

**Cyfarwyddwr Cyffredinol - Director General**



**Llywodraeth Cymru**  
**Welsh Government**

Mark Isherwood MS  
Chair  
Public Accounts and Public Administration Committee  
Welsh Parliament  
Cardiff Bay, Cardiff CF99 1SN

Dear Chair

15 January 2024

**Wales Life Sciences Investment Fund**

Thank you for your letter of 24 November 2023 setting out the questions the Committee did not have time to reach during the evidence session with Welsh Government and Development Bank of Wales on 27 September 2023. Our response to the Committee's questions, which has been prepared jointly with Development Bank of Wales, is attached.

Your letter also requests the Committee has sight of the final evaluation of the Wales Life Sciences Investment Fund once the associated report is finalised, and an update if that evaluation process looks set to take any longer. I can confirm the Development Bank of Wales aims to complete the final evaluation of the fund by the end of the financial year, and a copy of the report will be shared with the Committee.

With best wishes.

Yours sincerely

Andrew Slade  
**Director General, Economy, Treasury & Constitution**

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## Winding up the Fund

### Question 1

Some investment value figures in your evidence paper are different to the Auditor General's report or the Regeneris report and you suggested that this may have reflected additional investments. However, the Minister's July statement appeared to reflect the analysis in the Auditor General's report when referring to there having been 11 investments in 9 companies. We would welcome confirmation of the position and of the reason for any additional investments where applicable. The differences we identified relate to:

- o Apitope - £3.9 million in the Auditor General's report.
- o Cequr SA - £3.36 million in the Auditor General's report.
- o InterRad - £2.886 million in the Auditor General's report, although in further written evidence in June 2016 Finance Wales put the value of this investment at £2.95 million.
- o Sphere Medical - £4 million in the Auditor General's report.
- o Verona Pharma - £4.62 million in the Auditor General's report.

### Response

The Fund Manager made 11 investments into nine companies with the Welsh Government £50m commitment to the Fund. The investment value differences are based on additional investments made following £5m investment into the Fund by Arix BioSciences. The Fund (£55m) was also still investing at the point when the Auditor General's report was produced, and investments continued following the Regeneris report in 2016.

Additional investments include:

- Apitope - £3.6m invested in 2016 and an additional £885k in 2017 bringing the total to £4.5m invested.
- Sphere Medical - £4m invested in 2015 and an additional £1m in 2017 bringing the total to £5m invested.
- InterRad - £2.9m invested in 2014 and an additional £756k in 2017 bringing the total to £3.6m invested.

Other investments referenced:

- Cequr - £3.38m was invested in 2015, the Fund's only investment into the company.
- Verona Pharma - £4.62m was invested in 2015.

### Question 2

The Minister's statement suggested that the overall value of the four investments transferred to the Development Bank was £2.5 million, whereas your evidence paper suggested £1.8million. During the evidence session you appeared to suggest that the four investments had a current value of just £180,000 (not accounting for proceeds from Verona). We would be grateful if you could clarify the position and provide any explanation for changes in value.

### Response

The latest valuation of the four assets to be transferred was £2.5m at the time of the Minister's statement. At the time of submitting the evidence paper, and the committee appearance in September 2023, the most up-to-date valuation of the four investments to be transferred was

£1.8m. Valuation figures continue to be subject to change up until the point where the transfer is executed through the asset distribution.

### Question 3

You indicated there had been an option to extend the Fund management contract by two years. What were the main factors considered in deciding not to take up that option and to hold onto the four investments transferred to the Development Bank rather than exit them when the Fund was closed or in the lead up to closure.

### Response

The Fund Manager was actively seeking exit opportunities in the lead up to the end of the contract.

The main value for money factors for not extending the contract were:

- On-going Fund Management fees to manage the remaining investments would have been higher with the existing Fund Manager.
- The existing Fund Manager felt it unlikely that they could add significant value during the two years.
- There was a possibility that the same situation could have arisen after the two-year extension.

