

19 May 2009

Rt Hon Lord Mandelson
Secretary of State for Business, Enterprise and Regulatory Reform
Department for Business, Enterprise and Regulatory Reform
One Victoria Street
London SW1H 0ET

Dear Peter

Strategic Investment Fund and high growth businesses in the downturn

We write to you following the Budget announcement of a new Strategic Investment Fund, as a group representing innovative young businesses.

If directed to best effect, we believe this new fund could play a highly important role in helping young businesses of the future to survive the downturn and help the UK emerge from it on a sounder economic footing. It would also help some of the specific objectives outlined in both *Review and Refresh of Bioscience 2015* and *Digital Britain*.

Early stage companies have huge potential for growth and are in areas of strategic advantage such as low carbon, digital, bio-science and advanced manufacturing. They are most often companies which have received initial funding rounds (frequently from venture capital funds, and have therefore proven to be excellent prospects for investment), but are now struggling to access 'follow on' funding rounds in order to survive the downturn. *New Industry, New Jobs* recognised this when it said that government "... needs to play a greater role in fostering" strengths in advanced engineering, electronics and biosciences.

In the lead up to the Budget, many of us had been calling for the launch of an 'innovation fund' as a mechanism by which to achieve this. Such a fund could help these businesses now.

The specific model which we support is a 'fund of funds', through an initial Government investment which leverages significant money from institutional investors such as pension funds. We know that there is appetite for this amongst private sector investors, and that they are prepared to look seriously at contributing if the initial level of Government investment were sufficient (a point which has been made in separate correspondence). We believe this scheme would be most effective in the short - and long - term if it were to be managed through private sector fund managers.

A major advantage of this model is the scale it would bring: the US has tens of funds of over \$1bn able to finance a company through all stages of its development, from start-up to exit. The UK has very few investors with the firepower to do the same. A fund which achieves critical mass would make a significant difference to the venture industry and hence the supply of capital to these early stage companies and would

help the Government achieve its aims to “retain and develop strengths in high-value areas of global growth or rapid and fundamental technology change.”

Innovative young businesses have a vital role to play both now and in the future. This scheme is ready to go and with Government backing can begin to help these companies now.

We would be very happy to discuss this further and look forward to hearing from you.

Yours sincerely

Simon Walker – Chief Executive, **BVCA**

Aisling Burnand – Chief Executive, **BioIndustry Association**

John Higgins – Director General, **Intellect**

Colin Stanbridge – Chief Executive, **London Chamber of Commerce and Industry**

Jonathan Kestenbaum – Chief Executive, **NESTA**

Doris Ann Williams – Director General, **British In Vitro Diagnostics Association (BIVDA)**

Peter Ellingworth – Chief Executive, **Association of British Healthcare Industries (ABHI)**

Richard Barker - Director General, **The Association of the British Pharmaceutical Industry (ABPI)**

Cc: Lord Drayson - Science and Innovation Minister, DIUS