

Co-Financing programmes (VC and Business Angel) using Public Money via Private Investment Intermediaries

Rory Earley and Ken Cooper
Department of Trade and Industry - UK

What we Do

- Using Public Money as an Incentive (RE)
 - UK High Technology Fund
 - Regional Venture Capital Funds
 - Bridges Community Development Venture Fund
 - Enterprise Capital Funds
- Using Public Money pari-passu (Ken Cooper)

Why We Do It

- **To stimulate a private market providing venture capital, where that market either does not exist or is sub-optimal.**
- Primary Objectives are NOT to:
 - Further regional development
 - Stimulate regeneration
 - Provide support to SME
 - Address broad social needs
 - Other externalities (employment growth, tax income etc')
- These things will result from successful VC investment

Programmes

- UK High Technology Fund
 - Fund of Funds (9 underlying funds)
 - £20 million UK Government
 - £86.1 million private investors
 - UK Government subordinated
 - Few investment restrictions

Programmes

- Regional Venture Capital Funds
 - One in each Economic Region of England (9)
 - £75 million UK Government
 - £50 million EIF
 - £125 million private investors
 - UK Government heavily subordinated
 - Very tight investment criteria

Programmes

- Bridges Community Development Venture Fund
 - Focused on 25% most deprived areas
 - £20 million UK Government, £20 million private
 - Structured as 2 funds to minimise state aid restrictions
 - UK Government partially subordinated

Programmes

- Enterprise Capital Funds
 - Derived from US SBIC programme
 - UK Government provides leverage – up to 67%
 - Preferred return (Gilt rate ~ 4.5% p.a.)
 - Limited profit share
 - £200 million budget

Characteristics

- All use private sector managers
- All have incentives to maximise financial performance
- All are actively managed in line with industry best practice
- All are expected to perform to their maximum potential

Predicting Performance

“In my portfolio of 20 investments, I can tell you that 12 will definitely make money. I just can't tell you which 12!”

A renowned US Venture Capitalist

Predicting Performance

- Fund performance is:
 - Anticipated with excitement when the fund is young (0-3 years)
 - Evident when the fund is maturing (7-10 years)
 - Absolute when the fund matures (10-12 years)
 - Terrifyingly uncertain in the J-curve dip (3-7 years)

Predicting Performance

- Can early measures predict relative performance?
- If so, how will my portfolio of 24 funds perform ?
- We know EU VC fund performance can vary dramatically (-90% to + 250% IRRs)
- So fair to say my portfolio will vary and will contain

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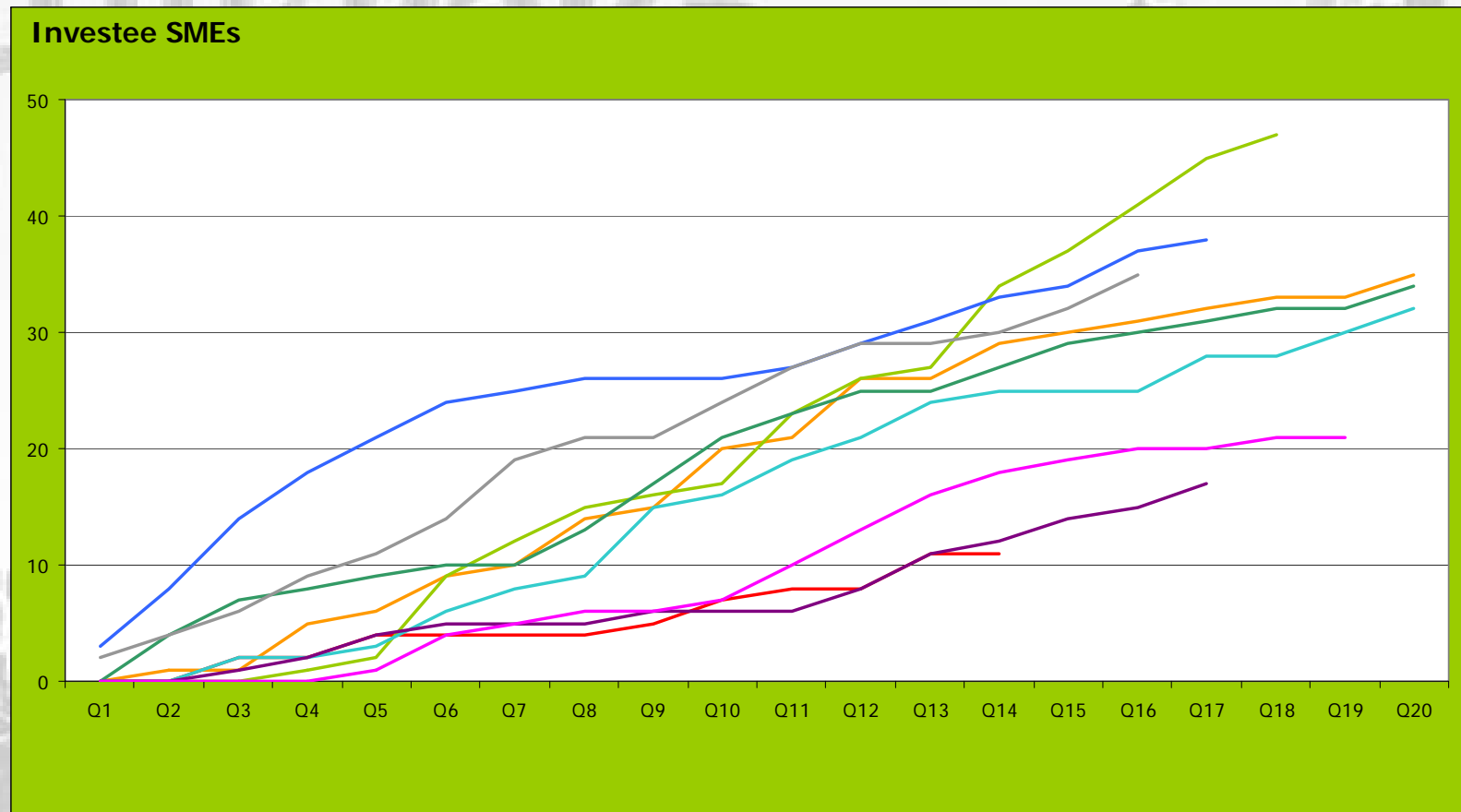
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Performance Predictors ?

