel materials was not known. However 'if the business fails, the SEIS tax reliefs mean that the overall losses will be only about £20,000 after tax reliefs. So this is not too much to risk - that is the point of the SEIS scheme.'

'It's now going well,' he says. 'The first sale £22,000 for 200 micrograms of N@C60, which is a price of more than £100 million per gram. This led to newspaper articles round the world - Oxford scientist makes most expensive material on the planet. '

In future the material could be used to make an atomic clock that would fit on a phone and make GPS accurate to 'a couple of millimetres' and be used in self-driving cars.

'We're very up-front: we make the highest risk investments…in the UK,' says Cary. 'We do reports each quarter on all the investments, including the failures. The investors really like that. We also have meetings where the companies present and the investors can meet and talk to them.'

Villis says he 'looks for the track record, [and] who the people are behind it' when undertaking due diligence on providers.

'I look for warts and all…Then it's trying to understand where the risks are, what can go wrong. Then around what's being done to mitigate those risks.'

In terms of due diligence, Rodwell says the GrowthInvest platform aims to help advisers to fulfil their requirements to thoroughly assess investments for clients.

'From the due diligence side, we're evolving as a platform,' he says. 'It's a long way to go, but if you can provide an independent perspective, provide an appropriate amount of information around the credit, the quality of people for the category they're in and educate advisers on the tools.'

SEIS market will 'boom' over next five years

Advisers will see a 'boom' in Seed EIS (SEIS) investment in the next five years as the government throws its weight behind start-up companies and the returns start to speak for themselves.

SEIS is the younger sibling of Enterprise Investment Schemes (EIS) and was introduced by then Chancellor George Osborne in the 2011 Autumn Statement. It was designed to provide a shot in the arm to the UK economy by promoting entrepreneurship and encouraging investment in early-stage businesses.

SEIS is now one of the most tax-advantaged ways for clients to invest, allowing them to place up to £100,000 into a number of companies over the tax year – although the companies invested in can raise no more than £150,000 in total via SEIS investment.

As the tax reliefs are generous, there are a number of restrictions on the types of companies that can be invested in, which ensures the money is being directed at the correct parts of the economy.

Companies must be based in the UK, have fewer than 25 employees, be no more than two years old, have assets of less than £200,000 and must be in an approved sector – for example not finance or investment.

As part of their commitment to early-stage investing, clients receive 50% tax relief in the year the investment is made.

But it is not only the tax relief that is catching the eye of clients - despite a slow start, the returns offered by SEIS are encouraging a greater number of advisers to add this alternative investment to their client portfolios.

Boom time

It could be argued the SEIS has had a slow start despite the large tax relief.

Speaking at the GB Investments Roundtable Lucius Cary, Founder and Managing Director of Oxford Technology Management, which specialises in investing in start-up and early stage technology companies, says he was surprised that SEIS had failed to take off immediately.

He says that at first he could not believe the amount of tax relief that was being offered and visited officials at the Treasury to make sure he had understood it correctly.

'The Chancellor decided the economy was a mess and we needed more start-ups,' he says. 'We're changing the culture, and it has really worked. When we started in 2012, it used to take 10 days to get SEIS advance approval, Now because of the increase it can take 10 weeks..'

Concerns about the longevity of the reliefs could be one reason for the reluctance to invest on both the part of advisers and clients, says Anthony Villis, Founder and Managing Partner of London-based advice firm First Wealth.

However, he predicts that now those concerns are starting to recede, the growth in the sector will boom.

'I think the growth will come quickly,' he says. 'It was slow to start with because [clients] thought [the relief] would disappear.

'The longer it goes on, people see it staying. I think, for me, once we see the successes coming through, it will be an exponential growth. Some of the [SEIS] companies will produce amazing returns and will attract interest. The amount of money in technology, it's potentially a boom period in the next five years.'

The returns offered by SEIS are head-turning, but they are high risk and advisers need to ensure their clients are of a full awareness of the high risk level before committing money to these investments. However, Cary says the reliefs mean that it is sensible for many people to make such investments. The very high tax reliefs mean that the losses on the failures are hugely reduced, while the gains on the winners are tax free.

'Our strategy is we make SEIS investments in really high risk, but high reward companies' says Cary. 'When they go well, the returns can be 20-fold... And we have the capacity to support those that begin to go well with further EIS money. We have the capacity to support them as they grow.

'This strategy of starting with an SEIS investment and then investing further EIS money in those that begin to go well is not designed to maximise tax relief. It's designed to maximise the returns. We can begin to see it working now. It will become more popular. Many people don't know about SEIS which is very surprising to me.'

