s

Business Plan for the Financial Year ended 31 March 2015

July 2014

Executive Summary

Funding London was established in 2004 by the then Mayor of London under the name SME Wholesale Finance with the specific long term mandate to support the Economic Development Strategy for London through its SME funding activities. Since its founding 10 years ago, Funding London continues to channel funding from Europe and the UK, through appointed fund managers to sustainable and ambitious London SME's caught in the funding gap.

Funding London's vision is to be the catalyst for growth businesses within the capital by:

1. Providing strategic funding and independent support for early stage businesses within the London ecosystem;
2. Enabling sustainable growth opportunities for small businesses;
3. Supporting best of breed fund managers to deliver investment to small businesses; and
4. Reinvesting success, fuelling the continuous fund provision to support the next generation of high growth businesses.

Paramount to the achievement of this vision is the ability to grow our capital base to enable us to continue to create new funds and to fund our operational costs by:

1. Securing co-investment partners for the LCIF that demonstrate excellent track records of investment;
2. As much as possible, support the MMC London Fund to maximise the ability to generate a positive returns, e.g. through the provision of sufficient funding to follow-on successful companies;
3. Maximising the net returns from the 2004-5 funds coming to a close;
4. Re-investing our legacy in projects which support the strategy for London but which offer us the ability to generate a significant return; and
5. Securing new sources of funding such as the European Investment Bank, the ERDF 2014-2020 Programme and COSME

Our activities for the financial year to March 2015 will focus on the delivery of the new £27m London Co-investment Fund ("LCIF") and ensuring progress with the MMC London Fund.

The £27m London Co-Investment Fund will target high growth SME's in London's strategic sectors of Science, Digital and Technology as defined in the London Plan thereby addressing the funding issues still faced by early stage SME's with high growth prospects.

The aims of the LCIF are as follows:

- To invest approx. £23m into high-growth early stage Science, Digital and Technology businesses in London during a three-year period;
- To leverage £2.9 of private sector for every £1 pound invested by LCIF across the fund;
- To generate 2,653 jobs as a result of the investments being made and to eventually generate £130m of GVA per annum by Year 8 of the fund;
- To maximise returns from exits to enable further investment in later years.

Depending on the final number and type of co-investment partners selected, the LCIF expects to build a portfolio of up to 210 businesses in the first three years of the fund, based on an average investment per company of c. £109k.

The MMC London Fund was launched in October 2012 with the mandate to make investments in early stage SMEs seeking finance to support a high growth strategy. The fund is financed via a £9m grant from the ERDF 2007-2013 Programme and c. £5m of early returns from our previous funds.

To date, the MMC London Fund has invested £6.4m in 15 high-growth early stage businesses in London. Of the 15, two companies are based in Objective 2 areas of London. Investments are typically between £200,000 and £500,000 per round and it is expected that each portfolio company will require between two to four investment rounds. The companies operate in seven sectors of the economy: financial, IT, digital, creative, leisure, health and education.

The following outputs have been achieved to date:

- A further £26.1m co-invested alongside our £6.4m, generating a co-investment multiple of 4.1 times;
- 123 jobs created with a further 16 in objective 2 companies; and
- 150 jobs safeguarded with a further 10 in objective 2 companies.

This document sets out in detail the activities that Funding London will undertake in respect of the delivery of the LCIF and MMC London Fund alongside our strategic planning for future new projects and the closure of old funds and the review of our governance arrangements.

Who we are

Funding London was established in 2004 by the then Mayor of London under the name SME Wholesale Finance with the specific long term mandate to support the Economic Development Strategy for London through its SME funding activities. Since its founding 10 years ago, Funding London continues to channel funding from Europe and the UK, through appointed fund managers to sustainable and ambitious London SME's caught in the funding gap.

Funding London recognises the significant role that SMEs play in London's economy, not least of which is the creation of jobs and prosperity. But we also recognise the hurdles that business founders and management teams have to clear before securing growth capital. With many SMEs still struggling to access finance they need due to either the financing gap that prevails at the earlier stages of development or simply due to the size of the business, we bridge the London funding gap and enable real opportunities for sustainable growth. Returns generated from our funds go back into the London ecosystem, through us or the GLA, making investment available to the next generation.

Our funds have achieved the following impacts to date:

- More than £28m invested by three equity and four loan funds into nearly 400 SME's;
- Co-investment multiple for venture funds at 3.8 times enabling a total of £66m into small businesses; and
- More than 2,000 jobs created or safeguarded.

We have already put to work £5m of the returns generated from our first set of funds via two new funds launched in 2012:

- The MMC London Fund is investing £14m into early- stage growth businesses, typically in Series A rounds, alongside private sector co-investors.
- The London Legacy Loan Fund is reinvesting our ESF legacy by making small loans to start ups in London's Objective 2 areas.

We have committed a further £1.7m of our legacy, alongside £25m from the Growing Places Fund, towards the new London Co-investment Fund due to launch in November 2014. The fund aims to invest £23m into London's seed stage companies in the Science, Digital and Technology – sectors which are of strategic importance to the London economy.

As is the case with all of our funds, the LCIF aims to leverage significant amounts of private sector co-investment alongside its own investments. We expect that the businesses receiving investments from the LCIF will receive at least a further £66.7m from private sector co-investors to achieve a target of £2.9 per £1 of LCIF invested.

Alignment of our activities with the Mayor's growth priorities for London (The EDS and the London Jobs and Growth Plan)

Our past, current and future SME financing activities are designed to support the growth strategy for London. This is ingrained in our articles of association and is central to every project we take on. We apply our knowledge and experience towards the design, implementation and delivery of new funds to support the strategy. More specifically our funds operate within the funding gap where we believe there is a role for public sector funds to stimulate activity and enable growth through investment.

The latest example of this is the LCIF which has been designed specifically to support the objectives set out in the Jobs and Growth Plan for London published in April 2013. Specifically, the LCIF supports two of the four priorities set out in the London Plan, namely:

1. **SMEs**: to support and grow London's businesses;

2. **Science and Technology**: for the capital to be recognised globally as world leading hub; for science, technology and innovation - creating new jobs and growth.

Vision and Strategy

Funding London's vision is to be the catalyst for growth businesses within the capital by:

1. Providing strategic funding and independent support for early stage businesses within the London ecosystem;
2. Enabling sustainable growth opportunities for small businesses;
3. Supporting best of breed fund managers to deliver investment to small businesses; and
4. Reinvesting success, fuelling the continuous fund provision to support the next generation of high growth businesses.

Paramount to the achievement of this vision is the ability to grow our capital base to enable us to continue to create new funds and to fund our operational costs by:

1. Securing co-investment partners for the LCIF that demonstrate excellent track records of investment;
2. As much as possible, support the MMC London Fund to maximise the ability to generate a positive returns, e.g. through the provision of sufficient funding to follow-on successful companies;
3. Maximising the net returns from the 2004-5 funds coming to a close;
4. Re-investing our legacy in projects which support the strategy for London but which offer us the ability to generate a significant return; and
5. Securing new sources of funding such as the European Investment Bank, the ERDF 2014-2020 Programme and COSME

Our medium term objective is to generate opportunities to diversify our activities by publicising the impact of our funds and our successes and promoting and leveraging our knowledge and expertise into other areas of the funding ecosystem. The LCIF marks a first step towards diversification as it will enable Funding London to build a track record of direct investment.

Longer term, we believe that the diversification of our activities alongside a positive track record of investment will allow us the opportunity to secure more diversified sources of funding.

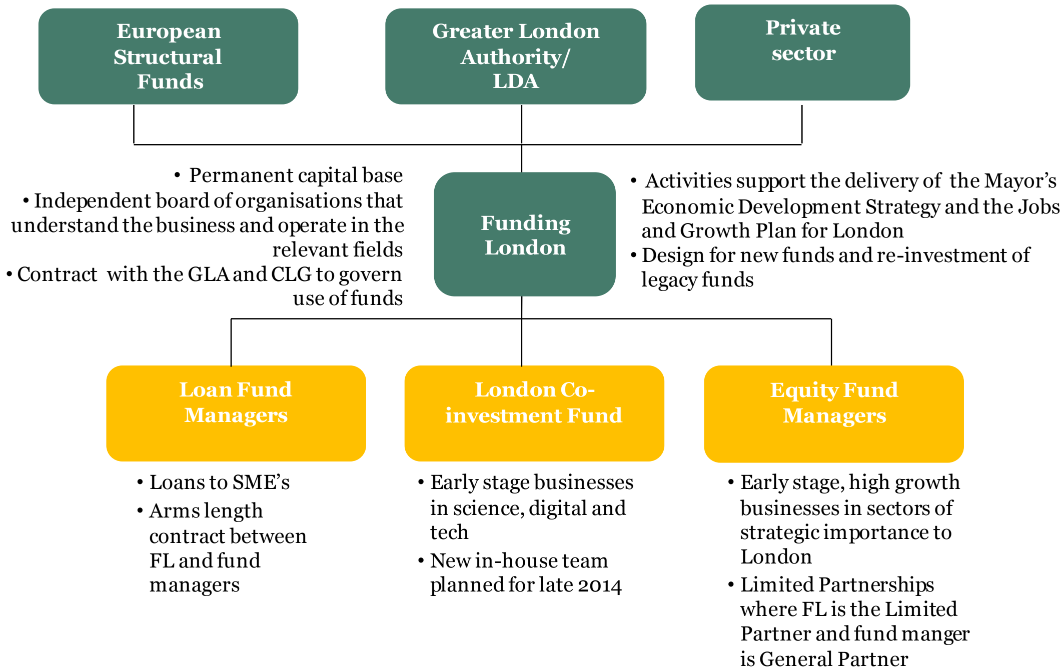
Re-branding

We recently changed our name to Funding London to better convey our activities and purpose. Our website www.fundinglondon.co.uk, launched in May 2014, sets out our vision and values alongside an overview of our funds and the impact achieved by them. As we seek to become a more active player in the London funding ecosystem, our website will allow us to reach out to potential investors and partners.