RVCFs

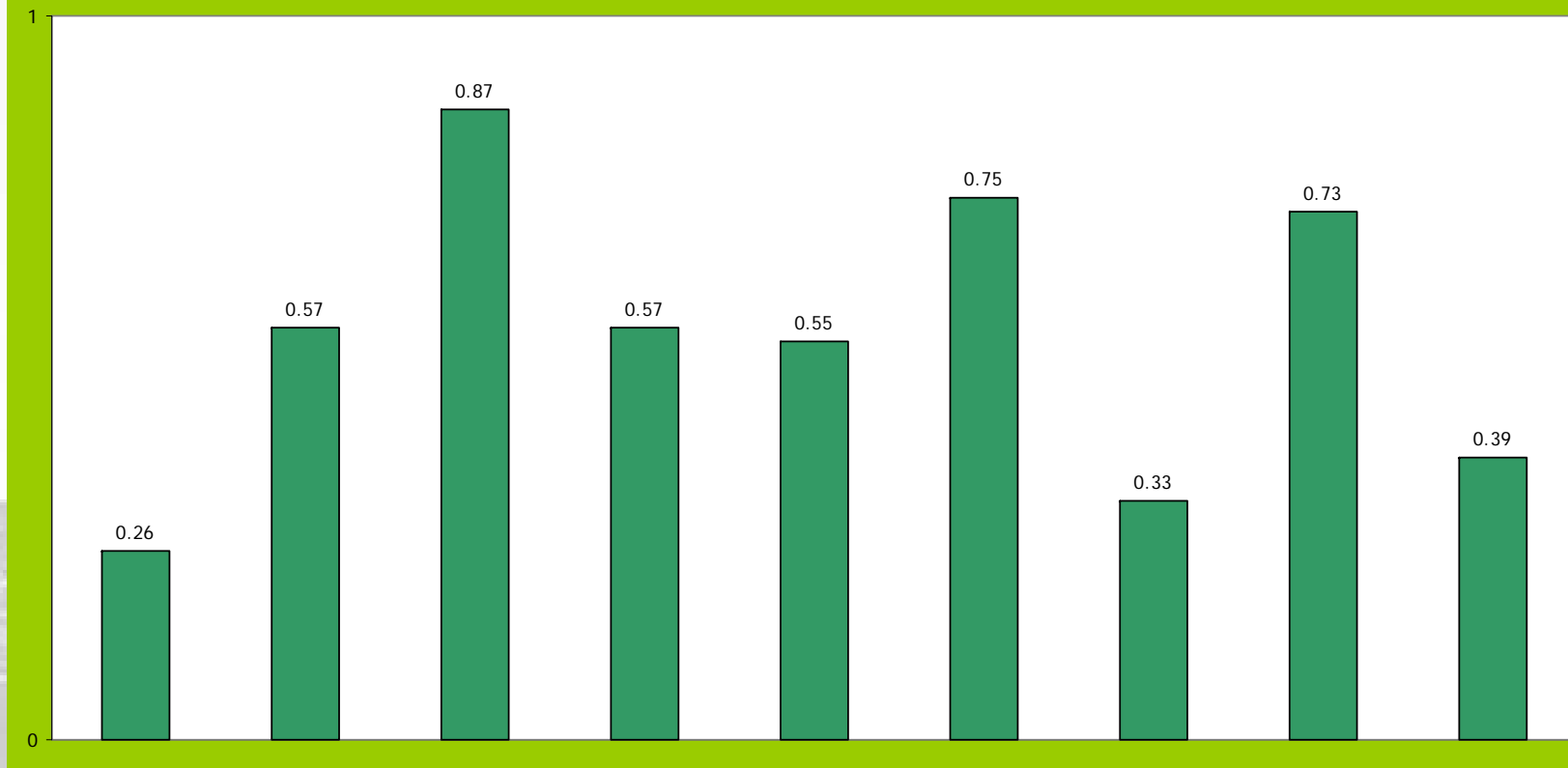
- Investment Rate



Performance Predictors ?

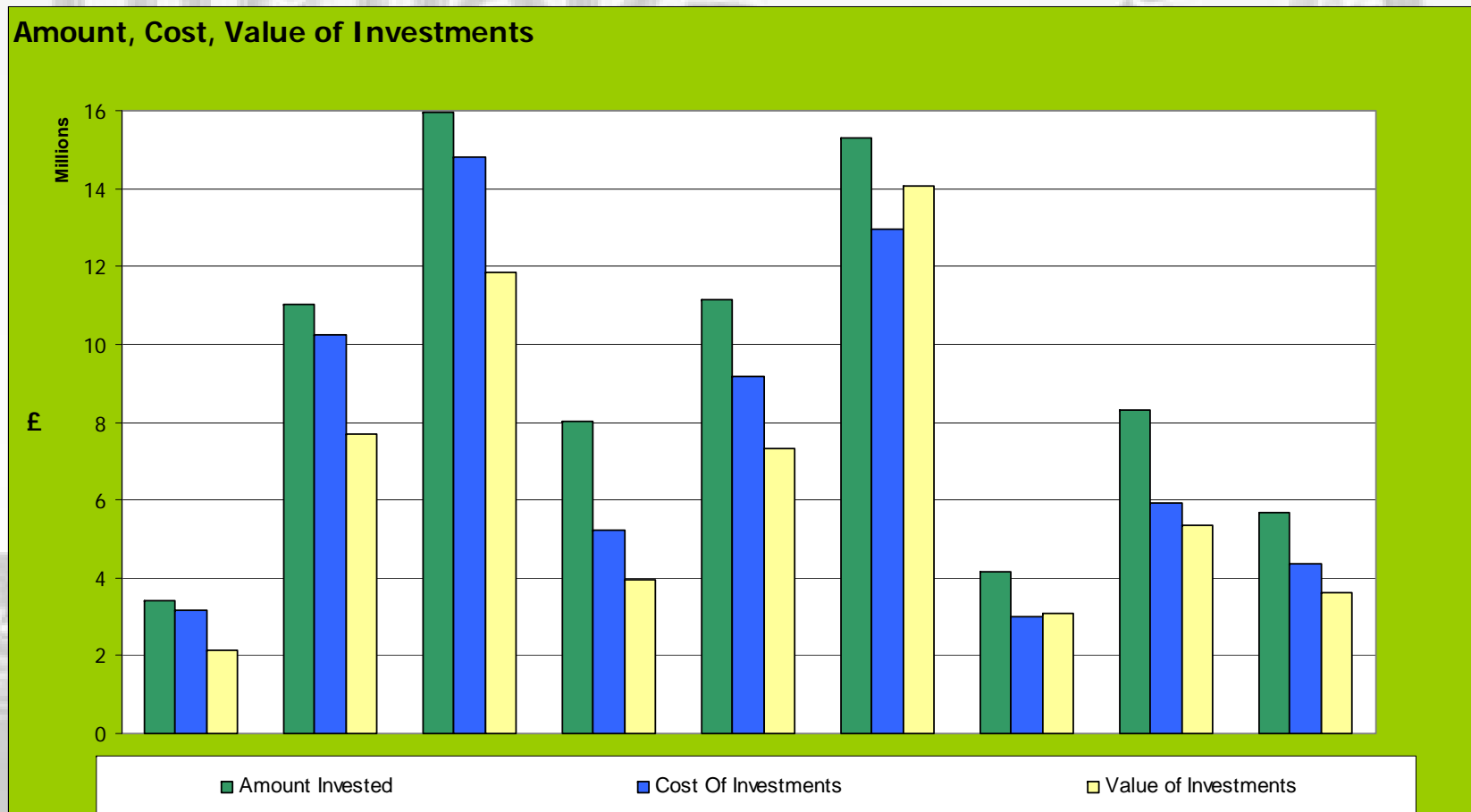
- Investment Rate (2)

Average investee SMEs per month



Performance Predictors ?