Looking to the future

SEIS has made a huge impact on early stage investing. According to government figures, in 2014/15, 2,290 companies received funding through SEIS, raising £175 million of funds.

This is an increase on the 2,110 companies that raised £171 million under SEIS in 2013/14.

Of the money raised in 2014/15, 1,800 of the total number of companies were raising money under SEIS for the first time, representing £152 million of investment.

The sectors that have benefitted from SEIS in particular are hi-tech and business services sectors, which took 62% of the amount of SEIS investment received.

Since SEIS was launched in 2012/13, a total of 4,775 individual companies have received investment via the scheme and a total of £433 million has been raised. Over half, 56%, of companies received investment of over £50,000 in 2014/15, although this is down from 60% of companies in the previous year.

The total sums raised are not to be sniffed at, and it is not only companies that are benefitting. A total of 8,150 investors claimed income tax relief through SEIS in 2014/15, an increased from 7,795 investors in the year before. The majority of investors – 58% - claiming the relief invested £10,000 or less and investments of over £25,000 contributed 61% of the total amount of money raised through SEIS.

While it is broadly agreed that SEIS is helping boost the economy, grow start-ups and provide an attractive investment opportunity for clients, it is not a perfect economic solution.

Gary Collins, Managing Director of film investment company Red Rock Entertainment, says limiting SEIS investment in a particular company to just £150,000 was not enough for many businesses and this lack of funding can lead to a company failing – exactly the opposite of what SEIS is trying to achieve.

'I personally think SEIS needs to increase [the investment limit] to the £250,000 level,' he says.

'The cost of some start-ups are increasing dramatically – sometimes the £150,000 won't cut it. You create more risk because you're not funding it enough in the first place. It will probably fail due to lack of funding: some businesses need extra.'

Regulation and insurance issues

For advisers, the future of SEIS is not straightforward either, with many concerned about the stance the regulator and PI insurance providers are taking on alternative investments.

'If you're building a portfolio for a client…in the back of your mind you know that if one investment fails, the regulator is likely to look at that in isolation,' says Villis.

'Was that fund right for that client? You have to be wary of that…the unregulated stuff is becoming more of an issue. As soon as you're out of regulated products, you're very on the back foot….what happens if it doesn't work out? If [the client] loses all their money, it's a problem.'

Anna Sofat, Founder and Managing Director of Addidi, an advice firm based in London, says more needs to be done around the regulation of SEIS and other alternative investments.

'Some work needs to be done with the regulator in this area,' she says. 'On the whole, the regulator forces the advisory industry down the more cautious, safer route…The risk [for the adviser business] is so high if something goes wrong.'

It is not just the regulator holding back advisers from investing in alternative investments, PI insurers are also sceptical of insuring advisers who are advising on unregulated investments.

Mark Brownridge, Director General of the Enterprise Investment Scheme Association (EISA), says the organisation has been working with PI insurers.

'We do work with PI insurers and how they see [investing in alternative investments],' he says.

'If you know your client, they say you shouldn't have a problem.'

However, Sofat has had a different experience with PI insurers, she states: 'You have to fill in the application and tell [the PI insurer] how many [alternative investments] you've recommended. Anything out of the ordinary, they exclude [from the policy].'

She adds that they PI insurers also 'do that with hindsight as well'.

Education is key

To reduce the issues around SEIS investing, there needs to be broader education among regulators, insurers, advisers and investors.

Cary says that 'SEIS transforms the economics of investing in high risk start-ups. The losses on the failures are hugely reduced - the gains on the winners are tax free. We have some of the best science in the world, but we have been less good at making world class businesses based on this science, partly because of the difficulty scientists have had in raising the initial capital to get started. The SEIS scheme is now having a big effect, and scientists are now being able to raise capital where they were not able to do this before.'

Sofat says that 'something is needed to help' and education is key in helping everyone realise the benefits.

Beyond the tax relief offered by SEIS, there clients, and looking more broadly there is a positive economic impact for the economy and for Great Britain in helping businesses get off the ground and grow.

Daniel Rodwell, Managing Director of GrowthInvest, a platform which allows advisers to access alternative investments for their clients, says that positive messages about the benefits of alternative investments are needed: 'That kind of message that educates…advisers that if you build a portfolio, you back strong management teams with robust processes to support the early stage

Pension curbs place EIS and SEIS firmly in the spotlight

Dwindling pension allowances and clients nearing retirement savings limits have pushed advisers towards alternative investments such as EIS and SEIS.

Over the past few years the government has cut back on the amount that can invested via pensions both annually and over a client's lifetime.

This tax year has seen the lifetime allowance reduced from £1.25 million to £1 million, a huge fall from the £1.8 million clients were permitted to save into a pension over their lifetime as of 2010.

