

South Yorkshire Investment Fund

PROGRESS REPORT



1. Executive Summary

- 1.1 SYIF has reached the point where we can now say the business model has been proven. The Fund will fully invest all ERDF, achieve its target financial returns and exceed most of the economic outcomes set.
- 1.2 As readers will know, the full success and the precise financial return of the Fund will not be known for at least another three or four years (Current estimate is c£19m) – which means further available investment in the City Region from 2013.
- 1.3 The sustainability of the model is the most important outcome, which provides a cost effective alternative to grant-aid and will continue to support economic goals in the region. This is better for investors (including government) and better for businesses.
- 1.4 This good news will be greatly reduced if the momentum of the Fund cannot be maintained from the end of the current investment cycle. As presented in our Concept Paper (September 2006) there is a need to raise a new Fund from late 2008 to maintain the impact made by the SYIF 1. Without this, the competence and knowledge of the investment team will be lost.

2. Market Impact

Demand: Market demand continues to be strong, with a broad range of deals coming through. Banks tightening of credit seems to be a factor; the increase in knowledge based equity propositions is starting to increase (see Seedcorn) and there will inevitably be some impact from the reduction in grant-aid, after the end of Invest for Growth.

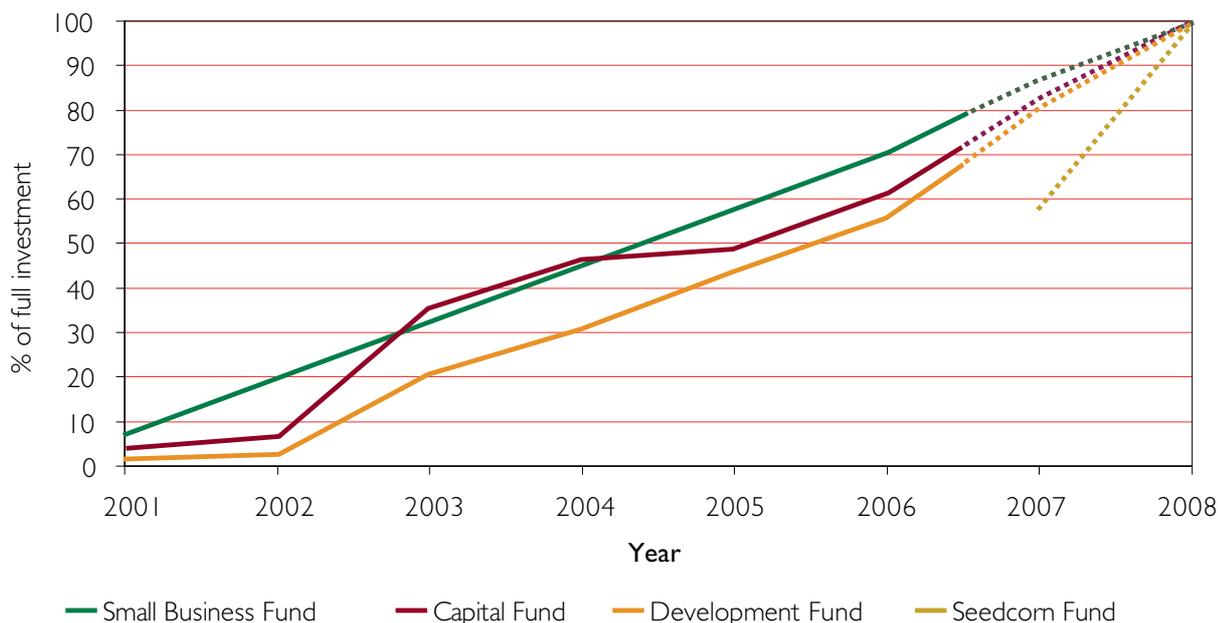
Supply: The intermediaries now have a clear idea of what we can and cannot do and this is important in setting the standard of quality. This helps efficiency of process and turn-round times. Feedback from corporate finance is good and there is clear evidence that other venture capital funds are being attracted to the area: Enterprise UK, Viking Fund and Bridges.

3. Investment Performance

Although the Fund took 2 – 3 years to establish its marketing message and brand, we have now established a reliable run-rate of £3m for the Small Business Fund and £5 - £6 million for the Mezzanine and Equity Funds, combined. The Seedcorn Fund of £4.6m has made a very promising start and is also expected to fully invest.

Table I below shows the actual invested figures to 2006 and the planned investment figures for 2007 and 2008. The plan is for full investment of £43 million by 2008.

Investment Forecast to 2008



4. Fund Performance

Appendix I shows a more detailed summary of the four Funds under SYIF management. Each of the Funds has played a particular role. The Small Business Fund deals with a large volume of small loans to business and has been the motor of economic impact on jobs. The Equity Funds (Development and Capital) have been the drivers of bigger investments and being focused on technology have been the drivers of longer-term change and modernisation. The latest addition to the portfolio, the Seedcorn Pilot Fund provides the catalyst of driving new business development based on intellectual property being developed inside and outside of the region.

5. The Future

A proposal has been made to the region on how best to develop the Fund. The development must be used to meet the needs of private and public sector investors, like our first Fund. Last, but not least the Fund must meet the needs of the business community and be simple and accessible. SYIF has proven that we can provide this service for our customers and investors and we are confident that we can improve, if given the chance.

Appendix I

Small Business Fund:

The Small Business Fund provides typically unsecured debt based lending from £15k to £150k and is the engine house of the fund meeting the need of existing businesses, but driving steady growth. The Small Business Fund is currently 80 % fully invested.

Forecasted figures to 2008;

- Expected return - £5,080,000
- Current default rate is 9.7%
- Jobs Created – 139
- Jobs Safeguarded - 426
- Businesses Assisted - 721
- Investments in Knowledge Based businesses – 73
- Forecasted Sales Growth generated - £226 million

Development Fund:

The Development Fund provides equity and debt based mezzanine finance from £150k to £1.5m. The Development Fund is currently 64% fully invested.

Forecasted figures to 2008;

- Expected return - £8,032,000
- Current default rate is 13.2%
- Planned Jobs Created – 334
- Planned Jobs Safeguarded - 947
- Businesses Assisted - 430
- Investments in Knowledge Based businesses – 8
- Forecasted Sales Growth generated - £96 million

Capital Fund:

The Capital Fund provides equity investments from £100k to £1 million. After a slow start the Capital Fund has begun to develop a portfolio of value. The exit strategy for the investments is in place and is expected to meet return expectations by 2011. The Capital Fund is currently 73% fully invested.

Forecasted figures to 2008;

- Expected return - £4,454,000
- Current default rate is 16.1%
- Planned Jobs Created – 334
- Planned Jobs Safeguarded - 947
- Businesses Assisted - 355
- Investments in Knowledge Based businesses – 13
- Forecasted Sales Growth generated - £65 million

Seedcorn Fund:

The Seedcorn Fund is a £4.6 million pilot fund which invests in early stage technology and knowledge based businesses. The fund fills a significant gap in the financing market and benefits ventures which may be seen as too high risk by mainstream investors. The Seedcorn Fund started making investments in April 07 and has to date invested 5% of the total fund.

Forecasted figures to 2008;

- Expected return - £4,360,747
- Projected default rate is 42%
- Planned Jobs Created or Safeguarded – 277
- Businesses Assisted – 160
- Investments in Knowledge Based businesses – 84