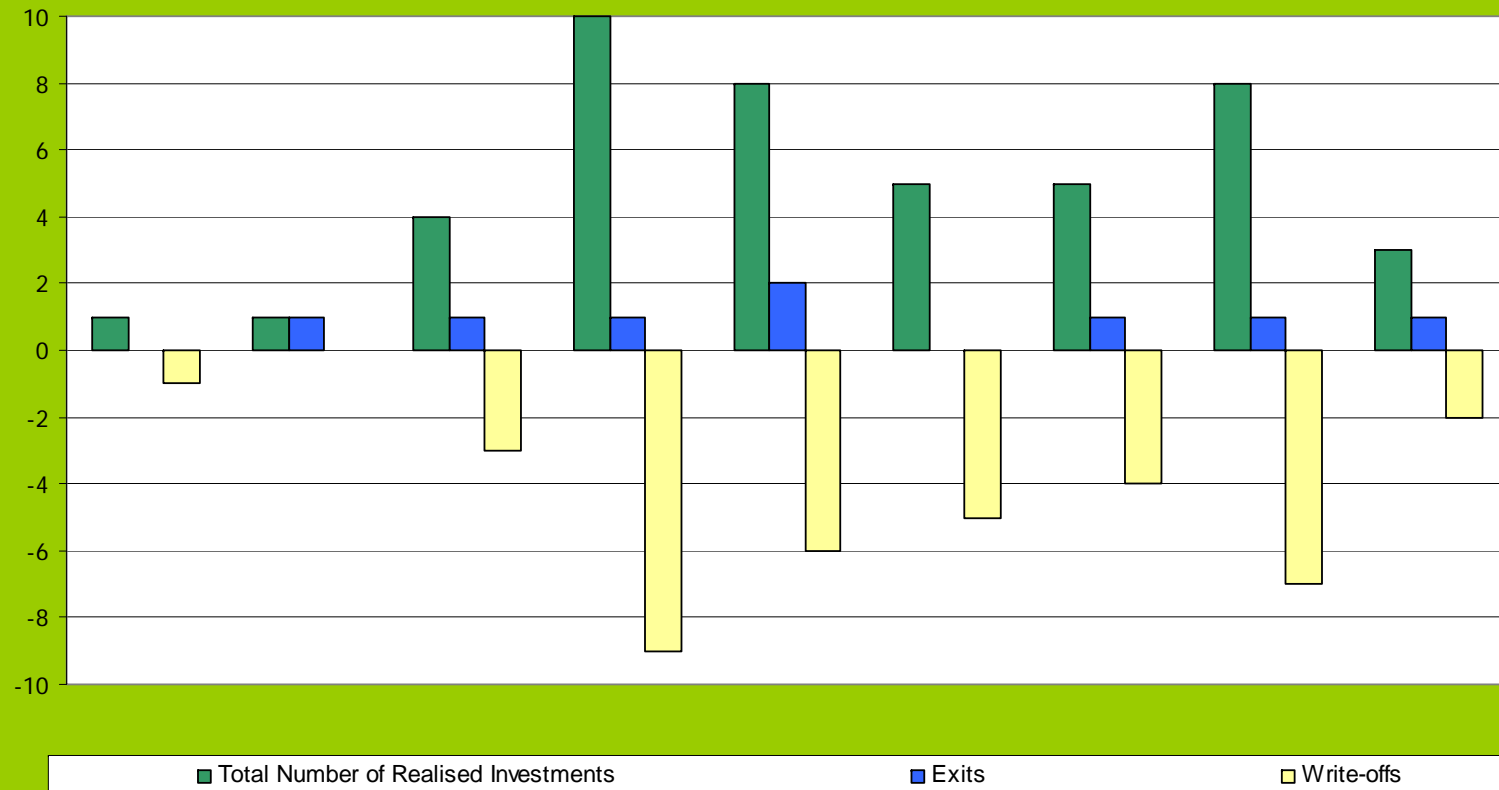
- Valuation



Performance Predictors ?

- Write-Off proportions (number)

Gains and Losses (Chart 3)