How we operate

We channel funding from Europe and the UK, through competitively selected fund managers to sustainable and ambitious London SME's. Returns generated from our funds go back into the London ecosystem, making investment available to the next generation.

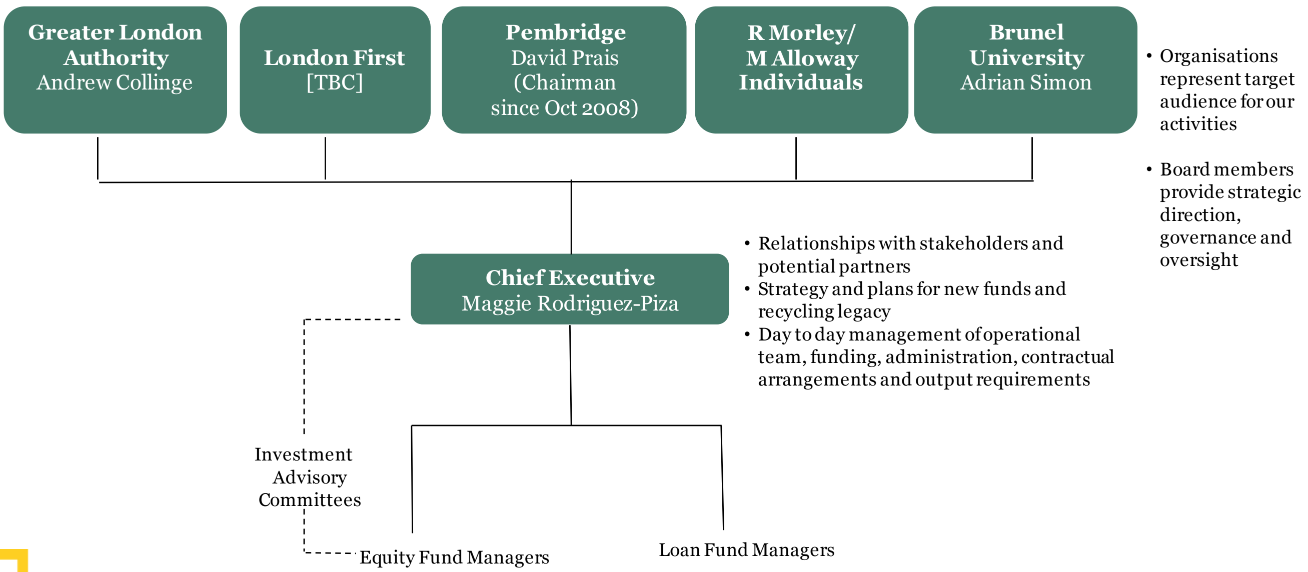
We operate under a **Holding Fund** structure as illustrated below:



The structure allows us to partner with fund managers and indirectly with other funders (such as VC's and angels). More recently we have partnered with other organisations such as Capital Enterprise to bring about new projects. During the current financial year, we will for the first time in our history establish and in-house team to carry out the day to day business of the new LCIF.

Governance

We are governed by a board of directors who is appointed by our members who are organisations and individuals. The chief executive reports to the board and consults with them on relevant operational and strategic matters.



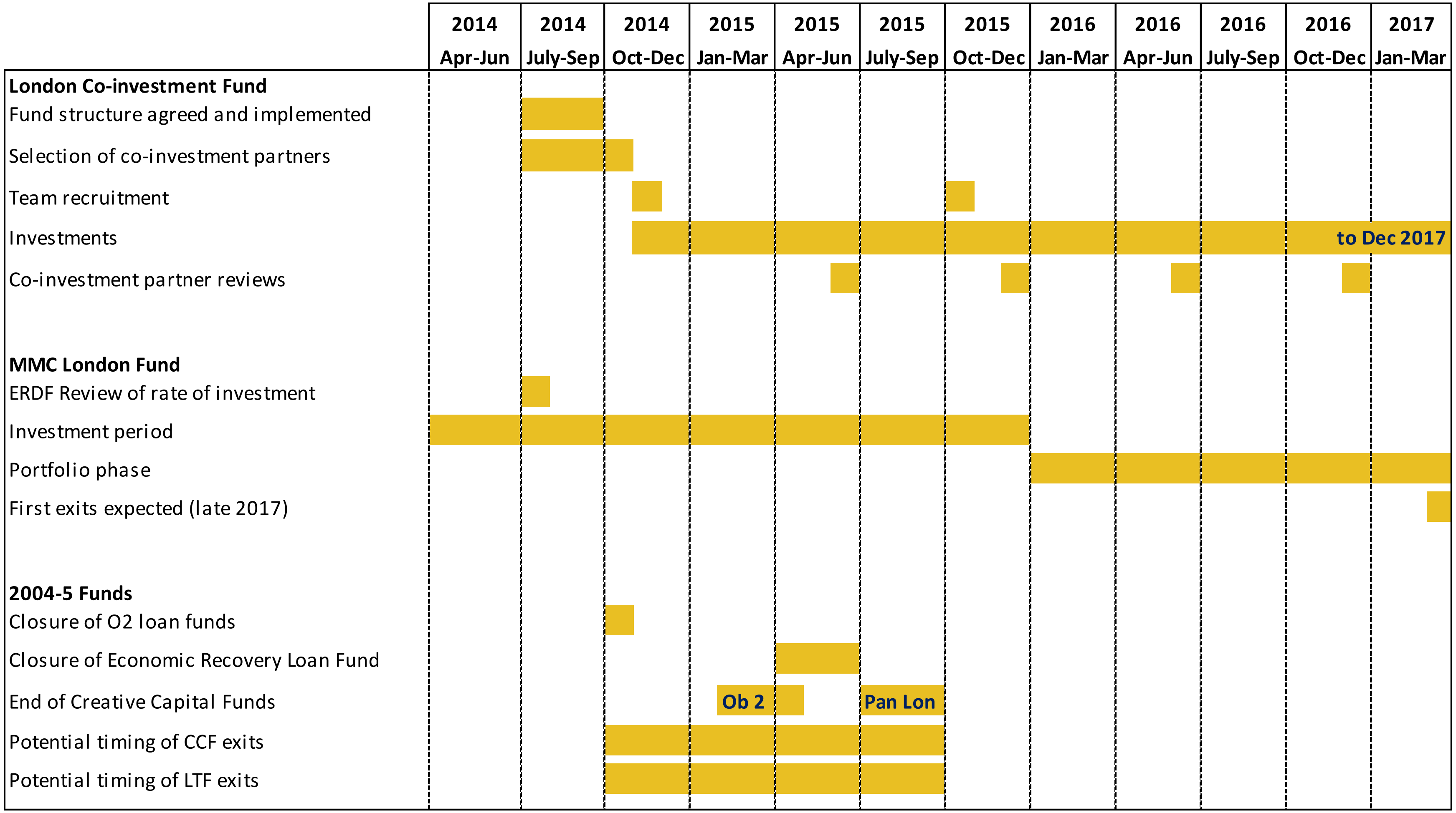
Our current board

Member	Current Representative on Funding London Board	Area of Expertise
The Greater London Authority	Andrew Collinge Assistant Director in the Communities and Intelligence Directorate.	Andrew has a broad array of responsibilities covering economic and social analysis to feed into all aspects of GLA policy (e.g. London's Living Wage and the London Infrastructure Plan), through to delivery of skills and business support projects funded through the ESF programme. He was the lead officer for the Mayor's 2020 Vision strategy. The GLA has veto powers over all significant decisions made by the board of Funding London.
Pembridge Partnership Limited	David Prais. Managing Partner. *David serves as the Chairman of the Board.*	Small investment and advisory organisation focused on the media and TMT sectors. Pembridge contributes knowledge of entrepreneurship, the challenges faced by SME's in finding funding for growth and expertise in the sectors relevant to Funding London's current technology and creative equity funds
London First	TBC	Represents business organisations with a specific agenda to improve London's competitiveness and its business environment.
Brunel University	Adrian Simon, ex Director of the Commercialisation Office	Adrian has significant experience in the formation and initial launch of technology start-ups, having been involved over a period of 10 years with the commercialisation of the output of academic research from Brunel university. For a long period prior to that Adrian successfully occupied various international marketing and general management positions with Heinz. Adrian's contribution centres around the performance of the equity funds, marketing and providing advice on Funding London's future strategy to support entrepreneurship in research.
Mark Alloway	Personal capacity (Development finance expertise)	Mark has been at the International Finance Corporation (IFC), a subsidiary of the World Bank, since 1993. Currently based in Paris, he heads up IFC's business development with financial sector clients in Western Europe. Prior to joining IFC in 1993, Mark spent five years in international private equity investment with 3i plc, Britain's leading development capital company.
Richard Morley	Personal capacity (Private equity and venture capital expertise)	Richard was a founding partner at NBGI Private Equity. Throughout his 10-year tenure (2001-2010) as a senior director, Richard was instrumental in the development of NBGI into an organisation now managing nearly €1billion across a number of different mid-market funds throughout Europe. In his role, Richard was responsible for origination, evaluation and execution of new investment opportunities, management of the investment portfolio and had key involvement in the strategy and management of the business. He was also a member of the NBGI PE investment committee. NBGI's UK Fund 1 achieved an average IRR of 44% p.a. and 4.2 times money multiple on realisations

