



Llywodraeth Cymru
Welsh Government

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

31 March 2025

Dear Chair

Wales Life Sciences Investment Fund

I am writing in response to your letter of 3 December 2024 in which you requested an update on developments with the Fund, following the earlier evidence session on this subject and additional information provided thereafter.

Welsh Government and DBW officials met with Audit Wales and the Committee's clerking team to discuss this matter, as you proposed, with the aim of ensuring sufficiently comprehensive information could be provided to the Committee so it can draw its interest in this matter to a close.

A full response to the Committee's specific questions has been prepared jointly with DBW and is now attached at Annex 1. I also attach (at Annex 2) a short report recently prepared for me by Giles Thorley, which sets out his final thoughts and key lessons on the Fund.

Yours sincerely

Andrew Slade
Director General
Economy, Energy and Transport

Parc Cathays/Cathays Park
Caerdydd/Cardiff
CF10 3NQ

Wales Life Sciences Investment Fund

Public Accounts and Public Administration Committee requests

1. Updated position and developments

1.1. Could you please provide an updated position of the fund (noting Companies House still shows that it is 'active'), the residual assets of the fund, including the current valuation of any assets still held by the Development Bank of Wales (DBW).

Updated asset valuations

We can confirm the Partnership has been dissolved, final tax return completed, and all assets distributed to the limited partners.

In the closure review, the value of the assets to be transferred to the Development Bank of Wales was forecast to be £1.8m at closure of the Fund. This was a point in time audited valuation. As discussed in the Committee evidence session on 27 September 2023 (transcript paragraphs 108 – 109) the movement from the previously issued figure of £2.5m to £1.8m was due to the list assets changing share price.

Below is a table summarising the latest valuation of assets distributed to DBW Investments (9) Ltd following the Fund closure and winding up of the Partnership. The distribution included £904k of cash proceeds.

Asset	Status	Latest estimate
Fund cash	Cash proceeds distributed to DBW Investments (9) Ltd.	£1.825m
Listed assets	ReNeuron is now in administration and valued at zero.	£0
Unlisted assets	InterRad and CeQur investments at fair value	£0
Deferred consideration*	Apitope International NV announced its intention to liquidate in 2019 and formally entering voluntary liquidation in October 2020. Assets of the company were acquired by Worg Pharmaceuticals in 2021, creating a deferred consideration,	£0
Total	The latest audited valuation of the assets transferred to DBW Investments (9) Ltd at (September 2024) and the cash proceeds returned.	£1.825m

*Deferred consideration refers to the distribution of proceeds for an asset as being delayed and dependent on future conditions rather than at the point of sale. In the case of Apitope, the legal entity receiving investment from the Fund ceased trading in 2020. Therefore, a waterfall of investors are the beneficiaries of the deferred

consideration if the purchased assets pass list of milestones set within the asset purchase agreement. DBW's position within the waterfall means crystallising of the deferred consideration is improbable and it will be valued at zero until a payment is made. As the legal entity was liquidated three years prior to the Minister's statement in February 2023, and the deferred consideration considered improbable, it was not categorised as a "remaining" investment.

2. Summary of the fund's transactions

2.1. Could you provide a detailed summary, by year, of fees/reimbursements paid to the fund manager/Arix (as a limited partner/investor) throughout the fund's duration. Additionally, please indicate how these fees were calculated and the purpose of any reimbursements.

Fees

Below is a summary of net General Partner Share paid by the DBW Investments (9) Ltd as limited partner and Holding Fund on behalf of Welsh Government, updated to include the final cash distributions and rebate amounts.

Fund Period	Net paid (less equalisation & rebates)	Actual annual charge
First close & set up fee	£5.6m	2.5%
Second close (final fee structure)	£2.1m	0.8%
Total (life of fund)	£7.7m	1.5%

The submission to PAPAC, dated 14 September 2023, and closure review estimated the final net fee to be equivalent of 1.7% per annum. Following the final rebates, this has reduced to 1.5%.

Below is the annual accrual of DBW Investments (9) Ltd share of the General Partner Share by period. Following the £5m investment from Arix BioScience and Limited Partnership Agreement variation, fees accrued and were only drawn from proceeds generated.