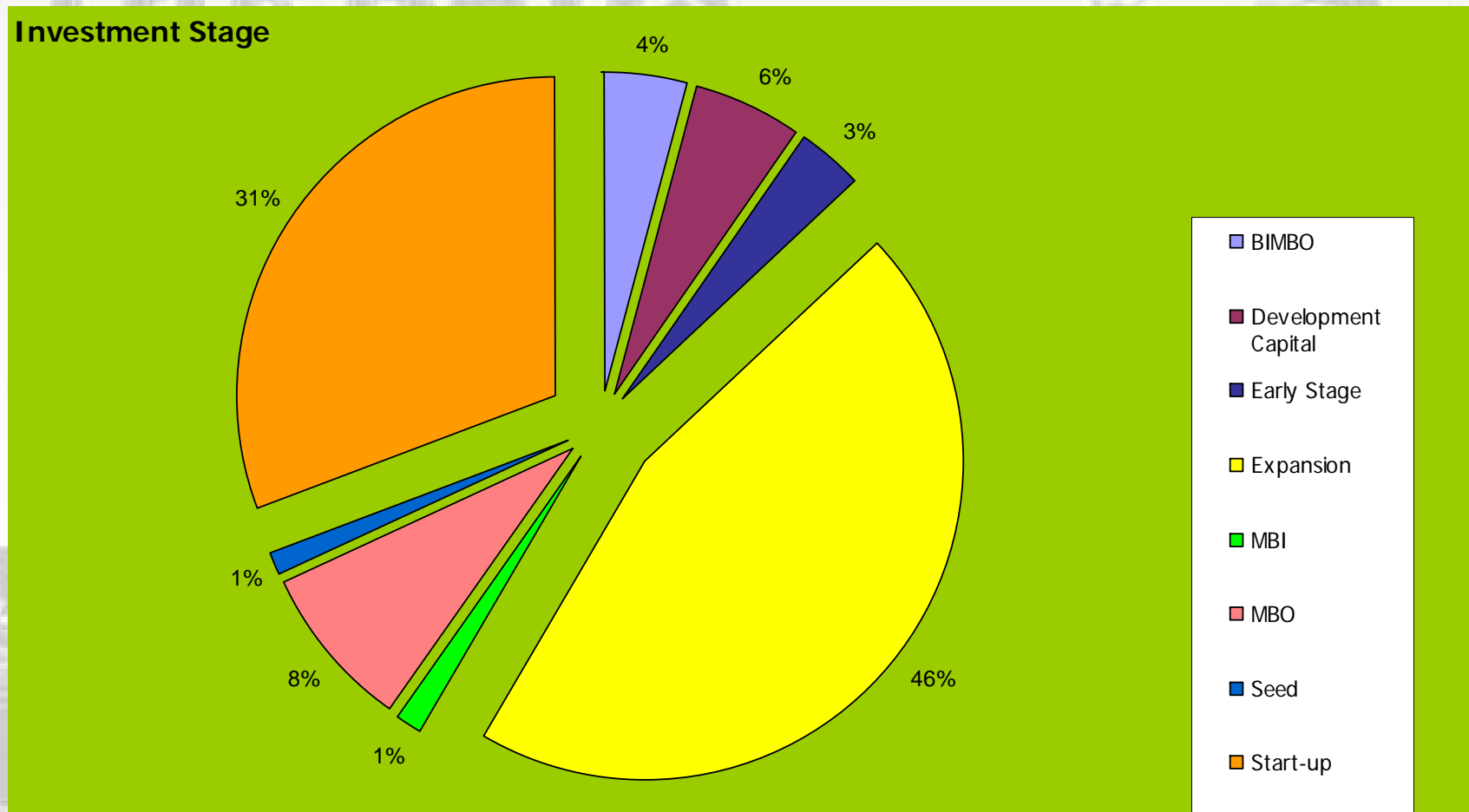
Performance Predictors ?

- Write-off proportions (value)