Programme of Activity 2014-2017

Project Milestones

The company's activities for the financial year to March 2015 will focus on the delivery of the new £27m London Co-investment Fund ("LCIF") and ensuring progress with the MMC London Fund.   Specific milestones, including the closure of our older funds, for the period to March 2017 are set out below:



1. London Co-investment Fund ("LCIF")

The £27m London Co-Investment Fund will target high growth SME's in London's strategic sectors of Science, Digital and Technology as defined in the London Plan[1] thereby addressing the funding issues still faced by early stage SME's with high growth prospects.

The aims of the LCIF are as follows:

- To invest approx. £23m into high-growth early stage Science, Digital and Technology businesses in London during a three-year period;
- To leverage £2.9 of private sector for every £1 pound invested by LCIF across the fund;
- To generate 2,653 jobs as a result of the investments being made and to eventually generate £130m of GVA per annum by Year 8 of the fund;
- To maximise returns from exits to enable further investment in later years.

Depending on the final number and type of co-investment partners selected, the LCIF expects to build a portfolio of up to 210 businesses in the first three years of the fund, based on an average investment per company of c. £109k.

Background and Context

The LCIF has been designed to meet the growth capital needs of small businesses in the strategically important science, technology and digital sector as they emerge from London's leading public and privately funded accelerators, incubators and support programmes. Funding London and its partner Capital Enterprise believe that this is where funding for London's SMEs is most difficult to find. As is the case with all other Funding London funds, the LCIF will complement and not compete with other Government finance initiatives.

The body of evidence which supports public sector intervention to address the finance gap in SME growth capital is vast. BIS's latest report on Business Finance[2] concludes that "young companies seeking to expand their business or to develop new products and services are particularly underserved for finance in the UK". The latest research from the UKBAA and BVCA suggests the largest present gap in the market is for investment between £300,000 to £1m.

More specifically the recently published report by SQW and Middlesex University states that there is a significant structural equity finance gap facing SME's in London – specifically for those seeking to raise risk capital between £250,000 to £2m. See table below:

Table 1: Estimating the finance gap up to 2016 (£m)

	2012	2013	2014	2015	2016	Total 2012-16
Debt finance gap	£1,087	£1,108	£1,131	£1,153	£1,176	£5,655
Angel/ VC finance gap	£343	£350	£357	£364	£372	£1,787
Total finance gap	£1,430	£1,459	£1,488	£1,517	£1,548	£7,441

Source: SQW

Funding London and Capital Enterprise believe that the Angel/ VC finance gap is structural (i.e. will not be addressed with the upturn in the economy resulting in an upturn of lending) and is not being addressed with the same degree of urgency or resources that, for instance, the Bank of England's £75 Billion Funding for Lending scheme is attempting to

[1] London Enterprise Panel, Jobs and Growth Plan for London, April 2013

[2] Department for Business, Innovation and Skill. Building the Business Bank, Strategy Update, March 2013

achieve in regards to meeting the debt finance gap.

Consequently, the purpose of the LCIF is to make a start on addressing the Angel/VC finance gap that the SQW/ Middlesex University report demonstrates is a significant obstacle to growth for London SME's particularly in the Science, Technology and Digital sectors.

<u>The Co-investment Fund Model</u>

The co-investment fund model offers significant advantages to other alternatives. Specifically, the model allows for the efficient deployment of investments into target businesses through competitively selected partners in the early stage investments arena. This is achieved as follows:

a. The fund selects and contracts only with VC firms and angel syndicates with the **strongest track records** of investing, market knowledge and focus, and return on capital;

b. The fund **leverages the investment expertise of each partner** by co-investing on the basis of their investment and due diligence process. In other words, the fund does not carry out a separate evaluation of the potential investee company, but rather the fund's team ensures that: 1) the potential investee companies qualify for the objectives of the fund; 2) that the due diligence carried out by the partner is sufficiently robust (as defined contractually with each partner); and 3) that the terms of investment offered to the fund are exactly the same as the other investors;

c. The above process avoids the need to establish a complex Limited Liability Partnership (LLP) structure that is customary for VC funds. This approach also avoids the need for complicated investment approval panels. The co-investment partners **receive 2.5% of the funds** invested to cover a proportion of their costs. This makes the fund **cost effective**;

d. The LCIF will establish an in-house executive team to carry out the required legal due diligence and checks to ensure that the fund gets the **same investment terms as those of the private sector partners.** This team is also essential in the performance of the day to day portfolio monitoring activities on behalf of the LCIF and in safeguarding the LCIF's interest in relation to negations for exits down the line;

e. There is **strong alignment of interests** between the fund and the partners given that 1) the partners benefit by ensuring that funding rounds for investees can be completed successfully, whereas 2) the LCIF deploys the funds where they are most needed whilst ensuring investments are made on a commercial basis; and 3) both parties achieve diversification of risk. The fund also ensures that money is being deployed according to the agreed plans through six monthly reviews of partner activity;

f. A very significant advantage from the investee company point of view is that the process allows for **investments to complete quickly** (within two weeks from receipt of investment agreement); and

g. Although the fund relies on the **co-investment partners to provided active support to the investee companies**, the fund team maintains a right to appoint a non-executive to the board of the SMEs and in all cases have observer status and the same rights to information as the partners, so to protect, both, the investment and ensure support to the SME.

Investment Strategy

The overall objective of the LCIF is to substantially expand the availability of funding to early stage SMEs in the Science, Digital and Technology sectors over and above the funding deployed through its co-investments.

The LCIF's strategy is to only make investments alongside co-investment partners who have demonstrated an excellent track record in early stage investment in the relevant sectors, demonstrable experience of bringing in co-investment and credible proposals for the deployment of an allocation from the LCIF towards SMEs within a three year period. Notional allocations from the LCIF are not expected to be equal across the selected partners but dependent on each partner's investment objectives, track record and capacity to deploy funds.

In order to achieve this objective the LCIF will focus on the following **investment criteria** when evaluating proposed investments by partners:

i. **High growth sectors for London -** Focus on high growth SMEs in the Science, Technology and Digital sectors as they make the crucial transition from the start-up to the growth phase. Ideally the businesses will be seeking to raise between £250k and £1million;

ii. These businesses should be capable of achieving **exit valuations** of 10 times cash invested and generate a portfolio return of two times money invested;

iii. **Job creation -** The proposed investee companies should demonstrate the potential to create enough jobs to contribute towards the LCIF's target of c. 2,653 jobs in the third to fifth year following investments;

iv. **Private sector leverage** – An aim to maximise the amount of private sector investment for every £1 invested by the LCIF – with an overall target for the fund of £2.9 per £1 invested. This will be measured by taking into account leverage to be achieved at the point of initial investment plus any further funding committed by the co-investment partners subject to milestones and within the first three years from investment. Co-investors will be expected to maximise leverage on each investment; provided always that the LCIF is not able to invest more than 49% of the total amount of money invested in each round.

v. **Increase in the level of funding received per SMEs** through the fact that the funding deployed by the LCIF is in addition to funding that would have been secured by the investee company in any event. This "expanded runway" will increase the investee company's ability to achieve its milestones by focusing its resources on delivering its business plan rather than on managing cash;

Co-investment partners

The fund will enter into individual agreements with co-investment partners who will be competitively selected via an OJEU compliant process. The co-investment partners will be organisations that have their own investment funds targeting early stage businesses and who seek to expand the amount of funding they can bring to their prospective investees via co-investments with the LCIF. The partners will range from angel syndicates, venture capital managers, family offices, etc.

Once the partners are selected, each partner will be given a notional allocation of money to be invested by the LCIF alongside them. The LCIF will co-invest alongside the partners on a deal by deal basis, provided it is offered the exact same terms as the co-investment partner and provided the investment opportunity meets the investment criteria.

The criteria for investment will be set out in standard agreements which each partner will need to enter into with the LCIF/Funding London.

