

# South Yorkshire Investment Fund

## PROGRESS REPORT



### 1. Introduction

- 1.1 South Yorkshire Investment Fund was established to support the ERDF Operational Programme and with it the strategic objectives of the region. Its goal, over a fifteen-year period, is to establish a permanent fund for the region.
- 1.2 The Fund was launched in late 2001 and after a slow start, has now become an established and highly successful player in the regional finance market. The Fund has been successful in making the market for risk finance and filling gaps in the market left by commercial providers of finance.
- 1.3 The Fund was designed to provide an integrated approach to business investment by incorporating Money with Management – a programme which provided every investee business with an experienced and skilled mentor or Non-Executive Director. The goal was to work collaboratively with business support and economic development agencies to contribute to the regional economic development objectives. The existing mentorbank of 480 experienced business people provides an important resource for the region.
- 1.4 The Fund has to date invested £45m (including £5.5m via the Money with Management programme). In addition the Fund has a significant effect in attracting other investments, which is an essential part of the model. For example for every £1 invested by SYIF a further £4 is invested by the private sector. The Fund also has an important role in market making, working through market intermediaries, both public and private.

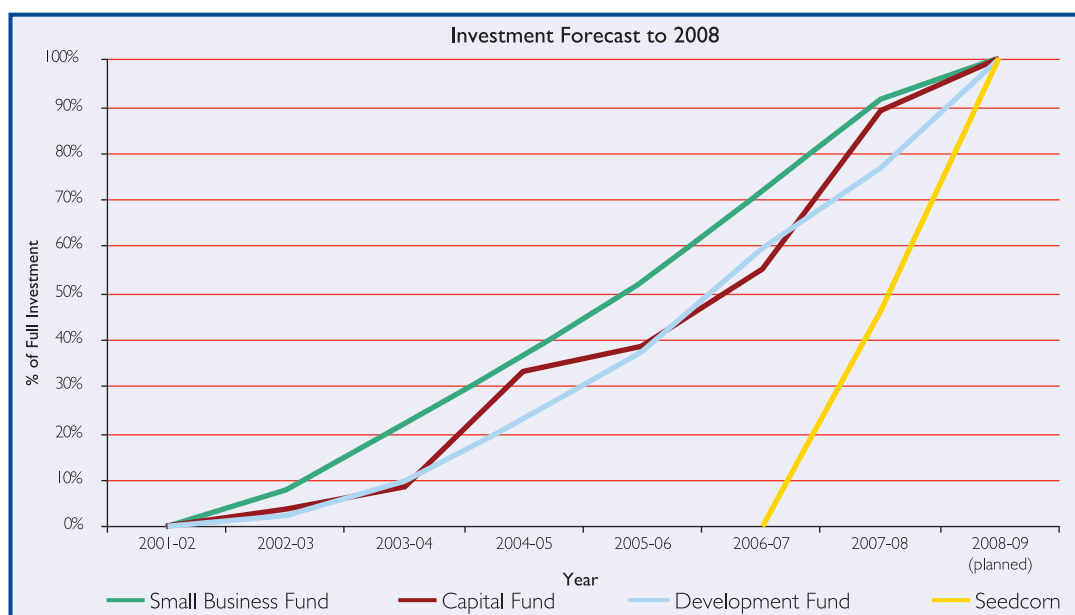
### 2. Overall Performance

- 2.1 Full investment will be achieved by the end of 2008 and the Fund will achieve its target financial returns and exceed most of the economic outcomes set.
- 2.2 The real success of the Fund is measured by the return to the investor. This will not be known for at least another two or three years. However, if we achieve our forecast (current estimate is c£19m) it will mean a permanent Fund for the region, which is the key goal.

- 2.3 The Money with Management project has been fully reviewed and the overall conclusion is that the project has had a significant impact on raising the quality of management in investee companies, stimulated the market to provide such services and has improved the quality and focus of investment readiness.
- 2.4 The tables below provide a 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 Seedcorn Pilot Fund provides the catalyst of driving new business development based on intellectual property being developed inside and outside of the region. Annex I provides a more detailed summary of the four funds under SYIF management.

ALL FUNDS SUMMARY - YEAR ON YEAR FIGURES								
	02-03	03-04	04-05	05-06	06-07	07-08	08-09 Plan*	Totals
<b>Small Business Fund</b>								
No of Applications	127	113	100	117	153	134	96	840
No of Investments	36	49	40	44	70	79	27	345
Value of Investments (£000)	1,538	2,579	2,530	2,921	3,593	3,557	1,543	18,261
<b>Capital/Development Fund</b>								
No of Applications	92	80	79	100	104	97	65	617
No of Investments	5	6	17	11	18	20	19	96
Value of Investments (£000)	800	1,750	4,500	3,046	5,339	6,123	4,975	26,533
<b>Development Fund</b>								
No of Investments	3	3	8	7	10	3	13	47
Value of Investments - £000	425	1,255	2,068	2,475	3,685	2,767	3,858	16,533
<b>Capital Fund</b>								
No of Investments	2	3	9	4	8	17	6	49
Value of Investments (£000)	375	495	2,432	571	1,654	3,356	1,117	10,000
<b>Seedcorn Fund</b>								
No of Applications						67	103	170
No of Investments						42	60	102
Value of Investments (£000)						2151	2499	4650
<b>All Funds</b>								
No of Applications	219	193	179	217	257	298	264	1,627
No of Investments	41	55	57	55	88	141	106	543
Value of Investments (£000)	2,338	4,329	7,030	5,967	8,932	11,831	9,017	49,444

- 2.5 Although the Fund took 2 years to establish itself, it has now established a reliable run-rate of £3.5m for the Small Business Fund and £5 - £6 million for the Mezzanine and Equity Funds, combined. The Seedcorn Fund of £4.6m also made a promising start and is also expected to fully invest.
- 2.6 The graph below shows the percentage of full investment to 2008 and the planned percentage of full investment figures to the end of the year. The plan is for full investment of £49 million by the end of 2008.



