



Fund Strategies and Operating Principles

Fund Strategies

As previously noted, the main objective of the Genomia Fund is to assist in the translation of research output from the Consortium members into commercially realisable opportunities. However, the Fund will also support initiatives designed to put pre-existing pilot, or modest, revenue generating activities being conducted within an institute on to a more commercial footing and to encourage further growth. For such projects, the rate of return may be lower, but so also will be the risks and consequently, the Genomia Fund is likely to receive its money back in a much shorter timescale and be sooner placed to re-invest in new emerging projects.

Alongside its investment activities the Genomia Fund also sees itself as having a role in increasing the awareness of the value of commercially informed research, bringing to those working in the PSREs represented in the Consortium a knowledge of the issues associated with commercial interactions so that they may build on actual experiences within their own establishments and be better placed to confidently pursue opportunities further into the future. In this role, the Fund works closely with other initiatives at the commercialisation offices of each of the Consortium members.

In targeting the very early stage finance requirements that would precede normal investment funding, or corporate venturing or licensing, the Fund will invest sums of £5K upwards in assessment and development of emerging technologies, or IP portfolios, which can show evidence of a high growth, or significant revenue generating, potential. Proposals will be required to show reasonable prospects for an exit in the medium term and for IP portfolios, there should be a reasonable prospect for sustainable licensing revenues being established in the short to medium term or for the Fund's support to give rise to real opportunities for the establishment of high-growth spin-out companies. Genomia will not support what are effectively "life-style" companies with low growth potential, though it may support the translation of commercial services provided by institutes themselves into stand alone companies where room for growth would not necessarily make these attractive investment propositions for conventional venture capital providers, but which still represent a valuable, and commercially viable, transfer of knowledge and skills into the commercial sector.





The principal characteristics of the Fund's investment approach will be as follows:

- Investments will be focussed on proven research excellence with commercial potential or on new technologies arising from convergence of research strengths in different disciplines or on bundling IP from two or more Consortium members to develop added value;
- It will have an empathetic investment style, placing significant importance on the building of relationships with all who have a role to play in the exploitation process, including not only inventors, but also local commercialisation or technology transfer officers;
- Investee projects will be expected to show that they have:
 - Protected, or protectable, intellectual property or as a clear objective, the creation of robust IP protection strategies
 - Commitment from the key researchers in whom the associated know-how may reside
 - Capability of creating high barriers to competition
 - Good prospects of an early exit to income generation
- It will engage in deals worth up to £500K, with up a maximum of half of the money being available from the Fund, though given the Fund's intended profile of targeting the pre-seed and seed gap, it is unlikely that the average deal value will be significantly above £200K;
- Propositions will be required to address both technical and business development;
- The Fund may be prepared to take the lead in syndicated, or shared-cost, deals (something which can be a significant issue at this early stage);

It will be essential that those submitting proposals to the Fund have realistic views of the value of their contributions. They must also recognise, and be prepared to buy into the notion that, to maximise capital growth and to improve downstream investment prospects, the importance of the individuals involved and their own personal positions will almost invariably be significantly changed, sometimes even within a relatively short time-scale, as the business opportunity develops.

All things being equal, and largely depending upon the level of Genomia investment and the valuation struck, the establishments and the key staff will normally retain the controlling interest in any proposition supported. The extent to which the interests are divided between an





establishment and its staff will be dictated by any extant, local policies. While a syndicated investment may be tranching in such a way that, over the course of time, there is the possibility of

some change in control, at the time of the first investment by the Genomia Fund, control must remain with the relevant Consortium member. Where relevant, provisions may be included for modifying relative interests downstream of an investment triggered by success in developing and achieving milestones. Such milestones will be set as challenging, but achievable. In any syndicated or shared-cost investment, it is unlikely that any one investor would have more than a 25% interest in an investment proposition. The Genomia Fund, whether investing on its own, or in a syndicate, will not at any time seek to have more than a 50% interest in any project (or company) it supports, and would normally not expect to have more than 30% after completion of all investment rounds in which it might be involved.

In the case of support for technology development or strengthening IP portfolios for a project, the Genomia Fund's investment will be in the form of a reimbursable grant to the relevant establishment. Such grants will be repayable, with a premium, on successful exploitation of the results of the work being supported.

Where spin-out companies are being promoted as a route to commercialisation, Founders (both the research establishments and the key staff involved) will be expected to themselves invest in their companies, though this investment may not necessarily be financial, provided that it can be measured in money's worth. Normally, Genomia will invest its monies in the ordinary equity of its investee companies. However, it may also invest in convertible loan stock or in other equity instruments, depending upon the particular needs of the company concerned.

