Y Pwyllgor Cyfrifon Cyhoeddus a Gweinyddiaeth Gyhoeddus

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Public Accounts and Public Administration Committee

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Andrew Slade,
Director General, Economy Skills & Natural Resources Group
Welsh Government

Giles Thorley
Chief Executive
Development Bank of Wales

24 November 2023

Dear Andrew and Giles,

Life Sciences Investment Fund

Thank you for your attendance at the Committee on 27 September, alongside your colleagues, to discuss the Wales Life Sciences Investment Fund.

There were various questions that we did not have time to get to on the day and other areas that we would welcome further clarification on. Details of these issues are set out in the Annex to this letter.

I also note and welcome the commitment given to undertaking a final evaluation of the fund by the end of this financial year. It is important for lessons to be learned in a timely way, not only from the overall losses incurred but also from the Fund's individual success stories.

The Committee would welcome both sight of the evaluation report once finalised and an update if that evaluation process looks set to take any longer. The Committee will consider its own next steps in that context once we have received your response to the additional matters we have raised. We recognise that some of these matters may also inform the evaluation or be covered in more detail as part of that process.

Thank you in advance for addressing these additional queries.

Please could you provide this information by 8 December 2023.

Yours sincerely,

Mark Isherwood MS
Chair of the Public Accounts and Public Administration Committee

Annex: Wales Life Sciences Investment Fund – Follow Up

Winding up the Fund

- 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:
  - Apitope - £3.9 million in the Auditor General's report.
  - Cequr SA - £3.36 million in the Auditor General's report.
  - 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.
  - Sphere Medical - £4 million in the Auditor General's report.
  - Verona Pharma - £4.62 million in the Auditor General's report.
- 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 £1.8 million. 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.
- You indicated there had been an option to extend the Fund management contract by 2 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.
- 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.

The Fund Manager's entitlements and overall fees.

- 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.
- 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 '£70 million 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.

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

- Your written evidence highlights a target for private sector co-investment at Fund level of £60 million, 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 £80 million 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.
- 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.
- The Regeneris report raises 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.
- 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.
- 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.
- 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.

Creating / safeguarding jobs

- We would be grateful for any further analysis that may be available concerning performance in creating / safeguarding jobs. In particular:
    - How the 311 figure in your written evidence breaks down between jobs created and jobs safeguarded, and the spread of those figures by investment.
    - How many of the 311, in either respect, remained in Wales on closure of the Fund.

    - 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.

- 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.

Attracting private sector co-investment at deal level

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

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

- 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.
- 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.
- 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).

Performance on other metrics

- 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.

- 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.
- 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.
- 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.

Developments in response to the Regeneris report

- 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.
- 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 £50 million 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.
- 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.
- 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.
- 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.
- 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.

Developments with investments from 2016 onwards

- 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.
- With the current valuation of the transferred investments suggesting a substantial loss on the ReNeuron investment, at what point where you alert to the deteriorating performance of that investment.
- Why did the Fund not participate in the fundraise 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.
- 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 on 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.

Other matters

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