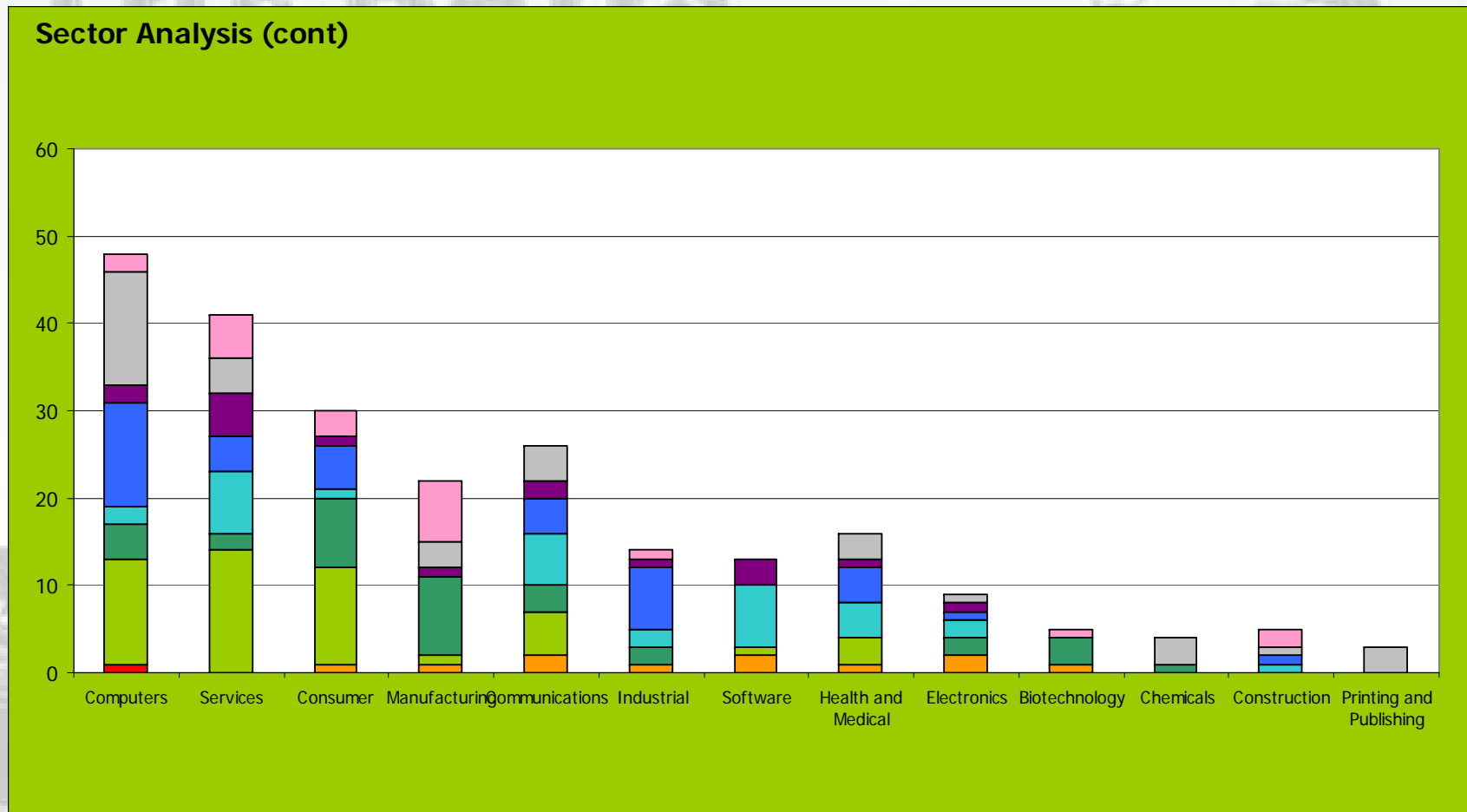
Performance Predictors ?

- Stage of Investment



Performance Predictors ?