1.1. Procurement of co-investment partners

We will progress with the competitive procurement of co-investment partners for the LCIF during July, August and September. The timetable for the OJEU Procurement is as follows:

Activity	Timing
Appointment of procurement advisers	Late June
Publication of OJEU and PQQ	15 July
Responses received	21 August
Response analysis concluded	end August
Approved short list of candidates	early September
Tenders received from short list	mid October
Evaluation of tenders concluded	late October
Appointment of investment partners	end October
Investment partner contracts signed	November

1.2. Recruitment of operational team and operational milestones

In parallel with the procurement activity, we plan to recruit the first members of the required operational team during the autumn. Per the LCIF's business plan, we will be recruiting an investment executive at the beginning of the fund with a further executive joining a year later. There is also a plan for the recruitment of administrative support during the first year.

In addition to the in-house operational team, the LCIF will have a Marketing and Promotions executive seconded to it from Capital Enterprise (see 1.3 below), our LCIF delivery partner. This resource is planned for as early as September, recognising the important of publicising the fund and building a pipeline before the launch of the LCIF's investment phase. The cost of this resource is being covered by the LCIF for the first three years of the fund.

Based on the above, we expect the fund to begin making investments in the last weeks of 2014.

Activity	Timing
Marketing and promotions executive on board	September
Recruitment of first investment executive	November
First investment proposals received	November/December
First investments made	December
First six-monthly review of co-investment partners	June 2015
Recruitment of second investment executive	June 2015

1.3. Partnership with Capital Enterprise

Unlike our previous funds where all related activity is outsourced to the selected managers, we have formed collaboration with Capital Enterprise for the purposes of designing, bidding for and now implementing the LCIF. In this manner, each of

Funding London and Capital Enterprise bring their specific strengths and expertise to deliver the LCIF.

Capital Enterprise brings with it the benefit of its 70+ membership including London's leading universities, incubators and accelerators as well as its unparalleled knowledge and understanding of the early stage tech investment scene in London. Capital Enterprise founded and runs Capital List a service that sources, vets and then introduces start-ups (predominately sourced from its members) to 20+ seed VC's and Angel syndicates.

Capital Enterprise has devised and will monitor the marketing and pipeline development requirements for the LCIF ensuring that the co-investment partners are contributing to it. This will be done mainly via referrals from Capital Enterprise members and partners of any entrepreneurs with potentially investable businesses to the Capital List service for:

a. Assessment of the credentials and know -how of the team, development stage of their product and business model, evidence of market traction, potential size of market, investment history to date and future expected funding requirements" and eligibility for LCIF;
b. Advice and support including help to improve their pitch decks and business plans to a stage when they are ready to be referred to a co-investment partner; and
c. Introductions to the most suitable and responsive investor (which may or may not be a LCIF co-investment partner).

The selected co-investment partners would be required to work with the Capital List service by:

a. Providing up-to-date information on their investment criteria and on the deals they would like to see. (This will form the basis on which potential clients are sources, developed and then referred);
b. Agreeing to give due attention and consideration to clients referred by Capital List and to provide Capital List and the client with feedback;
c. Agreeing to participate in a "meet the Investor" open office event with Capital List at least once a quarter when at least three eligible businesses will have an opportunity for a face-to-face meeting; and
d. Agreeing to attend bi-annual "pitch events" organised by Capital List.

Capital List will be instructed to send all potential "investable proposals" that emerge from this pipeline to all co-investment partners in order to promote healthy competition. Where appropriate, Capital List will be sending these same deals to non-LCIF partners – as Capital List's prime responsibility is to its client and to ensuring that its client maximises their opportunity to get the right investment for them.

1.4. Delivery of the LCIF's targets

The investment, job creation, leverage and GVA targets for the fund will be achieved via the businesses selected by the co-investment partners. Therefore, the selection criteria that are being applied during the co-investor procurement process are focused on identifying those investors who would be most capable of achieving the targets as follows:

1.4.1. Investment targets

Our pre-qualification stage takes into accounts each potential partner's record in terms of pace of investment (10% of total score). Shortlisted candidates will be asked to put forward credible proposals for investing a £1m to £3m allocation which complies with the required leverage targets in businesses that meet the investment criteria.

Allocations will be determined on the basis of each partner's demonstrable track record in size of investment, size of investment round and funds deployed within a 12 month period.

1.4.2. 2.9 times leverage

Through our pre-qualification process we will identify and short list co-investment partners for whom investing as part of a syndicate is standard practice. Furthermore, potential partners will be ranked according to the levels of co-investment achieved with 20% of total score relating to investing as a syndicate and co-investment multiples achieved. The shortlisted candidates will be required to put forward proposals at the tendering stage as to how the levels of leverage being sought will be achieved.

1.4.3. Job creation

Job creation is predicated on making investments in businesses with high growth potential that demonstrate the ability to create enough jobs to contribute towards the overall target. This is defined within the investment strategy that the co-investment partners will be required to apply and should be evidenced via the investee company's business plan. It should be noted however that given the early-stage nature of the investee companies, we would not expect to report significant numbers of jobs created until year four of the LCIF.

Base case job creation assumptions

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Jobs created		128	247	357	429	637	527	327
Cummulative		**128**	**376**	**733**	**1,162**	**1,799**	**2,326**	**2,653**

Source: LCIF Business Plan dated May 2014

The tendering stage of the co-investor procurement process will require potential partners to put forward credible and deliverable proposals for how they will deliver a portfolio that complies with the investment criteria (including job creation potential).

1.4.4. GVA

Our assumptions on GVA per business are directly derived from job creation and specifically tied to jobs in "surviving" companies. That is, it takes into account the expected failure rate in the portfolio. This is shown in the table below:

GVA Calculations - base case assumptions

		2015	2016	2017	2018	2019	2020	2021	2022
	Basis	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**
Surviving companies			64	123	178	164	151	143	140
Surviving jobs			128	366	695	1,068	1,624	2,088	2,380
GVA from employment[1]	£55,000		7,040,000	20,130,000	38,225,000	58,740,000	89,320,000	114,840,000	130,900,000
Total GVA			7,040,000	20,130,000	38,225,000	58,740,000	89,320,000	114,840,000	130,900,000
GVA per business			110,000	163,659	214,747	358,171	591,523	803,077	935,000
annual increase per business			110,000	53,659	51,089	143,424	233,352	211,554	131,923
average increase per business across previous years							120,381	138,615	137,500

[1] *As per GLA Economics*

Source: LCIF Business Plan dated May 2014

As shown above, GVA targets are dependent on achieving the required percentage of surviving businesses (a 60% survival rate per our base case assumptions). The pre qualification stage of the co-investor procurement process will rank potential partners according to portfolio performance, including failure rates. The portfolio performance score counts towards 30% of the total score.

1.5. Financial commitment to LCIF

The LCIF will be funded via the £25m repayable grant from the growing places fund and an investment of £1.7m by Funding London. All costs, investments and proceeds from exits will be shared by the two parties in proportion to the initial contributions (93.8% GLA, 6.2% Funding London).

We have committed the entirety of our available ERLF legacy towards the project. This currently stands at £1.4m and is expected to grow to £1.6m by April 2015. The balance of our commitment will be fulfilled from other small pots of legacy available (e.g. London Technology Fund).

The expected annual contributions are as set out below:

Financial year to 31 March	2015	2016	2017	2018	Future Years	TOTAL
Annual investment amounts (£)	238,681	470,638	470,638	231,957		1,411,914
Investment fees paid to partners (£)	5,967	11,766	11,766	5,799		35,298
Legal costs (£)	5,245	10,151	10,151	4,399		29,945
Total investment cashflows	249,892	492,555	492,555	242,155	-	1,477,156
FL pro-rata contribution to op costs (£)	10,546	16,533	20,132	19,638	94,732	161,582
TOTAL FL outflows	**260,438**	**509,088**	**512,687**	**261,793**	**94,732**	**1,638,739**

1.6. Further funding considerations

Funding London will explore the possibility of acquiring further sources of investment capital for the London Co-Investment Fund to deploy alongside its selected private sector investor partners.

The most likely sources of finance available are:

The European Regional Development Fund (ERDF)

Based on preliminary discussions with the EPMU at the GLA, our working assumption at this point is that the £25m of GPF can count as the required 1:1 matched funding for the purposes of ERDF. Therefore, we may be able to unlock a further £25m of ERDF and double the size of the LCIF. At this point, we are awaiting the publication of the ERDF 2014-2020 Operational Plan which will set out the requirements for funding projects in the SME Finance area. It is expected that the Operational Plan will be published during the autumn.

EIB JEREMIE Programme

We have also explored the possibility of leveraging the GPF with EIB funds. The requirements from EIB in respect of matching financial instrument funds are not easily aligned with the LCIF. This is principally because the EIB would require 50% of total funding to be invested through loans. In addition, JEREMIE requires a minimum 1:1 match level of £50m. Nonetheless we will continue discussions in the autumn regarding a possible JEREMIE structure once the ERDF operational plan is published.

COSME

COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs) running from 2014 to 2020 with a planned budget of €2.3bn. The COSME budget will also be invested in funds that provide venture capital and mezzanine finance to expansion and growth-stage SMEs in particular those operating across borders.