The curb on tax breaks for wealthy savers has not been limited to the lifetime allowance, as new tapering rules have affected the annual pension contribution allowance too. Since April last year the £40,000 annual allowance has been reduced by £1 for every £2 of income earned over £150,000 until the allowance reaches just £10,000 for those earning £210,000 a year or more.

With the income counted not restricted to salary, with rental and investment income included in the total, high-net-worth individuals with a range of income streams have found themselves at the mercy of a government focused on curbing pension tax reliefs for the wealthy.

Clients in breach of the allowances face large tax bills on money saved into pensions over the lifetime allowance, when the correct pension protections have not been put in place.

A tax charge of 55% is due on any money above the lifetime limit that is taken as a lump sum, or 25% if taken as income.

For many advisers, EIS and SEIS have become the natural home for the excess client income that can no longer be placed into a pension.

And with generous income tax reliefs on offer it is not surprising that adviser interest has been peaked. Clients can invest £1 million into EIS in any given tax year and another £100,000 for SEIS, providing generous extra relief for those who are nearing the lifetime or annual allowance. EIS investment offers 30% tax relief on money invested and SEIS offers 50% tax relief.

Speaking at GB Investments EIS Roundtable event, Anthony Villis, Founder and Managing Partner of First Wealth, an advice firm in London, says the changes to the pension rules have changed the options available to advisers.

'It's been a busy market: with the pension changes, people are getting big tax bills coming through,' he says.

However, it is not a straightforward swap between pensions and alternative investments, as the risk profile of the latter is typically higher than investments found within a pension.

'As an adviser, you look at where it sits on the risk profile,' says Villis. 'There is a broad spectrum of risk within the EIS market- you need to understand the trading risk of what you are investing in – so while we see [some alternative investments] fitting into [a client's] portfolio, some of the high-risk equity ones wouldn't.'

Anna Sofat, Founder and Managing Director of London-based advice firm Addidi, says the pension changes have sparked conversations with clients about the option of using EIS and SEIS investments.

'Pension are a good start for higher-rate taxpayers,' she says, however she adds that because Addidi has a focus on advising women, there is often a reluctance to embrace alternative investments.

'Most women haven't been used to investing in EIS or high-risk [alternative investments],' she says.

'As the wealth increases, you get more high earners [who are women], that is changing.'

The changes to the pension allowances and the need for advisers to look at alternative investments are helping to push business towards alternative investment platforms, says GrowthInvest Managing Director Daniel Rodwell.

GrowthInvest provides a platform for advisers to access EIS and SEIS investments for their clients, bringing the advantages of early-stage investing to a broader audience.

Rodwell says pension changes are fueling interest in alternative investments: 'Advisers need to understand how [these investments] can be used within pension planning for their more affluent clients and sell that to their client. As well as the record years for EIS, there is a real growth in the wider alternative finance market... thus far this has been largely driven by direct to consumer platforms

but he says that advisers must remember that there are 'different types of assets for different clients.'

'We've seen new advisers, who haven't historically been comfortable with EIS looking for information and education, [asking]: 'How do I take this out to my clients?',' says Rodwell.

'That is a real positive...We think it's a much larger market EIS, SEIS and VCT among both advised clients and UK investors as a whole'

Personal connection

It's not just practical benefits hinged on pension allowances and tax reliefs that are encouraging clients, and therefore their advisers, to look at EIS and SEIS. Villis says clients are much more engaged with where their money is invested.

'It's a bit of a culture shift since the financial crisis,' he says. '[There are] more self-employed and entrepreneurial people. Things like Dragon's Den get people interested. [Early stage investing] is more on the radar than 10 years ago.'

Sofat agrees that clients want more engagement with their money and the companies they are investing in.

'People want to connect with something they invest in,' she says. 'That's the strength here.'

For Sofat it is about re-educating clients not to consider investments purely in terms of returns but about encouraging investment in something the client believes in and feels connected to. This is particularly relevant when it comes to Addidi's angel investors group.

'I would have potential members saying: 'What [return] will I get?',' says Sofat. 'They're used to mainstream 5%, 10% [returns]. I can tell you an average exit but it's a moot point: I have no idea what smart decisions we'll make. It's about getting that connection.

'You're backing entrepreneurs; that is where the switch comes.'

Who's responsible?

When it comes to investing in alternative investments, it is clear that clients need to feel comfortable taking a higher level of risk than they may have previously. However, the adviser also needs to feel comfortable that the client can stand the losses that are inherent in investing in early stage and start-up companies.

After an adviser has explained the pros and cons of alternative investing, clients who want to invest in early stage companies can self-certify as a high-net-worth or sophisticated investor.