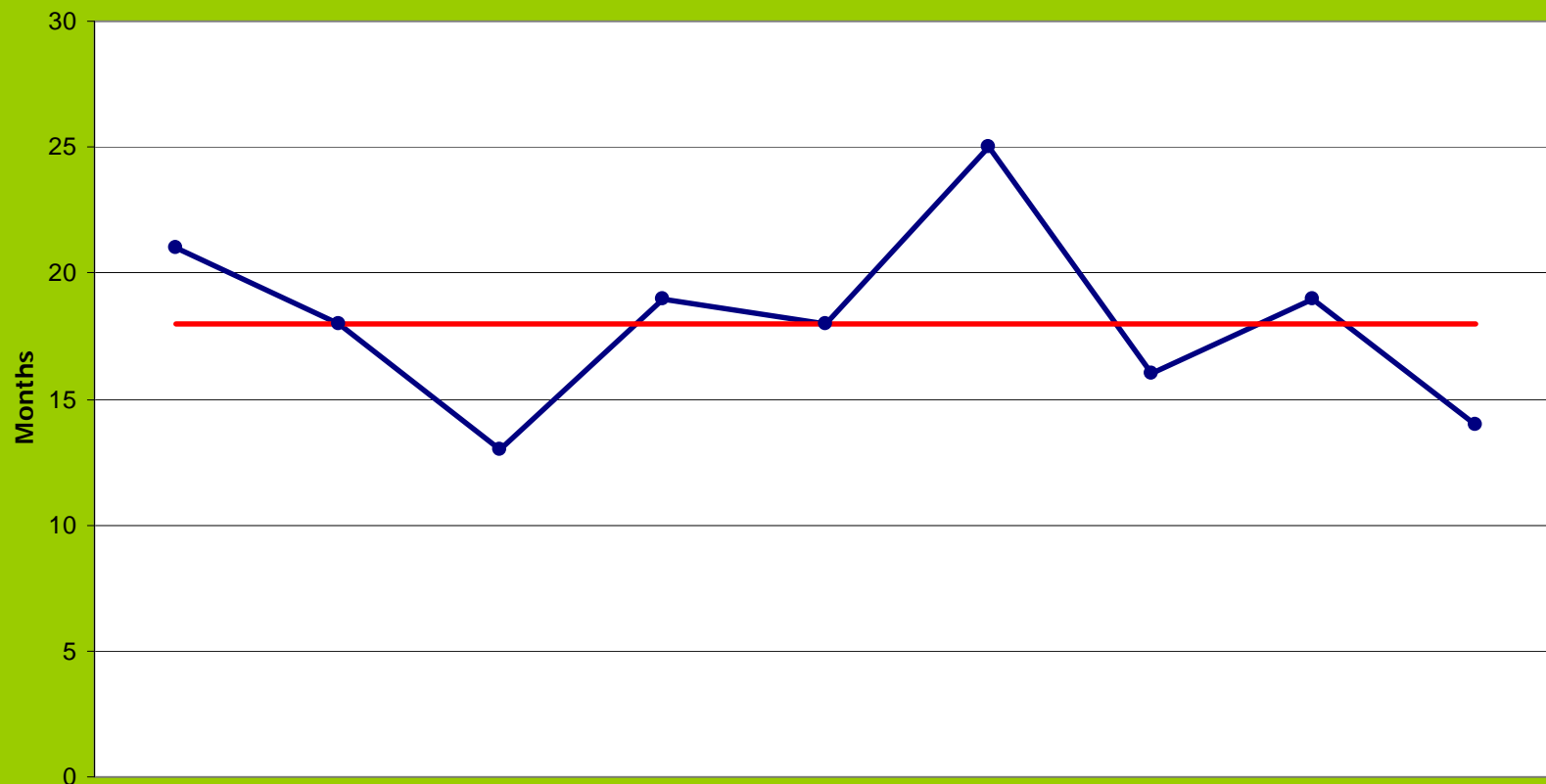
- Sector of Investments



Performance Predictors ?