1.7. Cost and investment budget to March 2015

Total costs to 31 March 2015 including agreed one-off set up costs per the LCIF business plan are £353,679. These split £331,921 to the GLA's account and £21,757 to SME Wholesale Finance's. It is unlikely that this budget will be met given the delay in launching the fund. For example, the original budget assumed that the first year team members would have been in place by 1 July.

Budgeted set up costs of £42,500 included £36,500 to cover legal and procurement advisers. This compares to quoted cost of advice of between £31,000 to £39,000.

London Coinvestment Fund, £	Jun-14	Sep-14	Dec-14	Mar-15	Year	
Set up costs	21,000	22,500			43,500	
Transaction costs			93,180	89,064	182,243	
Operational costs			71,261	56,675	127,936	
Total LCIF costs	**21,000**	**22,500**	**164,441**	**145,738**	**353,679**	
of which						
GLA contribution	19,708	21,116	154,325	136,773	331,921	93.8%
SMEWFL contribution	1,292	1,384	10,116	8,965	21,757	6.2%

We assume that the GLA's contribution towards the LCIF costs and investments will be drawn down at the beginning of each financial year, based on the business plan budgets.

2. MMC London Fund

The MMC London Fund was launched in October 2012 with the mandate to make investments in early stage SMEs seeking finance to support a high growth strategy. The fund is financed via a £9m grant from the ERDF 2007-2013 Programme and c. £5m of early returns from our previous funds. The aims of the project are as follows:

- To leverage the £13.9m committed to the fund by securing at least an equivalent amount of private sector funding via the co-investment process on a "deal by deal" basis;
- To make investments in at least 18 London-based businesses for the purpose of supporting viable growth strategies – thereby creating at least 282 jobs and safeguarding a further 129 jobs in London;
- To make investments in sectors identified in the Mayors' Economic Development Strategy (May 2010) as being of strategic importance to the London economy;
- To deliver the fund in a cost effective manner by leveraging the capabilities of existing fund managers in the industry; and
- To maximise the investment returns in order to strengthen Funding London's capital base so that it is able to support further early stage funds in London.

Applying "lessons learnt"

The design of the MMC London Fund and the criteria for the selection of the fund managers were carefully defined to avoid the pitfalls that we had encountered in our earlier venture funds. We sought to strike a balance between attracting "best of breed" fund managers and achieving a competitive fund management fee proposal. This was achieved by ensuring that the parameters defined within the tendering briefs (required size of portfolio, sectors and job creation) were in line with what venture fund managers would expect as reasonable given the limited funding pot. Funding London conducted a crucial test marketing exercise during 2011 which was instrumental in shaping the fund.

The fund also allowed us to fulfil our obligations to re-invest our legacy from the Objective 2 funds (ERDF 2000-2006 Programme) whereby any returns from those funds must be reinvested in the specific objective 2 postcodes. Given the relatively small amounts o f O2 legacy available at the time, the fund allowed for a cost effective way to reinvest without delay.

Achievements to date

To date, the MMC London Fund has invested £6.4m in 15 high-growth early stage businesses in London. Of the 15, two companies are based in Objective 2 areas of London. Investments are typically between £200,000 and £500,000 per round and it is expected that each portfolio company will require between two to four investment rounds. The companies operate in seven sectors of the economy: financial, IT, digital, creative, leisure, health and education.

The following outputs have been achieved to date:

- A further £26.1m co-invested alongside our £6.4m, generating a co-investment multiple of 4.1 times
- 123 jobs created (44% of ERDF 2007-13 target). A further 16 in objective 2 companies
- 150 jobs safeguarded (116% of ERDF 2007-13 target). A further 10 in objective 2 companies

We do not expect positive GVA changes to be reported until calendar year 2015. The target increase in GVA for the portfolio is £8.5m

Of the jobs created, 39% are occupied by female employees, and 54% have been occupied by persons of non-white British origin.

2.1.Investment cash flows and operational costs

From a cash flow point of view, the MMC LF is forecasting that during the financial year to 31 March 2015 it will invest £4.3m of ERDF funding. Objective 2 legacy committed to the fund can only be invested once the ERDF amounts have been exhausted (given the December 2015 deadline).

With the exception of a small balance of £140k which Funding London holds, the ERDF funds for the investments will be drawn down from the ERDF and matched via the third party co-investors on a deal by deal basis. By contrast, ERDF grant allocated to fund management fees has been matched by our own legacy and is held in our bank account.

As the portfolio is quite young, we do not expect any proceeds from exits for the current financial year.

Overheads are recharged to the MMC LF on the basis of team hours spent. We are budgeting an allocation of 45% of administrative overheads against the MMC London Fund. This allocation will cover the team's activities outlined above, reviewing quarterly reports and producing the required reports for the ERDF and the GLA in respect of the fund. There is also a substantial proportion of accounting and bookkeeping time spent on the MMC LF.

Table 1: Overview of forecast inflows/outflows MMC LF

MMC London Fund, £	Jun-14	Sep-14	Dec-14	Mar-15	Year
Amounts for investment ERDF	1,088,846	540,000	1,500,000	1,190,000	4,318,846
Amounts for investment O2	-	-	-	-	-
Total investment	1,088,846	540,000	1,500,000	1,190,000	4,318,846
GP Share and expenses	73,740	73,740	73,740	73,740	294,961
O2 Legacy GP Share and expenses	14,476	14,476	14,476	14,476	57,905
Total direct costs	88,217	88,217	88,217	88,217	352,866
Indirect costs allocation @ 45%					
Admin, other overheads, employment	26,436	37,492	27,926	20,567	112,422
Total costs	114,652	125,709	116,143	108,784	465,288
Total disbursements	**1,203,498**	**665,709**	**1,616,143**	**1,298,784**	**4,784,134**

2.2. Follow on requirements

The MMC London Fund aims to build a portfolio of at least 18 companies by 31 December 2015. At 1 July 2014, the fund manager had invested in 14 companies[3] towards this target.

Forecasts for the remainder of the investment period (to 31/12/2015) indicate that the last four companies will most likely be added to the portfolio between the fourth quarter of 2014 and the first half of 2015. This leaves limited opportunity to make follow-on investments from the ERDF funds before the December 2015 deadline – where un-invested funds must be returned to Brussels.

A source of follow-on funding which will be immediately available to the fund manager is the proportion of our Objective 2 legacy already committed to the funds

[3] There is an additional company in the portfolio which does not count towards the ERDF targets as it has only received Objective 2 legacy money.

which is attributable to the LDA's contribution to the original funds. The split is roughly 40% LDA, 60% ERDF across the loan and equity funds.

We have already allocated £2.13m of Objective 2 Legacy to the MMC LF for investments of which roughly £803k is the proportion attributable to the LDA. We have agreed with the fund manager that this can be applied towards meeting the follow on requirements of the portfolio beyond 2015 (net of GP share).

To the extent that there are exits during the current year from our other equity funds over and above the additional requirements for the LCIF (see 3.4) and Funding London's own liquidity reserves, we would carefully consider setting aside further funds for the purposes of the portfolio requirements.

3. Targets for the year to 31 March 2015

3.1. LCIF

The LCIF deliverables for the period to 31 March 2015 are as follows:

Quarter to	**Target**
September 2014	• Approved shortlist of potential co-investment partners invited to submit tenders • Marketing and promotions executive in place
December 2014	• Six to eight co-investment partners in place • First investment executive in place • First investment proposals being processed
March 2015	• First £1m deployed into co-investments

3.2. MMC London Fund

The MMC London Fund's targets which are set by the terms of our ERDF 2007-13 grant are as follows:

ERDF defined target	**Status at 31 July**	**Cumulative position by 31 March**
SMEs receiving investment (cumulative since start)(1)	14	Cumulative target (13) already exceeded
ERDF amounts invested in SMEs(1)	£5,821,440	£6,700,380
Jobs created	123	Cumulative target (67) already exceeded
Jobs safeguarded	150	Cumulative target (93) already exceeded
Increase in GVA	n/a	£1,296,663

(1) Note: only companies having received new ERDF funds as investment (as opposed to Objective 2 legacy) can be counted

As can be seen from the above table, the fund manager has already exceeded the cumulative job creation and job safeguarding targets to 31 March 2015.

The pace of investment is on track to deliver the required cumulative position in terms of amounts invested. There are three new investments planned during the quarter to December which are expected to fulfil the target.

GVA targets are yet to be assessed given that the first investments of the fund only reached their first year anniversary at the end of 2013. The fund manager is still collating information as at the date of this document.

4. Possible future projects

4.1. The 2014-2020 ERDF Programme

The Operational Plan for the new ERDF Programme 2014-2020 is expected to be published in the autumn. We understand that there will be a significant emphasis on SME Financial Engineering Instruments. We also understand the EIB's JEREMIE Programme will continue whereby EIB matches ERDF awards plus other match on a 1:1 basis.

The minimum amount that the EIB seeks to match through JEREMIE is £50m. Therefore, we will explore ways in which we can either secure a £50m ERDF grant on its own or source match funding for a smaller grant. In particular, we will be pursuing the option to use the current Growing Places Fund award towards the required £50m by matching with new ERDF funds.