### Question 4

Your evidence paper indicates that the Fund exited the Verona Pharma investment in 2022 but that returns are still to be distributed. When are you expecting that to happen and, further to your oral evidence, what is the expected return.

### Response

The value of returns to Welsh Government from the exit of Verona Pharma in 2022 is subject to distribution. The distribution is due to take place before the end of the 2023-24 financial year. As stated in the committee, the assets to be distributed were estimated to be £2m. This is potentially subject to change, as per the response to question 2 above.

### The Fund Manager's entitlements and overall fees.

### Question 5

We would be grateful for any further explanation of the basis of the equalisation payment made by Arix when it invested into the Fund. Also, for confirmation of any sums paid to Arix on closure of the fund as part of their 5/55th share, or of any assets transferred to them.

### Response

An equalisation payment of £479k was made to the Holding Fund upon Arix BioScience becoming a limited partner in 2017. This, in line with standard practice, equated to Arix Bioscience's share of the Fund's costs from the date the fund was launched, so that any gains or losses made on the investments could also be proportionately shared.

The final distribution of assets and winding up of the partnership is still underway and Arix BioScience plc, as limited partner, will be entitled to 5/55ths of assets. Assets includes their share of investments and cash.

### Question 6

Your written evidence suggests that the fee structure changed in line with down valuations of investments following a Fund report in 2017. However, during the evidence session, you indicated that there was a point in 2018 when the valuation of the Fund in 2018 was '£70million plus'. We would be grateful for any further explanation of how, when, and why the management fee structure changed, what the fund valuation was when this happened, and how value for money was considered.

### Response

The fee structure changed when Arix BioScience invested £5m into the Fund. The new fee structure ensured down valuations were reflected in the net fee charged. Net fees were calculated on 2.5% p.a. of the Fund size, then adjusted downwards for exits, down-valuations & losses.

A valuation above the Fund size, for example £70m, would not cause the fees to increase above 2.5% of the Fund size.

This delivered better value for money while also allowing additional investment. As stated in the evidence paper, due to lower valuations and returns which reduced the fee, the Fund's average fee of 1.7% per annum is in line with market rates and below that anticipated by the 2016 Regeneris report.

### The performance framework for the Fund and overall evaluation of Fund performance.

### Question 7

Your written evidence highlights a target for private sector co-investment at Fund level of £60million, which differs to the original 'one-to-one' basis assumption referred to during the evidence session. We also understand there may even have been an original target of £80million co-investment (over the Fund's full lifetime) before a variation agreement in 2014 and are aware of the aim that the £50 million would be delivered by the end of 2015. Can you clarify the position and what drove any changes to original targets.

### Response

Following the 2014 revisions, the target for Fund level investment was £60m but the expectation was that the Fund Manager make best endeavours to raise at least £50m. As outlined in section 7 of the Regeneris report a number of changes to original targets were driven by a more realistic analysis of the Fund's potential impact.

### Question 8

The Regeneris report suggests that there would have been merit in an indicator to measure the value of new investment in Wales (and distinguishing between capital expenditure and expected annual operating expenditure). What are your views on the feasibility of such a measure, and what consideration was given to this in the context of the report's recommendation on ensuring clarity about the economic development focus of the Fund.

### **Response**

While it was considered at the time of the Regeneris report, the Fund was almost fully invested by that point.

A new KPI would have required negotiation with the Fund Manager and require the Fund Manager to request data beyond the reporting requirements it had established with investees. Such a change would be particularly difficult to negotiate given that the Fund was a minor/minority shareholder in most of the businesses concerned.

However, such measures should be considered in the development of any future Funds targeted specifically at inward investment into Wales.

### **Question 9**

The Regeneris report raised concerns about the robustness of some of the initial targets/projections set out in the Fund Manager's original investment plans. What is your understanding of the extent to which those figures influenced the scoring and award of the Fund Manager contract.