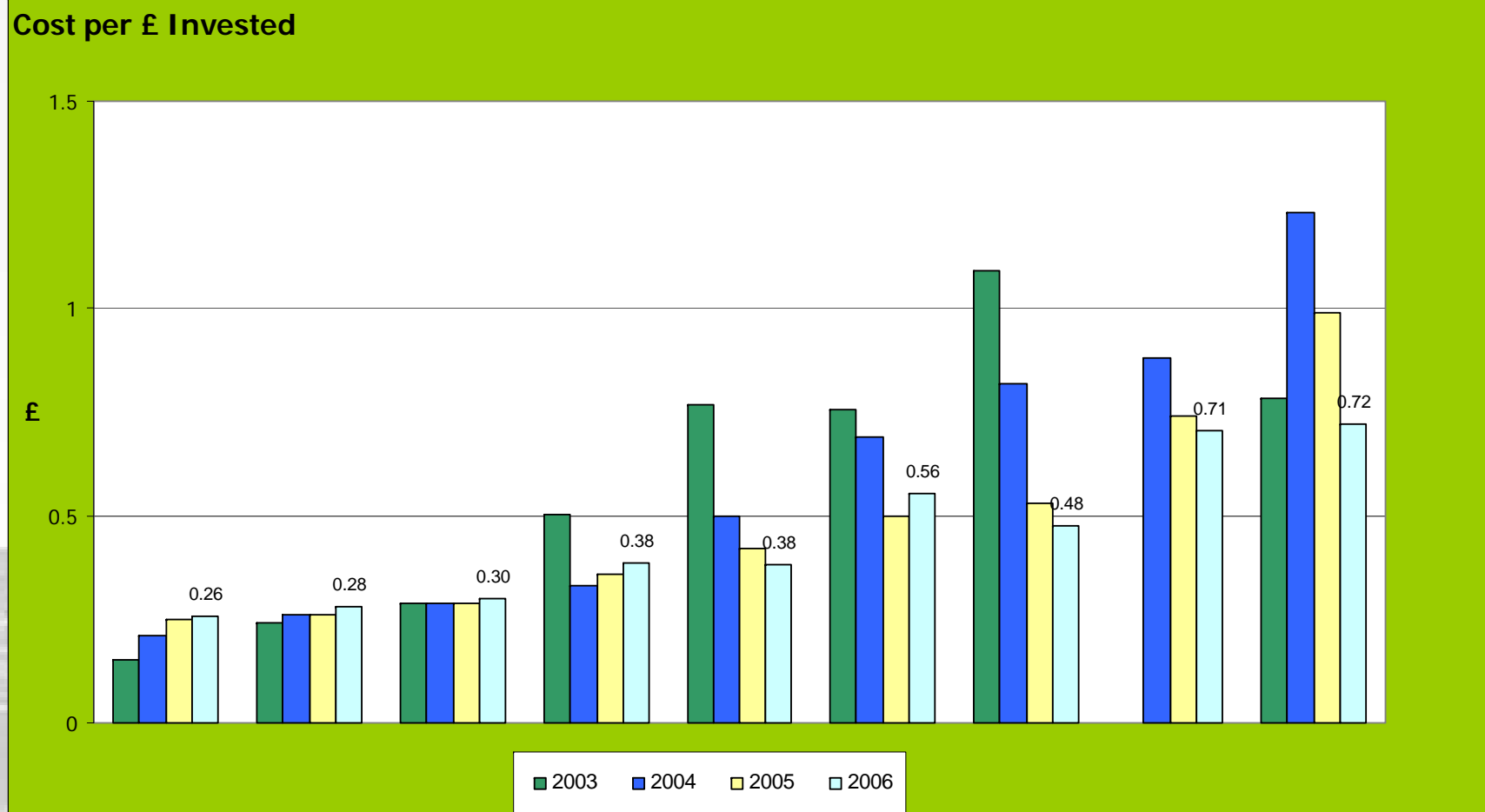
- Average Time to first Provision

Average time to first provision



Performance Predictors ?

- Cost per £ Invested