4.2. Local Impact Funds

We are currently exploring in conjunction with Social Investment Business how a potential London Impact Fund could channel different sources of investment into high impact social enterprises across Greater London.

The Social Investment Business is leading an initiative to bring support and finance to social enterprises in areas across the country through its Local Impact Funds.

Since January Social Investment Business has successfully launched a pilot £2m Liverpool City Region Impact Fund, which is now open to applications, and have seen 10 Local Enterprise Partnership areas across the country express an interest in having their own Local Impact Fund established. Social Investment Business is now working up a model for rolling to the other 10 areas.

We are keen to explore the potential interest from partners in a London Impact Fund, as this is an opportunity to continue Funding London's involvement in this important and growing sector of the funding ecosystem as well as for Funding London to fulfil its obligation to reinvest its future Objective 2 legacy proceeds into areas of deprivation.

In the coming months, Funding London will be exploring this option and approaching the ERDF and the London Enterprise Panel for views.

4.3. COSME financial intermediaries

We understand that the SME Finance (Financial Instruments) element of the COSME programme will be launched with an EIF call for expression of interest to select financial intermediaries. As at the date of this document, no further information has been made available by EIF.

5. Profile building activities

5.1. Rebranding and website

In December 2013 we concluded our marketing and communications review which culminated in our rebranding as Funding London and our new website: www.fundinglondon.co.uk. The website went live in late May and received enthusiastic feedback from our contacts. We will use the website to publicise our activities and the impact that our funds are having for the benefit of London SME's.

Our key messages (see below) convey Funding London's role as an organisation with very substantial knowledge and experience of creating funds for London's early stage and small businesses operating at the heart of the funding eco-system.

We intend to:

Be the catalyst for high growth businesses within the Capital

Provide strategic funding and independent support for early stage businesses within the London ecosystem

Enable sustainable growth opportunities for early stage businesses

Provide Fund Managers with real investment opportunities

Reinvest success, fuelling continuous fund provision to support the next generation of high growth businesses

We will maintain a small Twitter presence as Funding London. The activity will be limited to following relevant organisations and funds as well as "re-tweeting" relevant content.

The total cost of the marketing and communications strategy, collateral and website was £19,800 of which £11,400 will be disbursed during the current financial year.

5.2. Marketing of the London Co-investment Fund

The LCIF is of interest to the entire early stage community including venture capitalist, angel networks, and agencies in charge of promoting the London technology scene. We will publicise the fund not only directly through our channels but also through others such as the BVCA, the Business Angel Association, the eis association and London and Partners. In particular, our delivery partner, Capital Enterprise, will use its significant connections through its members to achieve this.

A launch event is planned for the LCIF in November at City Hall. The purpose of the event will be to raise awareness of the LCIF and how it will operate, its investment criteria, and how to apply (through the selected co-investment partners). Invitations will go out to members of the early stage funding community such as VC funds, angel investors, advisers and promotion organisations (e.g. Tech City, London and Partners, Tech London Advocates).

5.3. Other publicity activities

The LCIF launch will coincide with the tenth anniversary of the launch of our first funds. We will have an opportunity to publicise our successes and achievements as a precursor to seeking new funding partners for new projects.

Highlighting investee companies' success

The MMC London Fund will most likely reach its portfolio target of 18 companies during the first half of 2015. As the portfolio companies begin to achieve significant milestones there have already been ample opportunities for publicity. For example, portfolio company Masabi has won contracts to manage the mobile ticket systems for the entire Boston metro network and two of the New York commuter rail lines (Metro North and Long Island). Masabi is an excellent example of a London born and bred company who is succeeding on a global marketplace.

Several of the MMC LF portfolio companies have been recognised for the high growth potential and have been included in:

- Everline Future Fifty
- UK BAA High Growth Team of the Year
- 25 Hyper Growth National Champions

We will work with MMC Ventures and the Mayor's press office to continue to publicise future successes illustrating the impact of our funds.

There is also a number of portfolio companies in the London Technology Fund and Creative Capital Fund with significant successes creating further publicity opportunities for Funding London.

6. Review of our membership structure and appointment of new chairman

As we seek to expand our activities and our access to investment and potential partnerships, we have launched a review of our membership structure and our board composition.

The review intends to determine which current London organisations are the most relevant to provide strategic guidance to Funding London, and it may be that some of the current Members no longer reflect the segments of SME's that we seek to serve. For example, Brunel University no longer has a commercialisation unit. Furthermore, as the strategy for London becomes increasingly more centred in the Science and Tech clusters, we should seek to have such representation within our membership.

We will also undertake a review of our Articles of Association in order to change certain provisions which limit our ability to make effective business decisions. In addition, we will seek to separate membership rights from automatic rights to appoint directors from within member organisations. This will allow us more flexibility in ensuring that our board is a "skills driven" board whilst securing the strategic input of the right member organisations.

As we seek to become a more outward looking organisation, the board has agreed with the GLA that Funding London would benefit from a chairman that can help to forge relationships with larger stakeholders in the public and private arena. We are in the process of recruiting from a short list of candidates. Ideally the member and board review will be led by a newly recruited chairman.

7. Closure of 2004-5 Funds

Objective 2 Funds

The objective two funds were launched in late 2004 as part as the Mayor's Access to Finance Programme. They comprised:

Fund	Amounts invested	SME's supported	Jobs created/ safeguarded
Objective 2 Growth and Mezzanine Loan Funds (ERDF 2003-2007 Programme)	£4,224,034	139	97/485
Objective 2 Social Enterprise Fund (ERDF 2000-2006 Programme)	£1,795,443	16	151/338
Objective 2 Start Up Loan Fund (ESF 2000-2006 Programme)	£1,826,000	116	244/39
Creative Capital Fund (ERDF 2000-06 Programme + LDA Funds)	£4,076,291	17	119/61
London Technology Fund (ERDF 2000-06 Programme + LDA Funds)	£7,111,974	8	65/13
Total	£19,033,742	296	676/936

7.1. Objective 2 Loan Funds

The Objective 2 loan funds[4] originally lent £7.85m and were financed through a combination of funds from Barclays Bank, ERDF grants and LDA grants. The Start Up Loan Fund was financed by an ESF grant and an LDA grant.

The fund management agreements for the loan funds will terminate on 13 October 2014. As at 31 March 2014 repayments to the fund represented 68.4% of amounts lent, and the projected final recovery level is 73%.

The most recent repayment forecasts from the fund managers predict recoveries between April and December 2014 at £357,324 mainly as a result of the bullet repayments due on the Social Enterprise portfolio. Assuming the total forecast amount is recovered, the recovery level will be 73% by the end of December. As the funds are at the very last stage of their lives, interest income for the current year will be minimal at £5,950. Repayments are collected at the end of each quarter with the biggest payment expected during the quarter to December (which will include the bullet repayments).

Beyond December, there are possible further recoveries for which we have agreed in-principle "sharing arrangements" with two fund managers, ELSBC and GLE One London. The current proposal is 60:40 in Funding London's favour.

[4] ESF Start-Up Fund, ERDF Growth Fund, ERDF Mezzanine Fund and ERDF Social Enterprise Fund

In addition, ELSBC projects specific recoveries in respect of the ESF Start-Up portfolio of £17,000 covering October 2014 to September 2015 and £11,000 in 2015/2016. We have agreed to pay a fee for the continued monitoring of the portfolio of £4,000 in respect of the first year to September 2015, with a view to evaluating a second year in due course.

There will be a cash outflow of £70,000 of ESF legacy in June 2014 towards the London Legacy Loan Fund.

7.2. Economic Recovery Loan Fund

The Economic Recovery Loan Fund was launched in May 2009, as part of the Mayor's Economic Recovery Action Plan, to help ease the effects of the recession on SMEs. The fund targeted established SMEs for whom working capital or other facilities were withdrawn at short notice by banks, and/or where alternatives offered would have been prohibitively expensive or not met cashflow requirements for business.

The fund lent £2,994,800 to 88 businesses. Most loans ranged from £25,000 to £50,000. 104 jobs were created and 305 jobs safeguarded as a result of the loans.

The contract for the management of the ERLF will expire on 31 March 2015 unless the parties agree to extend it. Of the £2.99m lent, repayments stand at £2,230,444 as at 30 May 2014. Based on balances outstanding on performing loans at the end of May, the fund is on track to recover a further £92,000 over the next nine months.

Our analysis of repayments obtained from borrowers in arrears indicates that the fund managers should be able to recover a further £101,000 from loans in arrears; however, this is likely to require a period of time beyond 31 March 2015. We will review the status of repayments at the end of the calendar year 2014 and make a decision with the fund administrator as to the possible extension of the contract.

Assuming the recovery of the balances remaining on performing loans plus the further £101,000 in arrears, the ERLF would achieve a final recovery rate of 81%.