Fee period	Transactions description	Total
Setup fee	Set up cost	£0.5m
Feb 13 - Mar 14	General Partner Share for first fee structure period	£1.4m
Apr 14 - Mar 15		£1.3m
Apr 15 - Mar 16		£1.2m
Apr - Dec 16		£0.9m
Jan - Mar 17		£0.3m
2014-2017	Total for first close fee structure period	£5.6m
Apr 17 - Mar 18	DBW Investments (9) Ltd share	£1.0m
Apr 18 - Mar 19	DBW Investments (9) Ltd share	£0.8m
Apr - Dec 2019	DBW Investments (9) Ltd share	£0.4m
Jan - Dec 2020	DBW Investments (9) Ltd share	£0.5m
Jan - Dec 2021	DBW Investments (9) Ltd share	£0.4m
Jan - Dec 2022	DBW Investments (9) Ltd share	£0.2m
Jan - Feb 2023	DBW Investments (9) Ltd share	£0.0m
2017-2023	Total for second close fee structure period	£3.3m
Full Fund	Gross DBW Investments (9) Ltd share of fees	£8.9m
Equalisation	Paid to DBW Investments (9) Ltd as catch up on Fees after Arix £5m investment*	(£0.5m)
Rebates	Distributed in 2019* and 2023 following General Partner Share drawdown.	(£0.7m)
Total Paid	Net DBW Investments (9) Ltd share of fees	£7.7m

*The equalisation payment and 2019 rebate made up a proportion of the proceeds transferred from DBW Investments (9) Ltd to Welsh Government following the Simbec exit.

Fee structures

Below is an outline of how the fees were calculated and the purpose of the rebate mechanism.

Until the August 2017 Variation Agreement, payment of the General Partner's share operated in line with the original Limited Partnership Agreement. This original structure of fees for the first close of the Fund was set to continue until the realisation period. The realisation period was due to begin on 28 February 2018. Below is a summary of the original fee structure.

- **First close investment period** (Holding Fund Loan Commitment Period): 2.5% per annum of the aggregate Holding Fund Loan Commitment as at the date of the Limited Partnership Agreement less the aggregate of all amounts by which the Acquisition Cost of any Investments have been written down or written off in accordance with the Valuation Procedures.
- **First close realisation period:** 2.5% per annum of the Acquisition Cost of the Investments after deduction of (a) the Acquisition Cost of any Investments which have been sold or otherwise disposed of and (b) all amounts by which the Acquisition Cost of any Investments which have not been sold or otherwise disposed of have been written down or written off in accordance with the Valuation Procedures.

The fee structure changed when Arix BioScience invested £5m into the Fund and made the equalisation payment of £479,395 to DBW Investments (9) Ltd. Arix, as Limited Partner, then became responsible for its share of fees in proportion with their £5m investment into the Fund.

The new fee structure opened the Fund to private funding and kept the investment phase open to encourage further investment activity using privately sourced funding. The new structure was a gross 2.5% charge but introduced a performance-based rebate to reduce fees to the net position outlined above.

The rebate was a repayment of fees to the Limited Partners based on the performance of the portfolio. Repayment was the amounts required to reduce the fee in line with the first close realisation phase fee structure.

The new structure and rebate mechanism ensured that while the Fund had legal structures to remain open for further investment, it incentivised the Fund Manager to make commercially advantageous decisions. By only paying the accrued fee and consequent rebate when proceeds were generated from an exit, the new structure also addressed the cash flow issues noted in the 2016 Regeneris report.

As stated in the evidence paper, dated 14 September 2023, due to lower valuations and returns, fees were below that anticipated by the 2016 Regeneris report.

2.2. Could you provide a detailed summary of all divestments (either through the sale of investment or write-offs for liquidated companies) throughout the fund's duration.

As referred to in the evidence submitted to the Committee (see the table under the Specific investment detail section in response to question 6 of the Committees' questions), several businesses were divested prior to Fund closure through write offs and exits. The summary is of divestments and write offs prior to winding up of the Fund and distribution of assets is below.

Company	Original Investment	Trigger	Value	Summary
Apitope	£4.5m	Write down	nil	Business closed in 2019 with a milestone dependent Deferred consideration,
Rutherford Health	£10.0m	Write down	nil	Business closed in 2022 with no assets to be distributed to DBW9
Sphere Medical	£5.0m	Write down	nil	Business closed in 2019 with no assets to be distributed to DBW9
Simbec-Orion	£8.8m	Exit	£19.7m	Value transferred in specie following distribution process
Vernona Pharma	£4.3m	Exit	£2.3m	Repayment of loan
		Exit	£0.9m	Value transferred in specie following distribution process
ReNeuron	£10.0m	Write down	nil	Entered Administration proceedings in 2024.
Intelligent Ultrasound	£0.6m	Exit	£0.1m	Sold part of its business generating liquidity for DBW 9 to exit

2.3. Could you provide a detailed summary of all other transactions that have not been accounted for in previous evidence such as audit fees, brokerage costs, loans etc.

