

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2752

Title: London Co-Investment Fund: New Limited Partnership and Use of Proceeds

Executive Summary:

This decision form seeks Mayoral approval for SME Wholesale Finance (London) Limited, an arm's length subsidiary company of the GLA, to permit LCIF LLP (of which SME Wholesale Finance (London) Limited is a member) to become a new Limited Partner in a Limited Partnership established by Beacon Capital LLP (or an associated entity, as appropriate). Approximately £10m of assets currently held by LCIF LLP would be committed to this new Limited Partnership with Beacon Capital LLP. This would unlock an additional £10m for further investments in these assets.

The decision form also seeks approval for LCIF LLP to continue the reinvestment of proceeds from the returns generated by the London Co-Investment Fund.

These approvals are being brought forward for decision in line with SME Wholesale Finance (London) Limited Articles of Association, which state that GLA consent is required for "any arrangement for the assignment, sale or other disposal of any of the assets of the company" and to "enter into any agreement or arrangement in the nature of a joint venture, partnership or consortium".

To effect these changes, certain governing agreements relating to LCIF LLP may be amended, as appropriate.

Decision:

That the Mayor

1) approves:

- a) SME Wholesale Finance (London) Limited permitting LCIF LLP (of which SME Wholesale Finance (London) Limited is a member) entering into a Limited Partnership agreement, and thereby become a limited partner of, a new limited partnership to be established by Beacon Capital LLP; and
- b) the assets in the London Co-Investment Fund, to a value of approximately £10m and as listed in Appendix A, to be transferred to the new Limited Partnership following the conclusion of any relevant agreements.

2) delegates authority to the Executive Director of Good Growth, in consultation with the Authority's Chief Investment Officer, to agree any relevant amendments to the existing GLA and SME Wholesale Finance (London) Limited agreements in relation to LCIF LLP agreements to facilitate the above and any subsequent structures and arrangements for the limited partnership. This delegation will be exercised without the need for further decision forms.

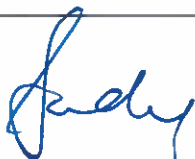
3) approves SME Wholesale Finance (London) Limited permitting LCIF LLP to continue to reinvest the returns generated from the London Co-Investment Fund prior to 6 May 2021 up until 2023 and to a cumulative value of £10m back into the existing portfolio companies as 'follow on' funding in line with MD2556.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

8/3/21

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

Funding London (SME Wholesale Finance (London) Limited)

- 1.1. SME Wholesale Finance (London) Limited was established in 2004 with the support of the Mayor of London. It trades as Funding London and is an arm's length subsidiary company of the GLA. Funding London has a specific long-term mandate to support the GLA's Economic Development Strategy for London through its SME funding activities. Since its founding, Funding London continues to channel funding from Europe and the UK, through appointed fund managers to sustainable and ambitious London SMEs caught in the funding gap.
- 1.2. Funding London's vision is to be a catalyst for growth businesses within the capital by:
 - providing strategic funding and independent support for early stage businesses within the London ecosystem;
 - enabling exploitation of sustainable growth opportunities for small businesses;
 - supporting best of breed fund managers to deliver investment to small businesses; and
 - reinvesting success, thereby fuelling the continuous provision of funding to support the next generation of high growth businesses.
- 1.3. Funding London's Articles of Association mandate that that no action or decision relating to certain matters are taken without the prior agreement of GLA. This includes "any arrangement for the assignment, sale or other disposal of any of the assets of the company" and to "enter into any agreement or arrangement in the nature of a joint venture, partnership or consortium".

London Co-investment Fund (LCIF LLP)

- 1.4. LCIF LLP (LCIF) was formed by Funding London in 2014 with an investment corpus of £22.95m from the London Economic Action Partnership (LEAP)'s Growing Places Fund (GPF) to invest in over 150 seed stage digital, science and technology-based businesses in London. Funding London is the founding member of LCIF along with its delivery partner Capital Enterprise Limited. Funding London is the sole economic beneficiary of the assets in LCIF LLP. The distribution of proceeds from sale of these assets is governed by a profit-sharing agreement between Funding London, LCIF LLP and the GLA.
- 1.5. LCIF had 14 co-investment partners who led the transactions that LCIF has invested in. LCIF's investments targeted raising three times its investment amount from private investors in individual funding rounds. Investments were made in a total of 150 businesses and circa £160m was leveraged alongside LCIF's investment. The portfolio created an estimated 3,000 new jobs at the last review, and 20 percent of the investments were made in businesses having minority founders (such as Black, Asian and Minority Ethnic (BAME) backgrounds) and women, providing valuable social returns.
- 1.6. The portfolio of investments has had some attrition. Of the total 150 businesses, 31 have failed or are failing. Investments in nine companies have been realised, returning a total of £1.35m against an investment of £1m. The residual 111 investments were valued at circa £34.85m as at September 2020.
- 1.7. The fund was fully invested in 2019 and permission was granted by the LEAP for LCIF to make selective follow-on investments from returns, up to an aggregate value of £10m. Currently, circa £200k is available for such investments, and £1.2m of returns has been invested in follow-on investment rounds.