The proportion of a licensing (or other exploitation income) stream or of the equity acquired by the Genomia Fund in return for its investment will be determined on a case-by-case basis.

While in principle, Genomia Fund may earmark a total of up to £250K from the funds directly under its management into any one project, it will only release monies against an agreed schedule of milestones.





As part of its attention to support and aftercare strategy, the Genomia Fund may also require spin-out companies to show that they have access to sufficient management and professional support for developing their corporate governance and financial control and for helping bring them up the investor-readiness curve.

Investment Principles

1. Applications will only be accepted from members of the Genomia Consortium (as described previously) or from companies being started up, or spun out, by such a member. Follow-on applications may also be considered from start-up or spin-out companies that may have been incorporated specifically to exploit a technology in which the Genomia Fund had previously invested.
2. Investments are made as reimbursable grants, as unsecured loans or exceptionally, as subscriptions for equity in advance of private equity investment rounds:
 - For reimbursable grants, repayment schedules will be driven by success, with repayments (plus interest or other financial returns) falling due when successful exploitation has commenced. There will be no repayment obligation for reimbursable grants, in the event that, despite best efforts, exploitation of the technology proves impossible.
 - Loans are given on an unsecured basis and, on a case by case basis, agreements will provide either for a fixed repayment schedule, or a payment by success regime analogous to that for reimbursable grants.
 - In the case of equity, investments will be in the ordinary shares of the company. Genomia will expect to be able to realise its investment at some future date, with its preferred strategy being to have as early an exit date as possible, consistent with the need to strike a balance between maximising returns and having sufficient liquid assets to be able to continue making investments in new opportunities.

Grants or loans will be available to Consortium Members, while spin-outs will be eligible for loans or equity investments. All investments are made on the basis of market economy investment principles.





3. There will be no minimum investment. However, it is unlikely that any investments will be made for sums of less than £5,000. The maximum cumulative investment in any project or company will be £250,000. If a project has been previously supported under funds received by Genomia from PSRE2 and follow-on support is approved using funds received under PSRE4, then the sum of the two investments will not be allowed to exceed this £250K cap.
4. Loan or grant investments will be made on the basis of cash-flow requirements, or on agreed milestones. In the case of grants, there will be a 10% retention, payable when a project has been completed and final report made. Investments made in the form of subscriptions for equity will be released in a single tranche up front (or otherwise as may be agreed in the subscription agreement).
5. In the case of equity investments, after its final tranche of a series of linked investments, Genomia would not expect to hold more than 25% of the equity of any company in which it may invest. At no time, will the Genomia Fund hold more than 30% of any company.
6. Subject to the maximum investment level noted above, the Genomia Fund may extend its financial support beyond the initial investment, and invest in parallel with other third party providers, provided that to do so would be in the best interests of the Fund, for example, to retain a favourable percentage holding. (One of the conditions in any investment agreement will be that the Fund's right to follow its investment should be assignable to any of the Consortium Members, or, subject to due attention being paid to disclosure and conflicts of interest, to relevant members of staff of a Consortium member or to members of the Genomia management team).
7. The Genomia Fund will not be the only investor in any project or company. As a minimum, applicants are required to demonstrate their commitment to the commercialisation of technologies either by providing inputs from their own resources or through leveraging contributions from other sources. In this context "applicants" may be taken to mean the PSREs themselves, or members of staff who want to be pro-actively involved in promoting, and engaging with, a spin-out company. Matching funds may be either cash or in-kind contributions on which a clear, measurable monetary value can be placed. For Proof of Principle Investments, no matching contributions are required for the first £10,000 of direct or





marginal costs, but Applicants must match all such costs over and above that figure pound for pound with the Genomia Fund. For Technology and Business Development grants, the match requirement is 25% of the total costs in the first year of a project, 35% in the second and 50% in the third. For Commercialisation stage investments, the matching funds requirement is 50% of the total costs. The provision of the services of existing, established staff as part of the match is permitted, provided that the value is not more than one-third of the total costs. In the case of investments into start-ups or spin-outs, founders will be expected to invest monies of their own (or obtained from friends and family). Typically, this investment should be not less than £10,000, but this may be varied to a figure commensurate with the personal circumstances of the founders. Consortium Members will be required to invest in any of the companies they are sponsoring or promoting, either in cash, or in measurable and auditable in-kind goods and services provided to the company.