### **Response**

The Fund underwent a formal procurement, the details of which were covered in the Auditor General report and the 2016 Public Accounts Committee session.

### **Question 10**

During the evidence session you suggested that you would engage with the Fund Manager to learn from the notable success story in Simbec. We would be grateful for any further explanation of features relating to this investment that may have contributed to its success and could be replicated going forward. Also, has the decision to exit proven a good one in the context of the company's more recent financial performance.

### **Response**

A review of the Fund is underway but key to the success of the Fund's investment in Simbec was the network of support the business had access to through the Fund. Also, the willingness of these parties to engage with the business directly enabled Simbec to access advice and further investment. It was also the case that Simbec was a lower risk investment as it already had proven revenue streams in place.

The Fund Manager had discretion on when to exit investments and therefore considered the commercial options available at that time.

### **Question 11**

The Minister's July statement suggested that the overall write-off needs to be considered in the context of the performance of the Development Bank's overall portfolio. While we acknowledge there could always be gains and losses within an individual Fund, what is the basis for that wider argument.

### **Response**

When new funds are considered which use Financial Transaction Capital (FTC), the risk profile and performance of all existing funds is considered to ensure the overall commitments for any repayments of FTC can be met. This enables the Development Bank to offer investment funds

that may be high risk but have potential to drive growth such as early-stage equity funds or Micro loans. Any potential losses on these funds can be offset by other, lower risk, funds. Whilst the Wales Life Sciences Investment Fund was not a Development Bank of Wales-managed fund, the Welsh Government has monitored this fund alongside the Development Bank portfolio to ensure that the overall portfolio remains on track to meet any FTC repayment obligations.

### Question 12

We would be grateful for any further reflections on benchmark performance for funds in the life sciences sector, including how the Fund's performance compares with any other life sciences investments in the Development Bank's wider portfolio.

### Response

The commercial outcomes for the Fund are lower than expected. In the wider Life Sciences investment market there are few direct comparisons due to (as discussed and highlighted during the committee session), the size, scope and restrictions placed upon the Fund. As discussed with the committee, the Fund's target market can produce binary outcomes – marked results in one direction or the other. 'Middle ground' outcomes in life science investments tend to be less common. Development Bank also shared an example of this in the committee from its own portfolio. The benefit of the Development Bank's approach is having a broader and more balanced portfolio of equity and debt investments. The Development Bank reports the fair value of these investments in its annual report and financial statements.

### Creating/safeguarding jobs

### Question 13

We would be grateful for any further analysis that may be available concerning performance in creating / safeguarding jobs. In particular:

- o How the 311 figure in your written evidence breaks down between jobs created and jobs safeguarded, and the spread of those figures by investment.
- o How many of the 311, in either respect, remained in Wales on closure of the Fund.
- o How many of the 311, in either respect, were considered highly paid or skilled (if there is additional data beyond what was said in your written evidence about 16% being held by a person with a PhD or MD).

### Response

Approximately 100 jobs were safeguarded, and the rest were created. Simbec had the largest proportion of jobs created and safeguarded (140) and the majority of the rest were split between Rutherford Health, ReNeuron and Intelligent Ultrasound.

All jobs reported were based in Wales. The remainder in Wales at the end of the Fund is not available until the Fund Manager has conducted its final report following the winding up of the partnership.

As stated in our written evidence, 16% of jobs were being held by a person with a PhD or MD. The Fund Manager does not report on the pay and skill levels of all jobs reported. Due to the sector, it is a reasonable assumption that the majority of these jobs were higher skilled and well paid.

#### **Question 14**

In correspondence to the Public Accounts Committee in March 2016, the then Minister referred to an aspiration of creating 500 jobs. What might have been behind that ambition when, at that time, it appears the target for creating or safeguarding jobs sat at 300.