Beacon Technology Fund

- 1.8. Beacon Capital LLP (Beacon), previously Angellab, is one of LCIF's co-investment partners and LCIF has co-investments with Beacon in 12 companies. Beacon have been planning to raise a £10-15m fund targeting companies developing enterprise technology solutions.
- 1.9. Conversations between LCIF and Beacon have resulted in exploring the prospect of changing the initial fund to a larger circa £20-25m corpus. LCIF would contribute some of its enterprise technology businesses to the Fund, for an equivalent Limited Partner stake and help establish the fund as an initial investor. The new money will then be substantially committed to follow-on investments in this sub-portfolio. This should improve the expected returns for LCIF, through participation in follow-on funding for strongly performing investees.
- 1.10. A new limited partnership will be established with the working title of Beacon Technology Fund (BTF) and will have the following characteristics:
 - Beacon will be the General Partner and the Fund Manager, taking the investment allocation decisions;
 - LCIF will be the key initial limited partner, contributing the assets identified in Appendix A as its full commitment to the Fund. LCIF will also have a key role in the Investor Advisory Committee, which would oversee the development of the Fund on behalf of the investors; and
 - other private investors will join as limited partners and contribute at least £10m as their initial commitment to the Fund.

Residual LCIF Portfolio

- 1.11. Under Mayoral Decision 2256, it was agreed that GLA returns generated prior to 8 May 2020 would be reinvested in the LCIF's existing portfolio companies as 'follow on' funding for a further period up to June 2023 and on the basis that:
 - such investments must be made on the commercial merits of each follow-on opportunity and in accordance with the current LCIF follow-on policy; and
 - the selection of follow-on investment propositions would be across the entire portfolio of LCIF, i.e. across all sectors previously invested in; and
 - in the event that substantial exits are achieved during that period preference for such investment will be given to new businesses that are: (i) sub-sectors within the science, tech and digital sectors, where a continued market failure was evidenced; (ii) entities founded by women and BAME entrepreneurs; and/or (iii) entities based in outer London.
- 1.12. The limited partnership proposal outlined in this decision supersedes these arrangements in relation to £10m of the portfolio. A decision is therefore also sought on returns from the residual portfolio, currently valued at circa £24.85m. On 10 December 2020, the LEAP Board considered and endorsed proposals to reinvest any returns from LCIF investments not covered by the proposed limited partnership into the residual portfolio. Approval is now sought to formalise this approach for all returns up until 2023 and to a cumulative value of £10m. The GLA will retain the right to rescind this agreement at any point.

2. Objectives and expected outcomes

- 2.1. Due to the current limited ability of LCIF to provide additional investment into the portfolio, the primary objective of the proposals outlined in the report is to agree a mechanism through which the value of the portfolio can be leveraged to support further investment.
- 2.2. The proposed limited partnership between LCIF LLP and Beacon will leverage an additional £10m of investment in the portfolio companies. Beacon have identified 28 LCIF portfolio companies that would fit with their enterprise technology theme. These businesses were held at an aggregate value of circa £10m as of September 2020 and would form the initial commitment from LCIF to BTF. Beacon will raise a further commitment of a minimum £10m from their other private and institutional investors to achieve a first close of at least £20m.