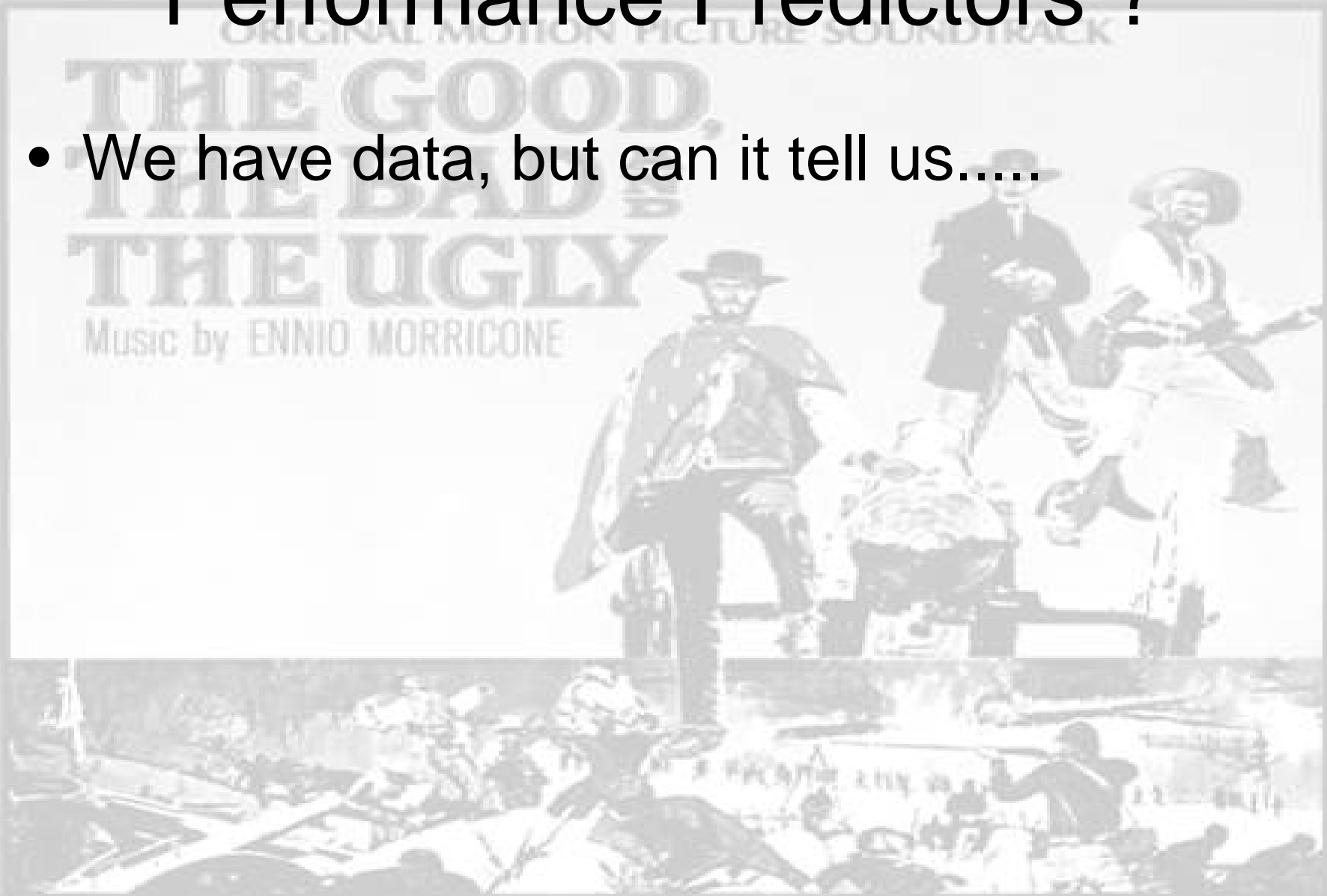
STEREO

SPM

Performance Predictors ?

- We have data, but can it tell us.....

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