

## Government aims for £1 billion venture capital fund to invest in the businesses of the future

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**The Prime Minister has today announced the creation of the UK Innovation Investment Fund to invest in technology-based businesses with high growth potential. The new fund will focus on investing in growing small businesses, start-ups and spin-outs, in digital and life sciences, clean technology and advanced manufacturing.**

The Department for Business, Innovation and Skills, with the Department of Energy and Climate Change and the Department of Health, will invest £150 million alongside private sector investment on an equal basis known as *pari-passu*.

It is the Government's belief that this could leverage enough private investment to build a fund of up to £1 billion over the next 10 years. The UK Innovation Investment Fund forms part of the Government's strategy for Building Britain's Future.

Gordon Brown said:

"This fund will help build Britain's future by investing in key sectors. It will provide crucial support for our most promising start-ups and existing small companies just when they need it most. Venture capital finance is the lifeblood of innovation and crucial to ensuring the commercialisation of the discoveries coming out of our research base. The fund will boost future UK competitiveness."

Lord Mandelson, Secretary of State for Business, added:

"In our New Industry New Jobs strategy we identified access to venture capital as one of the critical factors in developing innovative new companies in Britain. The UK Innovation Investment Fund will be a shot in the arm for the British venture capital industry. It is also a challenge to UK venture capitalists to follow the Government's lead in backing British entrepreneurs in building exciting new companies, investing in new technologies and creating jobs."

Science and Innovation Minister Lord Drayson, who has been a champion for the fund, added:

"We must safeguard the Government's record investment in the science and research base over the past decade. We cannot afford to lose out on the wealth this investment can yield and we will need this wealth to continue our sustained investment in research."

*Simon Walker, CEO of the British Venture Capital Association (BVCA), said:*

*"The BVCA is immensely encouraged by this venture capital initiative. The model that has been adopted is one which we have championed in our work with the Government leading up to this announcement. The UK Innovation Investment Fund offers an exciting economic incentive for more than a thousand young venture-backed companies and the ideas and jobs which they represent."*

Richard Pelly, Chief Executive of the European Investment Fund (EIF), said:

"EIF has been working together with the UK Government, the BVCA and other significant players in the Venture Capital sector in the preparation of this welcome new initiative, and is delighted to support its launch today.

"At a difficult time for the VC industry the UK Innovation Investment Fund will underpin a next round of critically important fundraising for Fund Managers, and EIF looks forward to continuing to contribute its extensive experience to the development of this process."

The UK Innovation Investment Fund will operate on a Fund of Funds structure which means it will not invest directly in companies, but rather invest in a small number of specialist technology funds that have the expertise and track record to invest directly in companies. The fund will provide a cost effective solution that provides a market return to both private sector investors and HM Government.

The Prime Minister is today publishing a plan for *Building Britain's Future*. It is a radical vision for a fairer, stronger and more prosperous society. Public service entitlements will for the first time be guaranteed to parents, patients and communities. New measures, such as the UK Innovation Fund, will also drive economic growth and create jobs.

#### Notes to editors

- The Innovation Investment Fund is part of the Government's plans for Building Britain's Future. For more details, visit: [www.hmg.gov.uk/buildingbritainsfuture](http://www.hmg.gov.uk/buildingbritainsfuture)
- All the indicators suggest that the total amount of venture capital invested in early stage technology companies will be significantly reduced in 2009. The UK Innovation Investment Fund will be one of the largest ever technology funds in Europe.
- There are about 1,093 venture capital backed technology companies in the UK employing over 40,000 highly skilled people.
  
- Venture capital backed companies significantly out perform other companies
  - UK employment increased by 6% compared to a national average of 1%
  - Sales grew by 12% pa compared to 5% for FTSE Mid-250 companies
  - Increased R&D expenditure of 12% compared to 1% pa
  - Value of exports from the UK increased by 14% compared with 4% nationally
  - 69% of venture backed companies introduced new products or services
- Household names such as Google, Vodafone, E-Bay, SKYPE, Amazon, Microsoft and Apple were backed at an early stage by venture capital.

#### Fund Structure:

A Fund of Funds structure proved most attractive to institutional investors, as it creates a portfolio approach that spreads the investment risk across a number of different technology fund management teams. The Government will seek to appoint an experienced Fund of Funds manager with a proven track record in technology investment. They will be regulated by the Financial Services Authority (FSA), and will require the necessary authorisations to operate in the UK.

The Fund of Funds approach also enables the Government to support the growth of the market without distorting or competing with existing fund managers and ensures that the Fund complements existing public sector interventions such as Enterprise Capital Funds, RDA European Development VC Funds as well as tax measures.

This is not a novel approach and builds upon the previous UK High Technology Fund structure that was announced in 1998. This was £125 million "fund of funds" and invested in a number of specialised technology funds such as Advent, Amadeus, MTI and Scottish Equity Partners. The Government provided a cornerstone investment of £20 million which the Fund Manager was able to leverage an additional £105 million from the European Investment Fund, UK pension funds and a French bank.