- 2.3. In the longer term, there is an intention for further funds to be raised jointly, with a target of £200m for a subsequent fund. This is not a certainty, but if Limited Partners permit, the subsequent fund of £200m, if raised, may be able to provide liquidity to LCIF for this portion of the holding, through an internal secondary sale.
- 2.4. The LCIF team will dedicate part of its time to the BTF Fund Manager, to provide continuity to the portfolio and decision making for subsequent follow-on investments. Funding London will have initial Investor Committee representation. Due diligence on the identified investees is ongoing and advice is being sought to identify the most efficient way of structuring the proposition.
- 2.5. It should be noted that:
- a significant proportion of LCIF portfolio will remain in direct control of the LCIF team;
 - total value retained by LCIF is £24.8m, in 96 businesses. This accounts for 71% of the total portfolio;
 - of the top 20 companies, 72% of the value is retained under this proposal;
 - a significant number of companies classed as 'outperform' are being transferred, but the larger proportion of value (61%) is still retained;
 - LCIF's resources can focus on businesses that are further behind in their growth trajectory, but nevertheless offer significant returns potential;
 - LCIF will retain 85% of 'perform' ranked businesses, and will need to consider follow-on opportunities as improvement in prospects of some of these become visible. The six that are being transferred to BTF will benefit from follow-on funds available from incoming Limited Partners, subject of course to performance and terms; and
 - Funding London is well versed in managing lead Limited Partner positions, having created and managed a number of funds as a Limited Partner, including the recent Greater London Investment funds.
- 2.6. LCIF will retain economic interest in and visibility and control over the cohort transferred to BTF by virtue of its Limited Partner relationship with Beacon and through the team engagement with the BTF fund manager. This will help ensure that future investments continue to deliver against Funding London's long-term mandate to support the Economic Development Strategy for London through its SME funding activities.
- 2.7. This would achieve the benefits of:
- creating a follow-on pool for LCIF companies, who remain one of the most diverse pre-seed portfolios in the UK in terms of BAME and women majority ownership;
 - leveraging private investment in London based high tech businesses, using funds already invested;
 - no financial penalty to LCIF as it would swap its primary individual holdings for an LP stake in the fund for equivalent value;
 - providing a verified investment pool for Beacon investors (rather than a blind pool);
 - as the portfolio is further advanced, allow for accelerated exits of investments, thereby expediting the time to the eventual larger fund; and
 - providing more resources dedicated to the BTF companies and allow LCIF's resources to focus on the balance of the portfolio.

3. Equality comments

- 3.1. Under Section 149 of the Equality Act 2010, as a public authority, the GLA and its subsidiary companies must have 'due regard' of the need to:

- eliminate unlawful discrimination, harassment and victimisation; and
 - advance equality of opportunity and foster good relations between people who have a protected characteristic and those who do not.
- 3.2. Since the launch of the LCIF, it has been recognised that groups such as women, disabled people and people from BAME communities face acute barriers in accessing finance, an issue the Mayor is keen to address. Any future interventions would therefore seek to improve awareness of the access to finance initiatives among these underrepresented groups to encourage increased take-up.
- 3.3. As LCIF was not required to track equality data from its inception in 2015, the information such as number of female founders or ethnicity of founders began to be recorded later. Since then the fund has received a total of 961 applicants with 498 identifying as female led (52%) and 435 identifying as BAME led (45%). The portfolio analysis suggests that 22% of LCIF Founders were female and 20% were from a BAME background. These figures are well above industry comparators, particularly in terms of BAME founders. Therefore any new investments into the existing portfolio would represent one of the most diverse portfolios in the UK.
- 3.4. Work undertaken to date to secure the current portfolio diversity will be continued under the new limited partnership as part its obligations under the Public Sector Equality Duty.

4. Other considerations

a) Key risks and issues

- 4.1. *Less direct control over investments, moving from principal to limited partner position:* LCIF will commit the £10m of assets to the new Limited Partnership by becoming a limited partner in the fund. As a limited partner, LCIF will relinquish day to day management of the said companies to the BTF Fund manager. This proposal will inevitably lead to less direct control over decisions on this sub-section of the portfolio. This is, however, not a complete loss of control as LCIF will have significant visibility and control as a principal/key Limited Partner, and through the team's involvement with the fund manager.

b) Links to Mayoral strategies and priorities

- 4.2. The London Co-Investment Fund is cited in the Mayor's Economic Development Strategy as a key vehicle for supporting enterprise and entrepreneurship in the capital. This proposal leverages a further £10m into the portfolio firms, providing further investment at a critical stage in these businesses' growth and survival. It should also be noted that the portfolio represents a significant diversity of business ownership both in terms of gender and ethnicity, meaning that further investment in these businesses will have a disproportionately positive impact on minority-owned businesses that face particular barriers to raising investment.

c) Consultations and impact assessments, including data protection

- 4.3. LCIF has engaged regulatory, tax and legal advice to progress this transaction. An informal publication of LCIF's intentions to progress this agreement will be made for a period of 30 days as per legal advice received.
- 4.4. LCIF is wholly funded by the London Economic Action Partnership's Growing Places Fund. LEAP business Members took part in an informal session to discuss the proposals with Funding London and endorsed the proposals at its meeting on 10 December 2020. Officers have since received some additional feedback from one member who raised concerns over the scale of the proposal and the administrative burden of creating a new fund. Assurances were provided on these points, as well as further information on Beacon LLP's track-record and the value-add of increasing LCIF's investments in the portfolio, as detailed elsewhere in this decision form.

d) Conflicts of interest

- 4.5. This decision has been prepared by the GLA's senior manager responsible for overseeing the Mayor's SME finance initiatives. As part of this role, the senior manager has been appointed by the Mayor to the Board of Funding London who will act with regard to appropriate advice.
- 4.6. Ongoing potential conflicts arising from this decision are mitigated by GLA oversight of Funding London, ensuring high levels of transparency are maintained. No GLA officers have any pecuniary interest in the proposed new fund or the assets proposed for transfer.