However, Sofat says self-certification abdicates responsibility for investing to clients.

'[Advisers] pass all the risk down to the client: you are high-net-worth, so you are professional,' she says. 'As an adviser, I'm abdicating my responsibility by going down that route....the whole thing needs to be looked at.'

Villis agrees that it is a grey area of responsibility when clients begin to self-certify or use adviser-recommended alternative investment platforms to invest their own money.

'Where does the risk end? If a client asks about a crowdfunding website – am I taking responsibility for the outcome?,' he says.

'It they invest through that [website], ultimately I take responsibility for where [the investment] ends up. I need to say 'yes' or 'no' [to an investment], if you say 'yes, kind of', that's not firmly saying no: it's dangerous.'

He adds that many third-party investment platforms, such as crowdfunding platforms, are 'a fantastic idea' but advisers struggle to recommend them directly to clients due to regulatory concerns. These are sophisticated investments, and are not always suitable for all clients.

Gary Collins, Managing Director of film investment company Red Rock Entertainment, says clients should not invest in EIS and SEIS just through lack of choice in other investments and warned that many alternative investments have been problematic.

'In the unregulated market, there is so much stuff out there that is never going to work,' he says.

'People invest in things through a lack of finding other things to invest in – they go and find it themselves.

'When you look historically: carbon credits, student accommodation, diamonds – nobody ever makes money on those.

'There are alternatives that are riskier but they do produce a return. In any portfolio, there has to be a small element of risk.'

Sofat says that there is an element of risk but that it was the advisers' job to determine whether a client can handle the risk and the losses that they could incur.

'There are definitely those that can afford to lose money and take that risk for that high return,' she says.

'Other clients, given their overall wealth, I can allocate 5% to high risk, but what difference is that going to make? I have to ask what impact it will have on their lifestyle if something goes wrong.'

Due diligence

Committing to helping clients invest in EIS and SEIS can be time consuming for advisers who want to complete thorough due diligence.

Sofat says that due to her angel investing company, she and her business partner receive numerous investment proposals and process is key.

'It is very time consuming,' she says. 'My partner heads up the investment panel. We look at every business plan we get: we get hundreds now – we try to narrow it down.'

She says the investment panel meets with the companies that it narrows down to and goes through a due diligence process, which narrows down the investment opportunities further. Once the best investment opportunities have been identified they are presented to the angel investor group members.

'The group then decides where they want to invest and they agree the level of due diligence,' she says. 'It's very practical. With some early start-ups, there is little you can do [in terms of due diligence]. We try not to have too much of a high legal cost.'

For mainstream investors not in the angel investment group, which helps set the due diligence and pick potential investments, Sofat runs the investment plans through 'key people' and tracks the potential investment company's records, with Sofat saying they are 'following the money'.

Advisers with less experience than Sofat in picking start-up companies to invest client money in may feel more comfortable using a third-party platform, which does due diligence on their behalf.

'A lot of IFAs starting wouldn't necessarily have the knowhow on how to start [picking early-stage investments],' says Sofat.

'If you look at platforms, they come out with due diligence frameworks. These are all the things you should be asking, and here is what's out there; there are reports. Have a framework to see what you should be ticking off.'

Tax trouble

It is not just due diligence that affects the ability of advisers to invest client money in alternative investments, but also concerns about HM Revenue & Customs (HMRC) changing its favourable nature towards tax-incentivised investment schemes.

Collins says that client and adviser sentiment is often wrapped up in what they read in the news, rather than the facts, with high profile tax avoidance cases involving celebrities making headlines.

He says getting past the negative headlines is 'the biggest problem in the industry now'.

'There is so much reporting because of the profile [of some of the investors]: Gary Barlow (from pop band Take That) and (Manchester United footballer) Wayne Rooney,' he says.

However, he says the cases being reported are historic problems of old tax avoidance schemes that flouted the rules and nothing to do with legitimate EIS and SEIS investments.

'When you read [about] them, they sound current. [Clients] think it's happening now,' he says. 'The fear is they'll be paying back so much [in tax].'

He adds that the problem was particularly prominent in film investments where 'eight out of 10 IFAs advise [clients] not to do film investment because of what they read [in the newspaper]'.

To avoid falling foul of the taxman when it comes to alternative investing, common sense should prevail and advisers should only work with companies that are experienced and working within the tax framework set out by HMRC.

If advisers are unsure or unwilling to pick companies themselves then a platform could help them not only to undertake investment due diligence but ensure the companies they are investing client money in are operating in a legitimate way.

Collins says: 'We work within the guidelines set out by HMRC and the Financial Conduct Authority (FCA). We feel it's important to bring