From a cashflow perspective Funding London receives from the administrator six-monthly payments (on 1 April and 1 October) in respect of repayments made by borrowers; therefore, a payment in relation to the period to 31 March 2014 would only be recognised in the financial year to 31 March 2015. For the remainder of the fund's life, the repayments are expected as follows:

Payment received/to be received	principal	interest	Period covered
1 April 2014 (actual)	£140,060	£14,459	1 Oct 13 to 31 March 14
1 October 2014	£90,109	£7,000	1 April 14 to 30 Sept 14
1 April 2015	£90,109	nil	1 Oct 14 to 31 March 15
Beyond (depending on arrears recovery)	TBC	nil	To be agreed

Interest income for the current financial year is forecast at £21,000.

7.3. London Technology Fund

The London Technology Fund was launched in July of 2005 to invest in early stage businesses in London. The fund invested £7.1m and leveraged a further £30.8m (4.3 times) into eight early stage ventures. The fund was closed in September 2011 and the interests in the remaining investments were transferred to Funding London.

There remain two live investments in the portfolio, Immune Targeting Systems ("ITS") and Deltadot.

7.3.1. Immune Targeting Systems

Since the early termination of the LTF contract in September 2011, Funding London has taken over the monitoring of the investment. Our CEO participates in ITS board meetings as an observer; and makes any necessary investment decisions in consultation with our board. For the current year, this activity will continue.

Although the company is making good progress with its flagship product, Flunysin, it will not be known until the autumn whether a potential exit is possible. If so, this is likely to be an IPO.

7.3.2. Deltadot

Funding London is a very small shareholder in Deltadot (3%) and it has no observer rights on the board. The Funding London CEO makes quarterly phone calls to Nigel Stokes (MD of Deltadot) and this is the limit of the activity relating to this company.

The company is in the process of seeking to complete a funding or M&A transaction.

7.4. Creative Capital Fund

The Creative Capital Fund was launched in March of 2005 to invest across the creative economy sector. The fund made investments in 17 companies and reached the end of its investment period in 2010. The CCF invested £4.1m and leveraged a further £9.4m (2.3 times) into its portfolio companies.

Our activity in respect of the CCF equity funds is limited to risk management through quarterly reports and ad hoc updates on the portfolio with the fund manager.

The fund management contracts for the CCF Objective 2 and CCF Pan London funds will expire on 11 March 2015 and 26 July 2015 respectively. Funding London's financial obligations in respect of these contracts are still significant given that each of the contracts provides a ten year schedule of payments to the General Partner (the "GP Share"). As at 31 March 2014, the payments made against each of the contracts are as set out in the tables overleaf.

For the objective 2 fund £499,327 over and above what has already been drawndown will be due by the time the fund finishes. Of this, £398,928 has already been called by the fund manager as it relates to periods already billable. For the current financial year, we have paid a further £75,000 during April towards the amount owed. This amount will be the last of what Funding London is contractually bound to pay out of its own funds. Any further payments can only be made out of exit proceeds. However, we will be required to reimburse expenses of c. £5k for the current financial year.

In the Pan London Fund, Funding London exhausted its commitment back in 2013. Thereafter the fund manager has exercised its contractual right to retain proceeds from exits for the purposes of fulfilling the partnership's obligations towards GP Share. In total, £318,943 of GP advances have been covered via those proceeds. Any further drawdowns by the manager towards the GP Share can only be made from further exit proceeds.

In addition to the main Limited Partnership agreements, a Business Support agreement was set up to "top up" the amounts available to the fund manager to cover its operating expenses. There remains £14,400 of funds under that contract to be paid during the current financial year.

Contractual obligations per limited partnership agreements

Objective 2	Year to	Per LPA (£)	Drawndown (£) *(incl RPI adj)*	From exits (£)	Notice issued but not drawndown at 31/3/14 (£) *(incl RPI adj)*	Notice to be issued at 31/3/14 (£) *(incl RPI adj)*
Contract start	11-Mar-05					
1st anniversary	11-Mar-06	170,000	179,912			
2nd anniversary	11-Mar-07	170,000	174,130			
3rd anniversary	10-Mar-08	170,000	182,110			
4th anniversary	11-Mar-09	551,759	189,553			
5th anniversary	11-Mar-10		381,759			
6th anniversary	11-Mar-11	176,736	209,661			
7th anniversary	10-Mar-12	261,773	305,901			
8th anniversary	11-Mar-13	141,325	42,884		125,134	
9th anniversary	11-Mar-14	141,325			173,395	
10th anniversary	11-Mar-15	160,597			100,399	100,399
Total		**1,943,515**	**1,665,910**		**398,928**	**100,399**

Pan London	Year to	Per LPA (£)	Pro-rated to March year end and Drawndown (£) *(incl RPI adj)*	From exits (£)	Notice issued but not drawndown at 31/3/14 (£) *(incl RPI adj)*	Notice to be issued at 31/3/14 (£) *(incl RPI adj)*
Contract start	26-Jul-05					
1st anniversary	26-Jul-06	170,000	127,500			
2nd anniversary	26-Jul-07	170,000	174,130			
3rd anniversary	25-Jul-08	170,000	182,110			
4th anniversary	26-Jul-09	170,000	189,553			
5th anniversary	26-Jul-10	170,000	189,544			
6th anniversary	26-Jul-11	162,500	196,548			
7th anniversary	25-Jul-12	143,000	206,375			
8th anniversary	26-Jul-13	143,000	27,082	111,490		
9th anniversary	26-Jul-14	143,000		185,962		
10th anniversary	26-Jul-15	143,000		21,491	70,860	106,290
Total		**1,584,500**	**1,292,843**	**318,943**	**70,860**	**106,290**

Note: Drawdowns are pro-rated to 31 March year ends, so the notice issued in respect of the 10th anniversary only covers the period to 31 March 15. Therefore, there will be an adjustment to cover the remaining 4 month period.

7.5. Operational costs relating to the 2004-5 Funds

7.5.1. Direct costs

Fund management costs for the current financial year are budgeted at £68,914 for the loan funds and £94,400 for the equity funds. See Table 2.

7.5.2. Indirect costs/overhead allocations

Overheads are recharged on the basis of team hours spent. We are budgeting an allocation of 15% of administrative overheads against the 2004-5 fund legacies (loan and equity). This allocation will cover the team's activities in relation to monitoring the fund managers, reviewing quarterly reports and producing the required reports for the ERDF, ESF and GLA in respect of the funds. There is also a proportion of accounting and bookkeeping time spent on these 2004-5 funds.

Table 2: Quarterly overview of forecast inflows/outflows 2004-5 Funds

2004-5 Funds, £	Jun-14	Sep-14	Dec-14	Mar-15	Year
O2 repayments and interest	45,773	88,977	13,139	215,386	363,275
ERLF repayments and interest	154,519		97,109		251,628
Total income	**200,292**	**88,977**	**110,248**	**215,386**	**614,903**

2004-5 Funds, £	Jun-14	Sep-14	Dec-14	Mar-15	Year
ESF Legacy Loan Fund - to be lent	70,000				70,000
- ERLF Fund Management	20,000			20,000	40,000
- O2 Loan Fund Management	20,000			4,000	24,000
- O2 Loan Fund Managers Monitoring	3,276		1,638		4,914
Total O2 Fund Management	43,276	-	1,638	24,000	68,914
Total 2004-5 Loan Funds	113,276	-	1,638	24,000	138,914
- GP Share and expenses	75,000			5,000	80,000
- Business Support contract	3,600	3,600	3,600	3,600	14,400
Total Creative Capital Fund	78,600	3,600	3,600	8,600	94,400
Total direct costs	191,876	3,600	5,238	32,600	233,314
Indirect costs allocation @ 15% Admin, other overheads, employment	8,812	12,497	9,309	6,856	37,474
Total disbursements	**200,688**	**16,097**	**14,547**	**39,456**	**270,788**

8. Overview of cash flow budget

The table below sets out our budget on a cash basis for the current financial year.

	Jun-14	Sep-14	Dec-14	Mar-15	Year
Income, £					
O2 repayments and interest	45,773	88,977	13,139	215,386	363,275
ERLF repayments and interest	154,519		97,109		251,628
Bank interest income	2,875	2,875	2,875	2,875	11,500
Total income	203,167	91,852	113,123	218,261	626,403
Disbursements, £					
Investments					
LTF investment	62,500				62,500
London Legacy Loan Fund transfer		70,000			70,000
MMC LF Amounts for investment	1,088,846	540,000	1,500,000	1,190,000	4,318,846
O2 Legacy amounts for investment	-	-	-		-
Costs					
ERLF Fund Management	20,000			20,000	40,000
O2 Loan Fund Management	20,000			4,000	24,000
O2 Loan Fund Managers Monitoring	3,276		1,638		4,914
CCF GP Share and expenses	75,000			5,000	80,000
CCF Business Support contract	3,600	3,600	3,600	3,600	14,400
MMC LF GP Share and expenses	73,740	73,740	73,740	73,740	294,961
O2 Legacy GP Share and expenses	14,476	14,476	14,476	14,476	57,905
Contribution towards LCIF investments			119,340	119,340	238,681
Contribution towards LCIF costs		21,757			21,757
Total Programme disbursements	1,361,439	723,574	1,712,795	1,430,157	5,227,964
Administrative costs	6,225	8,463	17,559	4,206	36,454
Other overheads	14,856	13,500	6,000	3,000	37,356
Employment	37,665	61,353	38,499	38,499	176,017
Total overheads	58,746	83,317	62,058	45,705	249,826
Total disbursements	1,420,185	806,890	1,774,853	1,475,862	5,477,790
Net inflows/(outflows)	- 1,217,018	- 715,038	- 1,661,730	- 1,257,601	- 4,851,387