#### **Response**

The 500 jobs referenced in the letter dated 7 March 2016, which preceded a number of significant international events, was most likely a forecast based on performance at that time if present trends continued. The target at that time was 300 jobs.

#### **Attracting private sector co-investment at deal level**

#### **Question 15**

In communicating the closure of the Fund and in your written evidence, the Welsh Government has emphasised the level of co-investment at deal level. Why was there no target set for deal level co-investment and is it reasonable to attribute all the co-investment to the Fund itself.

#### **Response**

Businesses raising Venture Capital funding often source it from multiple investors and co-investment was required to satisfy the State Aid requirements for the Fund. Therefore, a high degree of co-investment at deal level was expected but the primary ambition was to raise investment at Fund level.

It is reasonable to attribute the deal-level co-investment to the Fund as the deals would not necessarily have happened without the investment from the fund.

#### **Question 16**

What is your assessment of the impact the Fund had on the Life Science sector in Wales, and in the context of the co-investment at deal level significantly outweighing the Fund's direct investment.

#### **Response**

The Fund delivered an important component of Welsh Government's life sciences sector policy. The Fund achieved a number of its KPIs. It also helped raise the profile of life sciences in Wales and increase the availability of finance for the sector.

It is important to note that the Fund's impact was not just at point of investment. It supported the wider ecosystem, for example, through cross-pollination as investees conducted trials with established life sciences businesses in Wales.

The deal level co-investment that was achieved indicated that the private sector also had confidence in the investments made by the fund manager and business plans of investees. These investments have been part of growing the sector to where it is now.

Welsh Life Sciences industry is 4% of the UK sector. It currently employs more than 12,000 people, in over 260 companies with an approximate combined turnover of £2.6bn. The Med Tech sector in Wales is one of the 12 life science high potential areas for investment across the UK currently (latest UK Trade Report). Half of the Funds investments were in MedTech companies showing that it supported the sector at a time of growth.

### **Question 17**

What information do you have about the extent to which co-investors at deal level have kept their investments (for those companies still operating).

### **Response**

The Fund did not report on this information.

### **Co-investment and/or other financial support from the public purse**

### **Question 18**

The Regeneris report suggests that the Welsh Government co-invested in the August 2013 ReNeuron deal and Finance Wales co-invested in the August 2014 MedaPhor (now Intelligent Ultrasound) deal. However, the Auditor General's report, while commenting on issues around prospective support for ReNeuron, suggests that this was about grant support rather than investment in the company. Can you clarify the position for both companies, and whether any sums involved from the public purse are included within the overall co-investment at deal level figure of £273 million.

### **Response**

No Welsh Government or Finance Wales investments are included in the final co-investment figures.

The investment packages detailed in section 5 of the Regeneris report did include Welsh Government and Finance Wales funding as co-investment. This is not typically how private sector co-investment is reported and these components were subsequently removed from Fund reporting.

### **Question 19**

We would also like to know if there was further direct investment in either of the two companies and, if so, whether those investments are still held and their current value.

### **Response**

The Fund invested £10m in ReNeuron between 2013 and 2015, and £600,000 in Intelligent Ultrasound in 2014. No further investments were made in those two companies by the Fund. The current value of these investments are component parts of the £1.8m figure for the remaining assets detailed on page four of the submitted evidence. Valuations of these assets will change as they are publicly listed.



### Question 20

Was there any other direct public investment or wider grant support in any of the companies invested in by the Fund but outside of the Fund itself. If so, is any of that support counted within the £273 million figure for co-investment, and are any direct investments still held (or what gains or losses were realised).

### Response

The Fund did not deploy grants or invest outside the amounts committed to the partnership. Development Bank of Wales only has information related to the investment through the Fund Manager. No grant support was included in the final figure for co-investment.

The Development Bank of Wales does not hold any details of grant or other types of support received by investee companies.