The General Partner was responsible for accounting administrative expenses for the Limited Partnership. This included accounting for custodianship fees, audit and tax fees, legal fees for investments or Partnership changes. DBW Investments (9) Ltd share of these administrative expenses for the Limited Partnership accumulated to circa. £783,000.

This £783,000 is a net figure made up of £178,900 for the first close period (after the equalisation payment) and £604,000 for the remaining duration of the Fund.

If, by brokerage fees, this refers to arrangement fees then these are separate from the Fund as they were charged to the investees by the Fund Manager. As stated in the evidence paper, dated 14 September 2023, “the Auditor General Wales acknowledged arrangement fees were a standard practice as part of a commercial negotiation between the Fund Manager and the investee companies.” There is more detail on these fees in that submission also.

The £3m loan referenced in the Regeneris report was repaid in full in 2016.

2.4. To support the response above around fees, we would welcome sight, or at least a summary of, the findings of the in-depth review of fees that the closure report says was conducted in 2023.

The in-depth review involved going back through the entire history of the Fund to reconcile all fees to ensure they were fully in line with the Limited Partnership Agreement.

The final output was an agreed General Partner Share and distribution reconciliation workbook. This workbook demonstrates the full history of fee accrual matched to the LP annual accounts and final distribution amounts before proceeding with liquidation. This confirmed the final net fee at £7.7m as stated above.

3. Support to invested business

3.1. We previously raised a question around whether any sums involved in the ‘co-investment at deal level’ figure of £273 million included any public purse monies beyond the Fund’s own investment. We also asked about 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. The Committee would still welcome confirmation of any public funding support that the various companies invested in by the Fund received from the Welsh Government or Finance Wales/DBW (in whatever form) during the lifetime of the Fund but outside of the Fund arrangements itself (i.e. under other programmes of support).

Between June 2006 and August 2014, Finance Wales invested £1.5m in Medaphor, now called Intelligent Ultrasound. Drawdowns of Finance Wales investments made into Medaphor while the Wales Life Sciences Investment Fund was investing were tranches of a round of investments which started in 2012, before the Fund investment period.

Companies invested in by the Wales Life Sciences Investment Fund during the lifetime of the Fund – Welsh Government funding support:

Company	Welsh Government funding support
ReNeuron Plc	<p>The 2016 Wales Audit Office Report notes the Welsh Government issued an ‘in principle’ support package of £7.8m related to ReNeuron in 2013. The 2016 Regeneris Review of the WLSIF also references this.</p> <p>The ‘in principle’ package comprised:</p> <ul style="list-style-type: none">a) non-repayable business finance of £1.8 million;b) training grant of £0.5 million;c) research and development projects of £1 million;d) clean rooms and manufacturing facility support worth up to £4.5 million. <p>The Welsh Government went on from this “in principle offer” and provided a joint offer to ReNeuron Group plc and ReNeuron Limited with business finance of £500k for job creation support in September 2014. The project completed on a reduced scale in January 2019 with £457,423 released based on the creation of 43 highly skilled jobs.</p> <p>Recipients of grant are required to maintain assets purchased and the jobs for a period of up to five years following the final payment, otherwise there is a</p>

	clawback of grant. ReNeuron is now in administration. This is expected to impact options for clawback.
Simbec Orion Group	<p>2015 - £138,000 grant paid 14.5 jobs safeguarded</p> <p>Simbec's assets and job numbers were confirmed to be in place.</p>
Intelligent Ultrasound (Medaphor)	<p>2014 - Innovation Voucher £30,000.00 (a form of support to assist businesses invest in research and development activities)</p> <p>Trade support: c. £5,000 (assistance with export)</p> <p>As these awards were made over ten years ago, the outputs and outcomes are not available. However, they would have included the following:</p> <ol style="list-style-type: none"> 1. New products and processes introduced 2. New overseas orders won. <p>The company is still trading and employs over 60 people.</p>
Rutherford Health (Proton Partners)	N/A
Sphere Medical	N/A
Verona Pharma Plc	N/A
Apitope International	N/A
InterRad Medical	N/A
CeQur SA	N/A

The jobs figures included in this table are outside the timeline of Fund investments for both ReNeuron and Simbec. We understand they are distinct from the job figures previously reported for the WLSIF investments.

4. Other matters

4.1. When we took oral evidence, we heard that DBW was planning an evaluation of the Fund and that it was aiming to complete this by the end of the 2023-24 financial year. You have since provided a copy of the closure report. However, some of the dates in this document suggest that it had largely been produced before our evidence session and that it had been due for submission to the Welsh Government by the end of September 2023 (although it also refers to submission by the end of October 2023). We would be grateful if you could confirm the chronology of the closure review report and its approval and whether there was ever any intention of producing any separate/broader evaluation report.