5. Financial comments

Chief Investment Officer comments:

- 5.1. This proposal significantly reduces the probability of failure of the transferred portfolio companies though increased access to finance, and is an attractive way to partially crystallise the current valuation.
- 5.2. To explain the latter point, the GLA's contribution of assets to the fund is recognised at today's net asset value, and the GLA's economic interest becomes its share of the overall fund value rather than the value of its current shareholdings – thus, provided follow-on investments come from the fund, the terms of the follow on investments become less critical to preserving value. In the absence of the fund's new money, where these companies need additional funding either they would fail, or secure investment from a third party, presenting significant risks of dilution which could reduce the value of the GLA's shares.
- 5.3. The principal financial risks are firstly that the assets forming the GLA's contribution are undervalued at the point of transfer and secondly that the partnership costs, including any fees and carried interest extracted by the General Partner, are excessive. Prior to conclusion of the partnership agreement the Executive Director for Good Growth should be satisfied with the relevant valuations, ideally audited by a suitably qualified third party, and further be satisfied that the proposed fees are reasonable and carried interest hurdles are appropriate to the portfolio's expected performance. As a cornerstone investor, additionally contributing management resource, fee terms should be preferable to standard venture capital or private equity levels.

6. Legal comments

- 6.1. Sections 1 to 2 of this report indicate that the decisions requested of the Mayor concern the exercise of the GLA's general powers, falling within the GLA's statutory powers to do such things considered to further or which are facilitative of, conducive or incidental to the promotion of economic development and wealth creation, social development or the promotion of the improvement of the environment in Greater London; and in formulating the proposals in respect of which a decision is sought officers have complied with the GLA's related statutory duties to:
 - pay due regard to the principle that there should be equality of opportunity for all people;
 - consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
 - consult with appropriate bodies.
- 6.2. In taking the decisions requested, the Mayor must have due regard to the Public Sector Equality Duty; namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010, and to advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment) and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (section 149 of the

Equality Act 2010). To this end, the Mayor should have particular regard to Section 3 (above) of this report.

- 6.3. Should the Mayor be minded to make the decisions sought officers must ensure that:
- GLA's LCIF funding agreement with Funding London is varied to reflect that the GLA's decision on reinvestment of GLA LCIF returns and notification to Funding London of the same before any commitment is made to this by the GLA; and
 - they take all necessary steps to prevent the outcome of this decision having the effect of fettering the discretion of any successor administration, considering in particular the London elections taking place in May 2021.
- 6.4. Officers of Funding London must ensure legal advice is sought on the proposed entry into the Limited Partnership and that appropriate agreements are put in place between LCIF and Beacon before any commitment of the £10m is made.

7. Planned delivery approach and next steps

- 7.1. LCIF has engaged regulatory, tax and legal advice to progress this transaction. Whilst final approval by the Funding London Board will be required to finalise the proposals, GLA consent must also be provided as per Funding London's Articles of Association. Therefore, this will be confirmed through this decision with final terms agreed as per the delegation sought.

Activity	Timeline
Publication of 30 day notice to the market per legal advice	Q4 2020/21
Announcement	Q1 2021/22
Delivery start date	Q2 2021/22
Final evaluation start and finish	2031
Delivery end date	2031
Project closure	2031

Appendices and supporting papers:

Appendix A – BTF list of assets

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after it has been approved or on the defer date.

Part 1 - Deferral**Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason: The information outlined in this decision remains commercially sensitive until any subsequent agreement to enter into the proposed Limited Partnership has been finalised.

Until what date: 31 May 2021.

Part 2 - Sensitive information

Only the facts or advice that would be exempt from disclosure under FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form - NO**ORIGINATING OFFICER DECLARATION:**

Drafting officer to confirm the following (✓)

Drafting officer:

Jamie Izzard has drafted this report in accordance with GLA procedures and confirms the following: ✓

Sponsoring Director:

Philip Graham has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities. ✓

Mayoral Adviser:

Rajesh Agrawal has been consulted about the proposal and agrees the recommendations. ✓

Advice:

The Finance and Legal teams have commented on this proposal. ✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 1 March 2021.

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

Date

D. Gene

1 March 2021

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

Date

D. Bellamy

1 March 2021

