

Paper for: The LEP Board

Title: Agenda Item – A.o.B. Update regarding Investment Opportunity Life Sciences Fund 2

Date: 14th September, 2021

Strategic Purpose: Delivery of Strategic Objectives

Resource Implications: “Earmarked” GPF - £5M, £20-£25k revenue costs for legal.

Board: To approve progress towards investment in Life Sciences Fund 2

1. Background

At the meeting in January 2021, the board approved, in principle, investment in a second Life Sciences Fund to support new investment in early stage, SME businesses in the critically important Life Sciences sector. The fund will help attract and retain businesses in Greater Manchester and Cheshire, support innovation and the creation of jobs and help secure the sub-region’s reputation for a world-class life sciences cluster.

The original request was for the LEP to commit £10M to Life Sciences Fund 2 (LSF2) and the board asked the executive to explore options to reduce risk and the opportunity cost of potentially committing all remaining GPF to the fund (See Appendix 1). This has been achieved by reducing the committed sum to £5M with a potential upside of re-investing excess returns from LSF1.

This paper sets out the latest developments towards establishing the LSF2 after several discussions throughout the spring and summer.

2. Outline of the Fund

The fund was originally conceived as funded by a partnership of Bruntwood, Greater Manchester and the LEP, but Cheshire East Borough Council has expressed interest in participating. The involvement of CEC helps bolster the potential size of the fund. The working agreement between the partners is as follows:

Partner	Commitment to the fund
Bruntwood	£5M (new money)
Greater Manchester	£10M (new money)
C&W LEP	Minimum £5M (to be financed from returns from Life Sciences Fund 1, or, if insufficient returns are achieved, underwritten by GPF). If returns from LSF1 exceed £5M, all returns will be invested in LSF2 ⁽¹⁾ .
Cheshire East Borough Council	To re-invest returns from LSF1 ⁽²⁾
Total Fund	Min. £20M to say, £30M

Notes:

1. C&W LEP has committed to invest £10M in LSF1, with returns expected to begin in 2023-24. The commitment of £5M represents the fund returning only 50% of that original sum; but it could be greater or less. In the event returns fall below £5M, the LEP commitment will be funded from GPF.
2. CEC committed to invest £5M in LSF1, so any returns from the fund will be re-invested into LSF2.

Because the returns from LSF1 are unlikely to “flow” in any quantity prior to 2024, Bruntwood and GMCA will invest their commitments to LSF2 first, with C&W LEP and CEC providing funds later.

3. Procurement

Legal

Bruntwood are leading on the procurement of lawyers to act for the fund partners. Eversheds were successful. A legal briefing has been prepared which follows closely the structuring of LSF1. The key difference is that the contributions from C&W LEP and CEC are variable and, as such, mechanisms need to be put in place to adjust the partners respective share of the fund depending on the invested amounts.

The costs of legal support will be shared equally by the four contributing organisations.

Fund Managers

Greater Manchester will lead on the procurement of Fund Managers. L&G VC team are also providing some technical support. Procurement documents are presently being updated and the invitation to tender will explore ideas of how best to manage the variable nature of investment contributions. The Investment Operating Guidelines including the outputs required of the fund are presently under discussion. Issues to be addressed include the minimum amounts to be invested respectively in Cheshire and Warrington and Greater Manchester, whether and how outputs should adjust depending on the final value of the fund, etc.

The key objectives of the project are to:

- Promote Alderley Park and Manchester Science Park/Oxford Road Corridor as key Life Sciences hubs for the region
- Attract and retain Life Sciences companies in the region, contributing to the growth of this key sector both in terms of jobs and GVA
- Provide a specialist, regional Life Sciences VCT that can provide funding from seed through to Series A.
- Increase the size of the Fund to over £50m through the attraction of fund level private sector leverage (NB. Public sector pension funds are generally considered as private sector given their independent governance and operational models).
- Encourage diversity & inclusivity objectives e.g., women in science, apprenticeships.

We are running slightly behind our planned timetable to establish the fund and the target is to have fund managers appointed early in December.

4. Conclusion

The board is asked to approve progress towards the establishment of LSF2.

Ian Brooks

Appendix 1

The table summarises the current position on GPF:

	£m
Original Fund	12.1
Less: Grants Awarded / Committed	
Business Case Development	(1.2)
Business Restructuring Grants	(1.6)
Available Fund	9.3
Outstanding loans	
Cheshire Green (repaid by 2022-23)	(2.8)
Enterprise zone (repaid by 2021-22)	(6.5)
Current Balance	-
Balance at 31 March 2023	9.3