### Performance on other metrics

### Question 21

The Regeneris report suggests that, as at December 2014, the five investee businesses at the time had created 70 items of intellectual property. How does that relate to the figure of 59 registered patents for the lifetime of the Fund – against a target of 100 – set out in your written evidence. And, if it was measuring something different, do you have an up-to-date figure equivalent to that in the Regeneris report.

### Response

The Fund supported its investees to create 59 registered patents. As stated by Regeneris, the 70-figure included activity initiated prior to the Fund's involvement and so those were excluded following the report.

### Question 22

The Regeneris report highlights that the figures it reported appeared to include some items of intellectual property that pre-dated the Fund's investment and that some, related to InterRad, might not reside in Wales. Of the 59 registered patents reported in your written evidence, we would like to know how many remain in Wales.

### Response

Intellectual property is located where the business which generated it are located and registered.

The assets being transferred to Development Bank of Wales account for 32 of the 59 registered patents.

### Question 23

Also, as raised during the evidence session, how many patents over the life of the fund were attributable to the investments that have wound up.

### Response

Of the reported 59 registered patents, 9 were attributable to investees which have since entered administration proceedings.

### Question 24

The Regeneris report suggests that the Fund Manager had identified some possible targets around investment in laboratories and international partnerships in its initial investment plans. However, the report also suggests that the logic for the targets was not clear and judged the resulting estimates as high. Was such information reported on as part of the monitoring of the Fund and, if so, what were the overall outcomes.

### Response

As they were not included as KPIs from launch and Regeneris stated their logic for inclusion was not clear, this information was not reported.

### Developments in response to the Regeneris report

### Question 25

We would like to confirm how, as part of wider governance arrangements, the 2016 Regeneris report was considered and acted on by the Welsh Government and Finance Wales / the Development Bank at the time.

### Response

All recommendations from the Regeneris report were considered and where applicable, acted upon, for example:

- pursuing the partial exit from Verona;
- the opportunity to address fees was taken;
- Economic Development reporting was strengthened;
- State Aid compliance was clarified and confirmed; and
- the fund was kept open to allow additional funds to be raised.

### Question 26

The Regeneris report highlights that the reviewers had not seen the necessary evidence to demonstrate that the Fund Manager made best endeavours to secure the anticipated £50million investment at fund level by the end of 2015. What action was taken in response to this finding. For example, were there any contractual mechanisms relating to performance in this respect and, if so, were those mechanisms enacted.

### Response

As shown in the Regeneris report, the Fund Manager shared diary entries for a wide range of meetings with VCs and institutional investors, prior to the Auditor General review. Therefore, Regeneris stated that the Fund Manager did endeavour to seek investment, but they had not seen the necessary evidence to categorise this as best endeavours. An auditable email trail, such as emails discussing investment in the Fund, did not exist due to the nature of the initial meetings.

By the time Regeneris reported this finding Arix BioScience plc had acquired the Fund Manager. The Fund Manager reported to the Holding Fund that upon the acquisition, Arix BioScience was discussing the possibility of investment in the Fund.

Following this conclusion, the Fund Manager was able to share its approach and seek potential investors. The Fund Manager felt their efforts were strengthened by no longer having to declare an on-going Auditor General review.

### **Question 27**

Several of the recommendations in the report related to the approach to any ongoing investment strategy and the funding of it. Despite various stated ambitions for the future of the Fund at the time, why do these not appear to have been realised.

### **Response**

These were realised. The Fund made a partial exit to meet cashflow requirements, and although it was almost fully invested, it was kept open to allow additional funds to be raised rather than further public funding. The new funding made available through the £5m from Arix BioScience was utilised for follow-on investments.

### **Question 28**

What was the rationale for Arix joining the partnership and contributing £5 million and is there a reason why Companies House records for the Investment Fund Limited Partnership do not appear to reflect that contribution.

### **Response**

The £5m contribution by Arix BioScience plc was in line with the requirement for them to generate Fund level co-investment.

