

**WRITTEN STATEMENT**

**BY**

**THE WELSH GOVERNMENT**

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| **TITLE** | **Closure of the Welsh Life Sciences Investment Fund** |
| **DATE** | 12 July 2023 |
| **BY** | **Vaughan Gething MS, Minister for Economy** |

This statement updates Members about the closure of the Wales Life Sciences Investment Fund in February 2023.

The Wales Life Sciences Investment Fund (WLSIF) was set up in 2012 on advice from the Life Science Sector Panel. It operated alongside other initiatives to support the development of the life sciences sector in Wales.

It was managed by the specialist fund manager Arix Capital Management, with Finance Wales (now the Development Bank of Wales) acting as fund holder on behalf of the Welsh Government. It aimed to increase the ability of life sciences SMEs in Wales to access equity finance, attract life sciences businesses into Wales, increase the rate of growth and employment in the sector in Wales and increase commercialisation of life sciences research, development, and innovation.

The Welsh Government invested £50m in the Wales Life Sciences Investment Fund. The fund significantly exceeded private sector co-investment at deal level, attracting more than £200m. The majority of the Welsh Government’s investment was in the form of financial transaction capital – a form of capital which can only be used for equity investment or loans, and is ultimately repayable.

Arix Capital Management made 11 investments in nine separate companies. A notable success was the investment in Simbec Orion Group, which continues to employ more than 140 people in Merthyr Tydfil at a leading clinical trials centre. The investment of £8.75m brought ownership of the company back to Wales and safeguarded all the jobs at the purpose-built site. It resulted in a repayment to Welsh Government of £20m, a return of capital which would not have occurred had a grant mechanism been deployed.

Over the course of the fund’s 10-year life, the investments made have supported positive outcomes and created high-quality jobs. An independent review conducted by Regeneris in 2016 highlighted the fund led on several high-profile deals involving major institutional investors and was instrumental in giving profile to Wales’ life sciences sector and supporting leading life sciences R&D to be conducted in Wales.

Overall, the fund has helped safeguard or create more than 310 high-value jobs over 10 years in Wales. By the end of December 2019, the fair value of the remaining investments had fallen to £15m, reflecting performance of the portfolio. By the end of 2020, and through to 2022, around 50% of the remaining value of the fund was accounted for by the fund’s equity stake in Rutherford Health. Significantly impacted by Covid-19 and rising costs, Rutherford Health announced its intention to liquidate in June 2022. This announcement fundamentally changed the financial outlook for the fund.

The pre-defined 10-year term for the fund ended in February 2023 and the limited partners are now in the process of winding-up the partnership and fund. Investments in four of the remaining eight companies have been liquidated and the Development Bank of Wales has taken on the management of the remaining four investments. The Development Bank of Wales will seek appropriate opportunities to exit from these investments at the appropriate time. The current value of the transferred assets is in the region of £2.5m. Reflecting this, the board of the Development Bank of Wales has realised previous accounting impairments to write-off £27.1m in its 2022-23 accounts and notified this to the Welsh Government. Anticipating a significant loss of value, in 2020-21 the Welsh Government recognised a provision in its accounts against the fund of £10.5m.

The fund was an ambitious part of developing a vibrant life sciences ecosystem in Wales. Investment into early-stage life sciences businesses is inherently high risk, with successful ventures often hinging on the verdicts of regulators or regulated entities whose conclusions or choices come only after several rounds of investment.

While this fund has ultimately resulted in a financial loss, it has delivered on many of its stated objectives. It was a pilot investment, unique in terms of being managed by an external fund manager – an approach not replicated since. The losses sustained are mitigated by this investment sitting within a larger portfolio of Welsh Government investments within the Development Bank of Wales, using financial transaction capital. The strategy is to invest this repayable form of finance as part of a balanced portfolio. This enables losses, when they do occur, to be offset by stronger returns on lower-risk investments.

Overall, the Development Bank of Wales’s portfolio of £1.6bn funds and services under management, is on track to fully repay its obligations to Welsh Government, and this write-off must be considered in that broader context.