8. In general, repayments on investments made in the form of unsecured loans will be required according to a fixed repayment schedule. However, at its discretion, the Genomia Fund may delay the commencement of the obligation to make payments until commercial exploitation has commenced and there is a revenue flow. Interest will be payable on all loans, and will continue to accrue even during any repayment holidays. Interest will be calculated at the relevant rate of interest determined from time to time under EU competition regulations designed to ensure that State Aid rules are not breached. Any interest not paid within thirty days will be added to the loan and interest will be compounded. At its discretion, Genomia Fund may permit conversion of loans (including any unpaid interest) to equity, subject to there being a good financial and business case for doing so. Conversions will be made on a proper commercial basis and, all things being equal, conversion will be at a rate not less than that which would have applied if the monies had been made available as subscription for equity in the first place, rather than as loan. Where such loans had been advanced to a PSRE, conversion would be expected to be to an equity in the spin-out company incorporated to commercialise the technologies supported by the Genomia Fund monies.
9. In accepting grants from the Genomia Fund, Consortium Members will be required to accept responsibility for preparing and implementing appropriate exploitation strategies designed to maximise the returns from such exploitation. The Fund will not play any part in the exploitation of technologies developed using its funding, unless an Investee defaults on its





exploitation obligations, in which case, Genomia will have the right to assignation of all results arising out of its funding and the right to be granted a licence to rights to all necessary background (including the right to sub-license).

10. Reimbursable grants to Consortium Members will be made on the basis of a right to receive an agreed percentage of technology access, or licence, fees or royalty revenues received by such Member. Such percentages will be agreed on a case by case basis having due regard to the respective inputs of all interested parties. As a general principle, there will be a limit to the amount to be repaid to the Genomia Fund under any reimbursable grant of twice the original grant, provided that such amount has been paid to the Genomia Fund within five years of the grant having been made. Thereafter, the outstanding difference between twice the amount of the grant and the amount actually paid to date, may be increased on an annual basis at a rate equal to the rate of increase in the retail price index.
11. Taking into account the capabilities at the individual Consortium Members, as part of the investment arrangements, a business support agreement may be concluded between GML and any proposed investee company, which will provide for a programme of commercially focussed assistance reflecting the company's requirements. An important focus of this support will be investor-readiness and improving the company's prospects for securing downstream investment beyond the period covered by the Genomia Fund investment. Companies will also be required to show that they have adequate arrangements for attending to issues of corporate governance and financial probity. At its own discretion, GML may sub-contract with other specialist support professionals to provide such support.
12. The Genomia Fund will have the right to appoint a non-executive director to the Board of any investee company, or to have an observer attend all Board meetings. Genomia will have the right to charge fees in connection with the services provided by such director or observer.
13. In order to keep transaction costs to a minimum, all investments will be made in accordance with a standard investment completion pack. The Genomia Fund will reserve the right to charge a transaction fee for providing such documentation. With the exception of the inclusion of case-specific details, only minimal scope for renegotiation or amendment to the





standard investment documents will be permitted. If substantive changes are required to the standard agreements, the additional costs will be charged to the account of the investee.

14. The Fund's role is to encourage economic growth and development in new and emerging technologies through the operation of its investment activities. Its role is not to take the lead in the exploitation and commercialisation process *per se*. Therefore, the Consortium Member or start-up company to which an investment is offered, retains ownership of all technology and intellectual property rights arising during the course of, and as a result of, a programme of work supported by funding from the Genomia Fund. Recipients of investment funds will be required either to have general policies and procedures in place, or to have case-specific documentation executed, to ensure that employees or consultants engaged on any funded projects are legally bound to assign any rights in project results to the Consortium Member or start-up company, as the case may be. Equally, applicants may be required to show that they have ownership of, or the necessary licences to, all background technologies, so that there may be no restrictions or impediments to the implementation of an exploitation strategy for project results.
15. All proposals are treated as being confidential and any person engaged by the Genomia Fund in its evaluation processes may be required to sign non-disclosure agreements. However, Genomia will be permitted to use non-confidential executive summaries, and other publicly available information regarding supported projects in its own publicity material and in reports it requires to make to the Department of Innovation Universities and Skills or, where appropriate, to the programme managers for the European Regional Development Fund. Appropriate attributions will be included.
16. Offers in principle may be made by the Fund manager consequent upon a satisfactory outcome of the first review (for Proof of Principle Investments) or on minuted approval of the Genomia Board. However, investments will only be formally offered, (a) in the case of proposed company investments, after final legal and financial due diligence and the agreement on the provision of acceptable warranties from the proposed investee company and its founders/directors, and (b) in the case of research support to research establishments, on acceptance of the standard reimbursable grant or loan agreement.





Genomia Fund

Funding commercialisation of public sector research in the bio - sciences

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