

The new £50m equity fund for the Cardiff Capital Region

A new £50m equity fund to back the growth of firms in the Cardiff Capital Region has been confirmed.

After a competitive tendering process professional advisory firm PwC has been appointed to fund manage the region's new Innovation Investment Fund.

While it is not a legal requirement of the fund management contract, PwC is confident that it can secure match funding taking the investment pot to £100m.

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The fund, which will launch in October, will make equity investments into indigenous firms, as well as the potential of being used to attract new companies and jobs into the region. It will make investments ranging from £2m to £7m and is being financed from the £1.3bn City Deal for the Cardiff Capital Region – which is made up of 10 local authorities in south-east Wales.

The city region said the new equity fund will complement the activities of the Development Bank of Wales – which although it can make investments of up to £10m has seen the vast majority of its deals below £2m.

On investments the fund could also look to co-invest alongside other equity investors, such as the development bank and the Business Growth Fund, which can invest up to £10m, is looking to increase deal flow in Wales. The British Business Bank is currently working through how it will operate a £130m fund for Wales to back the growth of SMEs.

The fund management procurement process for the Innovation Investment Fund drew up a shortlist of three. The initial fund management contact is over five years. The Development Bank of Wales didn't bid.

While not prescriptive the fund will look to prioritise investing in firms in growth areas, including creative industries, fintech, medtech, cybersecurity and compound semiconductor production.

John-Paul Barker, market leader for PwC in Wales and west of England, said: "This is a landmark piece of work for PwC in Wales; it's an opportunity to demonstrate to the market that we are not only a firm that advises, but a firm that 'does'. Crucially, it's aligned to our purpose as a firm – it enables us to contribute directly to the modernisation of the regional economy, the promotion of social inclusion and fairness, and to drive growth in areas that will support the transition to net zero."

Rhys Thomas, chief operating officer for Cardiff Capital Region City Deal, said: "We are delighted to announce the appointment of PwC as fund manager for our new Innovation Investment Fund. PwC has an impressive track record in fund management which coupled with a deep knowledge of the regional business community and our mutual commitment to objectives around inclusivity, social mobility, driving innovation in the economy, and widening access to capital.

This makes PwC the ideal partner to fulfil the significant ambitions we have for the economic and social impact that this fund is capable of generating."

With PwC having professional relationships with hundreds of firms in the region, how will it manage potential conflicts of interests when operating the fund?

Director in the firm's deal practice, Phil Sampson, said: "We have gone through a rigorous internal risk profile to make

sure that isn't the case. We obviously have a huge amount of relationships and through this we will be adhering to those risk profiles."

PwC's will have a ring-fenced team running the fund.

Asked about PwC's record and expertise in managing equity funds, Mr Sampson said: "We have done a number of funds previously and most recently we were involved in the Future Fund (£1.1bn debt to equity fund from the Treasury)."

While not a requirement of the fund, he is confident that PwC will be able to secure match funding to take it to £100m. Mr Sampson added: "It is certainly the plan over the long-term (match funding) and as the fund is launched there will be a more a strategic approach to that."

On the size of equity deals and the type of firms expected to receive investment, he said: "The cheque size is dependent on what the requirement is, but we have a strategy of £2m to £7m.

"It will be on an investment by investment basis, but I think transactions will probably lend itself to revenue-based business, but there could be early stage business depending on the type and the sector they fall into and what the growth profile looks like in the short to medium-term."

He is confident there will be sufficient deal flow in the region. "For the right business and sectors those opportunities absolutely exist and we are confident there will be deal flow as the fund opens and matures," said Mr Sampson.

Mr Thomas added: "Based on our experience (City Deal) of the last couple of years, we are relatively confident that there are businesses out there (seeking investment) and we have had a number that have approached us. And if we start to look at £2m to £7m per deal as a guide, £50m would probably get you somewhere between 10 or 15 deals over a period of five years. That is the sort of profile we are looking at, but as we get

co-investment and momentum behind it we will hopefully look to better that.”

The fund will also have the potential for follow-on investments into companies. Mr Thomas said: “It will be more patient capital than some funds out there.”

Future exits from investment deals will be reinvested back into the fund. Apart from a financial return on investment assessment, Mr Sampson said: “It will also be about support to scaling, growing and innovative businesses. It is not going to be about the volume of jobs per se , but clearly we want jobs out of it, but the quality of those jobs and the increased productivity to the economy. They are key features of what we are trying to achieve here.”

On the fund bringing new firms into the region from elsewhere in the UK and overseas, the city region is confident it will not run counter to the UK Government’s [Subsidy Control Bill](#), as it will operate at market rates. The legislation, which is going through parliament, is effectively seeking to prevent the poaching of business and investment from one part of the UK to another using public funding.

On the fund attracting businesses from outside the region, Mr Sampson said: “We have certainly not ruled out bringing business in where we think there is a significant fit. That is something that is on our radar, notwithstanding the fact that our relationships in the local marketplace means we believe there are many businesses that are already situated in the region that are right for investment as well, but yes inward investment is absolutely part of the strategy.”

The current working title for the fund is expected to be renamed by the time of its launch.

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