The review was mainly written following the Committee evidence session in September 2023 to ensure it met the requirements of Welsh Government and the details discussed in Committee.

It is standard practice for the development bank to undertake an evaluation at the end of a Fund, as it did with the Wales Businesses Fund

As stated in the Committee (paragraphs 223 - 226 in transcript) Development Bank were already in discussions with Welsh Government on a final review.

The discussions with the Welsh Government on a closure review were initiated in May 2023 aimed at establishing a terms of reference. The initial terms of reference were agreed by August 2023 with an initial draft deadline of October 2023.

Following the August invitation to appear at the Committee in September 2023, the draft deadline was postponed so the review could be better targeted at addressing points raised during the Committee evidence session.

The first draft was submitted in January 2024 and following an iterative process, was finalised and provided in May 2024.

4.2. We note the closure review states that DBW's responsibility is to pay the final fund returns to Welsh Government upon the end of the realisation term of the remaining investments at a date to be agreed by DBW and Welsh Government, which is no later than 31 March 2025. It also states that DBW will undertake an end of realisation review at that point. We would welcome an update on these arrangements and an overview of what the end of realisation review would cover in the context of some of our above requests and so that we can understand its potential relevance to the content and timing of any reporting by the Committee on the outcomes from the Fund.

All proceeds received from the assets into DBW Investments (9) Ltd will be paid to the Welsh Government by 31 March 2025. There are still potential receipts (currently valued at £0.1m) from the remaining assets held which will be returned to Welsh Government when they are received.

In supporting the Committee's inquiry, the bank and Welsh Government have submitted several evidence papers and responded to specific queries. Given the transparency of this information, we do not intend to represent this information and analysis again in an extensive end of realisation review.

The realisation review will include a final summary from the accounting officer at Development Bank of Wales setting out high level conclusions and recommendations relating to the Fund. Alongside a short summary of fund performance, the report will summarise key lessons emerging from the operation of the fund (as have already been shared with the Committee) which may serve as a valuable point of reference for any future proposal seeking support for a sector venture capital fund. To this end the report will not introduce any substantive new analysis or assessment not already shared with the Committee.

Andrew Slade
Director General
Economy, Treasury and Constitution
Welsh Government
Cc Duncan Hamer. Director Operations, Business and Regions

Dear Andrew,

As Chief Executive and accounting officer for the Development Bank of Wales I am writing to you regarding the Wales Life Sciences Investment Fund.

This offers my final thoughts and key lessons on the fund which should be considered should a similar fund be proposed in the future.

Yours sincerely,

Giles Thorley
Chief Executive, Development Bank of Wales

Development Bank of Wales Plc

Unit J, Yale Business Village, Ellice Way, Wrexham LL13 7YL
info@developmentbank.wales | developmentbank.wales



Mewn Partneriaeth â
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Development Bank of Wales Plc is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found at www.developmentbank.wales

1. Context

The purpose of this short report is to provide a high-level summary of the key points to ensure they are not lost and are easily accessed by anyone contemplating creation of a similar fund in the future. This report does not go into the detailed performance of the fund or any individual investment or reviews, however links to the key documents which cover these matters are in annex A.

The Wales Life Sciences Investment Fund ran for 10 years between 2013 and 2023. It was seen as part of an ambitious and innovative policy to enhance support to and grow the Life Sciences sector in Wales. The funds 10-year term has now ended and, apart from some low value assets which have yet to be exited, is now closed.

The fund was set up with four objectives:

- to increase accesses to equity finance for Life Sciences SMEs,
- attract Life Science businesses to Wales,
- increase rate of growth and employment for the sector in Wales and,
- increase commercialisation of Life Sciences research, development and innovation.

Overall, the fund did meet these objectives.

To date, of the £50m Welsh Government investment into the fund it has returned £21.8m. The financial loss on the fund was caused by several factors:

- The investment strategy assumed a larger fund size which resulted in a less diversified portfolio, which increased risk and limited follow-on funding.
- A major investment fund (Woodford Equity Income Fund) in life sciences in the UK, who co-invested in some WLSIF businesses, collapsed. This left those WLSIF investee companies facing greater difficulty in raising follow-on capital.
- Whilst the Covid pandemic impacted all investee businesses, it was quoted as a contributing factor for the failure of Rutherford Health.
- For businesses like ReNeuron Group PLC disappointing results of their clinical trials were the main contributing factor to the company's failure.

