

Paper for P&I Meeting 24th November 2021

Title: Life Sciences Fund 2

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Background

During 2021, the LEP Board received two papers seeking approval for the LEP to join with other partners (Greater Manchester Combined Authority, Alderley Park Holdings Limited and Cheshire East Council) to form an investment fund, the Greater Manchester and Cheshire Life Sciences Fund 2 (“LSF2”). This fund would represent a follow on from the successful Greater Manchester and Cheshire Life Sciences Fund (“LSF1”), established in 2015, which has now completed its’ investment period and is restricted only to follow on investments in those firms already within its’ portfolio.

The LEP Board approved participation in LSF2 by recycling the returns anticipated from LSF1 and, if those returns do not materialise, to underwrite the LEP commitment to a maximum of £5M by using funds available within Growing Places Fund. The minimum investment from the LEP is therefore £5M but may be more depending on the performance of LSF1 (the LEP investment in LSF1 was £10M). The minimum size of LSF2 is £20M, which could rise to £30M or more. There is the potential for other partners to be admitted to the fund and each investee will be expected to provide a degree of match. Broadly speaking, for each £10M of public sector funds invested into the fund, match of ca. £6M would be anticipated.

In the past 2-3 months, the LEP has worked closely with the other investors. APH led the procurement of legal support (Eversheds) for the fund creation, and GMCA are leading the procurement exercise for a fund manager. The procurement is expected to close on December 20th, 2021. This exercise includes close to final versions of the contract and investment operating guidelines which will govern the operation of LSF2.

This paper summarises the key elements of that documentation and seeks ratification from P&I that the fund will deliver objectives consistent the LEP’s strategy and aims and that due process has been followed towards the establishment of LSF2.

Structure and Governance of the Fund

The structure of LSF2 will be similar to that used for LSF1. A partnership will be established between each of the investors (whose liabilities will be limited) and the fund manager, which will set up a new company, specific for the purpose, to act as the general partner. Funds will be called down by the general partner as required to meet the investment pipeline. At the outset of the fund, it is expected that GMCA, APH and CWLEP will be the investors committed to the fund but unlike LSF1 the timing of when each investor invests funds is different. It is agreed that GMCA and APH will finance the early drawdowns. CWLEP, and possibly CEC, will finance later drawdowns once the returns from LSF1 start to become available. Mechanisms will be put in place to value the investments in the portfolio such that the proportion of the fund owned by each investor will reflect the timing differences of the contributions made by each investor.

The investors will also form an Investment Advisory Panel (IAP) to oversee some aspects of the operation of the fund, but cannot take active management of the fund, which is a regulated function performed by the appointed fund manager.

Investors

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, and subject to the necessary approvals within CEC, any returns from the fund will be re-invested into LSF2.

Summary of Investment Objectives

The Fund will invest in “Life Science” businesses covering both human and veterinary applications. This consists of the following sectors:

- Pharmaceuticals
- Biotechnology
- Diagnostics
- Life Science Contract Research Organisations
- Healthcare technologies
- Medical devices
- Digital Technologies for Healthcare (new for LSF2)
- Other relevant sectors agreed by the IAP that align to the Funds’ objectives (new for LSF2)

Schedule of KPI’s:

- (a) Amount invested, number of companies invested in and sector. (all companies will be SME’s, minimum investment £50,000)

- (b) Jobs and (new for LSF2) apprenticeships created.
- (c) Anticipated GVA.
- (d) Number, amount and sector of investments made in each of the Alderley Park, Cheshire and Warrington LEP and Greater Manchester LEP areas.
- (e) Data on the demographic background of the founders for the purposes of monitoring the diversity of recipients (new for LSF2)

Procurement Timetable

<i>Activity</i>	<i>Date</i>
Dispatch of ITT	15 th Nov 2021
Deadline for receipt Clarification questions	3 rd Dec 2021
Return of ITT	20 th Dec 2021
Inform successful suppliers of interview details	7 th Jan 2022
Interviews	14 th Jan 2022
Finalise evaluation and scores	19 th Jan 2022
Internal Sign off	21 st Jan 2022
Issue intent to award and 10 day standstill period begins	21 st Jan 2022
10 day standstill period ends	31 st Jan 2022
Issue final contract award letter to successful Tenderer	1 st Feb 2022
Service commencement	1 st Feb 2022

Recommendation

That P&I ratify the LEP Board decision to invest in LSF2, confirming that due process is being followed with respect to obtaining the support necessary to initiate the fund.

Based on the timetable outlined, the LEP Board will be provided with an update at its meeting on 19th January 2022, with a recommendation to delegate authority to execute the necessary contractual documentation.