Arx BioSciences £5m investment did feature in the relevant limited partnership financial statement reporting submitted to the Holding Fund. Submitting these accounts to the Companies House page for the Limited Partnership is not typically required as they are usually appended elsewhere. Arx BioScience plc and the Fund Manager's publicly available accounts on Companies House for the relevant period references a commitment of £5m made to the Limited Partnership.

### **Question 29**

The Regeneris report highlights that several of the investments did not comply with the Investment and Operating Guidelines. Did the Welsh Government and the Development Bank seek any further assurances over these investments and what action was taken in response to a recommendation about clarifying future protocols.

### **Response**

All investments were made in compliance with the Investment and Operating Guidelines or with variations approved by Welsh Government as stated in the Regeneris report.

### **Question 30**

What did the Welsh Government and/or the Development Bank do to ensure investments were state-aid compliant, and specifically in the case of Simbec which the Regeneris report mentions.

## **Response**

State Aid compliance was a prerequisite on the Fund Manager for drawdown of funding for investment proposals. Each investment was State Aid compliant.

## **Developments with investments from 2016 onwards**

### **Question 31**

Your written evidence explains that quarterly reports by the Fund Manager were then reduced to annual reports once the Fund entered the realisation phase. Why did the frequency of reporting reduce, was this in line with the partnership agreement, and what impact did this have on your ability to identify early warning signs and potential exit routes.

## **Response**

Reporting was by agreement between the Fund Holder and Fund Manager. The formal written reports were provided annually, but meetings and correspondence took place more often.

### **Question 32**

With the current valuation of the transferred investments suggesting a substantial loss on the ReNeuron investment, at what point were you alert to the deteriorating performance of that investment.

## **Response**

All publicly listed shares were monitored monthly, so we were aware within a month of the publication of the latest trial results and subsequent share price decline.

### **Question 33**

Why did the Fund not participate in the fundraising for CeQur which resulted in the Fund's position being severely diluted and what, if any, line of sight did you have on the risk of such a development before it happened.

## **Response**

The fund was fully invested so there was no further scope for investment.

### **Question 34**

Can you expand on the action taken by the Welsh Government or Development Bank on matters relating to the FCA suspension of Woodford Funds in 2019 and the impact that this had on Sphere Medical. Also, had either the Welsh Government or the Development Bank identified or been made aware of the potential conflicts in relation to the Fund before media coverage in June 2019.

## **Response**

Welsh Government and Development Bank worked with the Fund Manager to clarify the impact of the suspension of Woodford Funds. As the Fund was fully invested by 2019, the Fund Manager had little ability to support the businesses impacted.

The suspension came at a time when many businesses anticipated drawdowns from Woodford Funds and like them, Sphere Medical's cashflow was severely impacted.

The Fund Manager clarified that “investments including Woodford have been dealt with in full compliance with FCA rules and there were no conflicts of interest”.

## **Other matters**

### **Question 35**

Your written evidence sets out six core investment principles that the Development Bank now applies. In the context of the Regeneris report commentary on the rationale for investments, what is your take on whether the Fund’s original investments would meet the tests you apply today.

### **Response**

These six principles would not apply as the Fund was delivered by an external Fund Manager and the Fund had separate aims and investment strategy to that of the Development Bank.

### **Question 36**

How many of the original investments span out of university research.

### **Response**

A number of companies were spinouts from universities or collaborative R&D projects, but this was prior to the Fund investment.

### **Question 37**

One of the areas examined by the Auditor General’s report in 2016 concerned the management of conflicts of interest. What assurances can you give the Committee about the way conflicts of interest are considered and managed in the context of other current investment portfolio activity.

### **Response**

Investment documentation for each asset being transferred to the Development Bank of Wales is being reviewed and potential conflicts of interest are considered. Following the transfer, each investment will be monitored in line with Development Bank standards which includes a robust conflicts of interest policy.