The Fund has been subject to many reviews throughout its life. These have included Welsh Government Internal Audit, the Wales Audit Office (now Audit Wales), external consultants Regeneris Consulting (now Hatch) as well as numerous reviews by the Development Bank. These have helped to guide and shape the fund throughout its lifecycle.

2. Core lessons

2.1. Choice of Fund Manager

The fund was designed to focus on just life science businesses either located or willing to locate to Wales. It also had an ambition to raise an additional £50m. The decision to appoint an external, specialist fund manager was considered the best option as it is a very specialist sector and a fund manager specialising in Life Sciences would have been better placed to raise the private sector investment at fund level and have better contacts with life science businesses looking to relocate to Wales.

Previous reviews highlighted several issues in the early stages of the Fund. They included communications between the fund manager, DBW and the Welsh Government as well as the level of fees the Fund Manager directly charged the investee businesses. While the charging of fees by a fund manager is standard practice in the Venture Capital market, the fund management contract did not set limits. **The Governance, including lines of communication and other issues such as prescribing charging limits needs to be considered, and built into the fund management contracts at the outset.**

2.2. Risk profile

Venture Capital is a form of investment that focuses on early-stage, innovative businesses with strong growth potential. As such this form of investment, particularly in the Life Sciences sector, also attracts a substantial element of risk.

Whilst £50m is a large sum of money, it is relatively small for a fund of this type. The initial aim was to raise a further £50m, creating a £100m fund. The fund manager cited the Wales Audit Office review of the fund, which took around two years, as a major cause of them being unable to raise the additional £50m as it would have caused concerns with potential investors. Eventually the fund manager ARIX Biosciences PLC invested £5m into the fund in 2016.

Normally the maximum investment from a fund into a single business is limited to 10%. This mitigates the impact to the fund should some of the investments fail. In this case the fund manager made 11 investments in 9 companies, with three of those investments exceeding 10% of the value of the fund. Because of this, the Regeneris review concluded the fund was 'over concentrated'.

The decision to approve the additional investments in the three companies beyond 10% were based on the assumption, and promises by the fund manager, that they would raise the additional £50m investment at fund level. If this had happened all investments would have been within the 10% threshold. **The key lesson learnt is to base all investment decisions of the value of the fund at that time and not on potential future value.**

The 9 investee businesses represented a broad portfolio, ranging from lower risk established businesses with revenue streams to very high risk (potentially very high return) pre-revenue businesses where future returns were wholly dependent on successful trials. To that extent the portfolio was considered balanced.

3. Future projects

As part of the economic policy to support the Life Sciences sector in Wales, alongside other interventions such as the Life Sciences hub, a specialised life sciences investment fund for Wales was seen as an attractive part of the Welsh offering to the sector. Compared to grant funding the investment model has the benefit that the fund should make returns.

Although the fund was ‘over concentrated’ in three large investments and a broader portfolio would have potentially been lower risk, one of those investments created a significant return. At point of investment, Simbec was an established businesses and in the lower risk section of the portfolio. This risk-based investment safeguarded over 100 high quality jobs in a clinical research business in Merthyr, brought its ownership back to Wales and, provided a £19.7m (2.25x return) on a £8.75m investment.

Whilst there were issues with this fund, the main reasons for the poor overall returns were external factors which impacted the portfolio, Covid-19 had a direct impact on Rutherford Health, the collapse of the biggest investor in Life Sciences in the UK had an impact on several portfolio businesses and, unfortunately the trial results were inconclusive in ReNeuron. The fund did achieve all four of its objectives and it may have taken just one more portfolio company to succeed for the fund to have returned the full investment or profit.

For that reason, provided all the lessons learnt from this fund are considered, the final lesson learnt is **not to write off any future considerations for using a specialist fund manager with a dedicated fund as part of a wider approach to supporting growth in a business sector.**

Annex A: Past reviews

Senedd Committee item page: [Items at meetings - Wales Life Science Investment Fund](#)

Committee session, 27 September 2023, submission from Welsh Government and Development Bank of Wales: [Supporting paper from Welsh Government.pdf](#)

Committee session, 27 September 2023, Review of the Wales Life Science Investment Fund: [Regeneris Report](#)

Audit Wales 2016 report “Establishment and oversight of the Wales Life Sciences Investment Fund”: [Establishment and oversight of the Wales Life Sciences Investment Fund | Audit Wales](#)

Direct to Welsh Government reviews as outlined in Annex 1 of “Closure Review of the Wales Life Sciences Investment Fund” submitted to Welsh Government on 15/04/2024.