- 2.7 The table below shows the key economic outputs for all funds. The 'to date' performance shows that all the required outputs are at least 98% on target, with many exceeding targets. The Fund is well on track to meet the targets for December 2008. Annex I shows a breakdown of the economic outputs by fund.

Key Economic Outputs					
	To Date Actual	To Date Plan	Performance % to Date	Full Term Plan	Performance % against Full Term Plan
Jobs Created	1,752	1,774	99%	2,618	67%
Jobs Safeguarded	5,590	4,794	117%	5,127	109%
Additional Sales (£000)	340,311	229,400	148%	420,000	81%
Businesses Assisted	1,864	1,427	131%	1,666	112%
Amount Invested (£000)	40,427	42,333	95%	49,444	82%
Private Sector Leverage Ratio #	3.7	-		-	-

### 3. The Successor Fund

- 3.1 It is vital that we continue to drive the project forward and maintain the momentum of success. Hence, there is a need to raise a new Fund to fill the gap between late 2008, when SYIF I finishes its investment period and 2013 when the realisations from SYIF I will be available. This is needed not only to maintain the impact made by SYIF I, but to consolidate and develop the success of the Fund to support the growth of South Yorkshire/City Region.
- 3.2 Proposals for the second fund are now at an advanced stage. Yorkshire Forward have conditionally committed £60 million of money and we are also talking to the European Investment Bank about the possibility of matching that to create a core fund of £120 million. On top of which we can then attract private sector finance to provide a total fund of £150 million that will, going forward for the whole region, continue the good work we have started in South Yorkshire and drive the momentum forward for businesses.
- 3.3 The monies that will be allocated to this new Regional Fund will be distributed between South Yorkshire and the rest of Yorkshire. A dedicated allocation of money for South Yorkshire will mean the work started here will continue.
- 3.4 The objective is to have this in place by January 2009, however this is unlikely to be achieved. Therefore we are talking to Yorkshire Forward about an interim fund to cover any gap, because the worst thing that could happen is that we lose momentum which takes twice as long to restore in the market.
- 3.5 Whilst we expect the current Fund to fully invest by the end of 2008, we are actively encouraging both intermediaries and businesses to continue to make contact with the Fund to discuss new deals as it is important that we continue the momentum of investment.

### 4. The Future

- 4.1 The Fund continues to provide gap debt and equity finance. In other words, it fills gaps in the market left by commercial providers of finance. SYIF breathes new life into these projects – which is the essence of our offer and provides an exciting new dimension to economic development. We will continue to work hard on the formation of a Successor Fund to be in place in 2009 to meet the needs of private and public sector investors and, above all, fulfil the requirements of the business community. The Successor Fund will also be used to reinforce, accelerate and focus investment into the areas most required to meet economic objectives.

## 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 92% fully invested.

### Forecasted figures to 2008;

• Amount invested to March 31st 2008	<b>£16.7 million</b>	• Businesses Assisted	<b>721</b>
• Expected return	<b>£5,100,000</b>	• Investments in Knowledge Based businesses	<b>5</b>
• Current default rate	<b>10.1%</b>	• Forecasted Sales Growth generated	<b>£226 million</b>
• Planned Jobs Created	<b>1918</b>	• Private Sector Leverage	<b>4.5</b>
• Planned Jobs Safeguarded	<b>3,754</b>		

## Development Fund:

The Development Fund provides equity and debt based mezzanine finance from £150k to £1.5m. The Development Fund is currently 77% fully invested.

### Forecasted figures to 2008;

• Amount invested to March 31st 2008	<b>£12.7 million</b>	• Businesses Assisted	<b>430</b>
• Expected return	<b>£8,000,000</b>	• Investments in Knowledge Based businesses	<b>3</b>
• Current default rate	<b>12.7%</b>	• Forecasted Sales Growth generated	<b>£96 million</b>
• Planned Jobs Created	<b>334</b>	• Private Sector Leverage	<b>4.1</b>
• Planned Jobs Safeguarded	<b>947</b>		

## 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 89% fully invested.

### Forecasted figures to 2008;

• Amount invested to March 31st 2008	<b>£8.9 million</b>	• Planned Jobs Safeguarded	<b>426</b>
• Expected return	<b>£4,500,000</b>	• Businesses Assisted	<b>355</b>
• Current default rate	<b>15.6%</b>	• Investments in Knowledge Based businesses	<b>32</b>
• Planned Jobs Created	<b>139</b>	• Forecasted Sales Growth generated	<b>£65 million</b>

## 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 £2.2 million, with the remaining £2.65 scheduled for follow-on investment until December 2008.

### Forecasted figures to 2008;

• Amount invested to March 31st 2008	<b>£2.2 million</b>	• Businesses Assisted	<b>160</b>
• Expected return	<b>£5,446,000</b>	• Investments in Knowledge Based businesses	<b>84</b>
• Current default rate	<b>3.2%</b>	• Forecasted Sales Growth generated	<b>£33 million</b>
• Projected default rate	<b>42%</b>	• Private Sector Leverage	<b>2.8</b>
• Planned Jobs Created	<b>227</b>		