Opening cash, £	**5,762,513**	5,601,798	5,426,760	5,265,031	**5,762,513**
incoming grants, £	1,056,303	540,000	1,500,000	1,190,000	4,286,303
Net inflows/outflows, £	- 1,217,018	- 715,038	- 1,661,730	- 1,257,601	- 4,851,387
Closing cash, £	**5,601,798**	**5,426,760**	**5,265,031**	**5,197,429**	**5,197,429**

8.1. Liquidity Management

The closing cash position is forecast at £5.2m. However £3.82m represents cash allocated to the future requirements of either the LCIF or the MMC LF. The vast proportion of the balance represents legacy returns with specific reinvestment obligations. The analysis is overleaf:

Table 3: Headroom

Calculation of remaining headroom

As at 31 March, £	2014 Actual	2015 Budget
Closing cash position	**5,762,513**	**5,197,429**
of which:		
Future fund obligations	2,974,540	3,816,453
Legacy carried forward	2,182,782	969,543
Total carve outs	5,157,322	4,785,996
Remaining headroom	605,191	411,433

The table above shows remaining headroom of £411,433 which represents cash balances that may be used to cover Funding London's administrative costs to the extent that they are not covered by one of the current programmes.

The table below shows the planned allocations for the current financial year.

In £	Jun-14	Sep-14	Dec-14	Mar-15	Year
Administrative costs	6,225	8,463	17,559	4,206	36,454
Other overheads	14,856	13,500	6,000	3,000	37,356
Employment	37,665	61,353	38,499	38,499	176,017
Total overheads	58,746	83,317	62,058	45,705	249,826

Allocated to:

- 2004-5 Funds @ 15%	8,812	12,497	9,309	6,856	37,474
- MMC LF @ 45%	26,436	37,492	27,926	20,567	112,422
- LCIF @ 20% of employment	7,533	12,271	7,700	7,700	35,203
- Unallocated overheads	15,965	21,056	17,123	10,582	64,727
Total overheads	58,746	83,317	62,058	45,705	249,826

Per the analysis above, we expect that approximately £65,000 of our administrative costs during the current financial year will need to be covered from our headroom.

Funding London is confident that it has sufficient headroom to cover unallocated overheads for the next two to three year period. This statement is made based on the visibility that we have of amounts that can be charged to the MMC London Fund, the LCIF and legacies.

Longer term, Funding London must identify new projects to ensure its administrative capacity can be fully allocated to specific projects and henced covered by the specific funding sources. One mitigating factor to this risk is the fact that future returns from the MMC London Fund which are attributable to our legacy will no longer carry specific re-investment obligations.

The board of Funding London reviews the cash position on a quarterly basis. In addition, 18 month forecasts are prepared in September of each year for the purposes of the directors "going concern" review ahead of the approval of our audited accounts.

Appendix I: Legacy analysis as at 31 March 2014

At 31 March 2014	Amounts Invested	Current value of legacy (net)	Forecast increase 2014 (net)	Forecast net legacy at Sept 2014	Forecast increase 2015/20	Forecast net legacy Sept 2015/20	Current legacy committed to MMC LF	Current legacy committed to LLLF	Current legacy committed to equity fees	Current legacy committed to LCIF	Legacy carried forward	Current value of legacy (net)
ESF - O2 LOAN FUND	**1,826,000**	**424,321**	**13,072**	**437,392**	**-**	**437,392**		**424,321**			**-**	**424,321**
ERDF - Objective 2 Loan Funds												
- Growth Fund	3,447,034	650,393	48,383	698,776	-	698,776	385,482		47,081		217,830	650,393
- Mezzanine Fund	777,000	153,380	14,000	167,380	-	167,380	86,892		11,103		55,385	153,380
- Social Enterprise Fund	1,795,443	247,035	263,161	510,196	-	510,196	200,784		17,883		28,368	247,035
ERDF - Equity Funds												
- Creative Capital Fund	2,937,126			-	998,187	998,187					-	
- London Technology Fund	2,456,224	2,067,360	-10,720	2,056,640	-	2,056,640	1,719,267		149,653		198,440	2,067,360
TOTAL ERDF O2 FUNDS	**11,412,827**	**3,118,168**	**314,824**	**3,432,992**	**998,187**	**4,431,179**	**2,392,425**	**-**	**225,720**		**500,023**	**3,118,168**
Pan London Equity Funds												
- Creative Capital Fund	1,153,700	-		-	236,897	236,897					-	-
- London Technology Fund	4,855,750	1,759,436		1,759,436	5,100,358	6,859,793	1,522,258				237,178	1,759,436
Economic Recovery Loan Fund	3,000,000	1,694,307	89,857	1,784,164	44,861	1,829,025	256,430			1,437,877	0	1,694,307
LBL equity investment	250,000	15,680		15,680		15,680					15,680	15,680
TOTAL PAN LONDON FUNDS	**9,259,450**	**3,469,423**	**89,857**	**3,559,280**	**5,382,115**	**8,941,395**	**1,778,688**	**-**		**1,437,877**	**252,858**	**3,469,423**
ERDF 2007-13 Programme												
- MMC London Fund	4,137,324	-	-	-	10,473,729	10,473,729						
- MMC LF O2 monies	527,000				1,604,257	2,131,257						
- less reinvested legacies	-2,595,662				-1,674,480	-4,270,142						
TOTAL ERDF 2007-13 FUNDS	**2,068,662**	**-**		**-**	**10,403,506**	**8,334,844**						
TOTAL	**24,566,939**	**7,011,912**	**417,753**	**7,429,665**	**16,783,808**	**22,144,810**	**4,171,113**	**424,321**	**225,720**	**1,437,877**	**752,881**	**7,011,912**

FUNDING LONDON

Appendix II: Overview of impacts

SME Wholesale Finance is now in its tenth year of operations having launched its first funds in October 2004. It has invested £28.4m in 399companies via its three equity and four loan funds.

Fund	SME's supported	Amounts invested
Objective 2 Growth and Mezzanine Loan Funds (ERDF 2003-2007 Programme)	139	£4,224,034
Objective 2 Social Enterprise Fund (ERDF 2000-2006 Programme)	16	£1,795,443
Objective 2 Start Up Loan Fund (ESF 2000-2006 Programme)	116	£1,826,000
Economic Recovery Loan Fund (LDA Funds)	88	£2,994,800
Creative Capital Fund (ERDF 2000-2006 Programme and LDA Funds)	17	£4,076,291
London Technology Fund (ERDF 2000-2006 Programme and LDA Funds)	8	£7,111,974
MMC London Fund (to July 14) (ERDF 2007-2013 Programme and Funding London legacy)	15 18 target	£6,348,520 £12,604,986 *target*
TOTAL	399	£28,377,062

MMC London Fund invested amounts include £527,079 of objective 2 funds. The target comprises £2.1m of objective 2 funds and 10.5 of ERDF matched funds.

Appendix III: Brief description of loan funds

Objective 2 Loan funds
£7.8 million

- Start-up loans (funded by ESF) up to £20k to businesses with less than 18 months trading (116 SMEs)
- Growth loans up to £50k to businesses with at least 18 months trading (134 SMEs)
- Mezzanine loans up to £100k to established businesses with at least 18 months trading (8 SMEs)
- Social enterprise loans up to £250k to community focussed businesses (13 SMEs)

Economic Recovery Loan Fund
£3 million

- Launched in May 2009, as part of the Mayor's Economic Recovery Action Plan, to help ease the effects of the recession on SMEs
- Targeted at established SMEs for whom working capital or other facilities were withdrawn at short notice by banks, and/or where alternatives offered would have been prohibitively expensive or not met cash flow requirements for business
- 88 businesses received loans

London Legacy Loan Fund
£0.5 million

- Reinvestment of start up loan fund legacy in accordance with requirements of original ESF grant that funded it
- 53 loans have been made to date of on average £7.5k to £10k to businesses trading for less than 3 years
- Repayments will automatically be re-lent

Appendix: Brief description of equity funds

London Technology Fund
£15 million

- 11 industry subsectors
- Proof of concept to development stage
- Maximum investment £1.5m
- Co-investment multiple achieved is 4.3x
- Portfolio of 8 companies

Creative Capital Fund
£6.5 million

- 5 industry subsectors
- Pre-revenue to development stage
- Maximum investment £650K
- Co-investment multiple achieved is 2.3x
- Portfolio of 17 companies

MMC London Fund
£13.9 million

- Nine Sectors of strategic importance to the London economy
- Early stage growth and job creation potential
- Maximum investment £1.4m; though planned average is £750k
- Co-investment multiple to date is 4.1x
- 15 companies to date
- Planned portfolio size of 18 companies (excluding O2 investments)
- The MMC London Fund is part-financed by a grant from the European Regional Development Fund 2007-13 Programme