Date: 15 December 2017

Subject: GM Investment Framework – Greater Manchester Loan Fund

Report of: Cllr Kieran Quinn, Portfolio Lead Leader for Investment Strategy and Finance and Eamonn Boylan, Portfolio Lead Chief Executive for Investment Strategy and Finance

PURPOSE OF REPORT

This report sets out proposals to amend the Limited Partnership Agreement of the Greater Manchester Loan Fund (“GMLF” or “the Fund”) to extend the commitment period for capital investment made by the Fund, extend the term of the Fund and to reallocate the partner commitments to enable the Greater Manchester Combined Authority to lend additional amounts to the Fund.

RECOMMENDATIONS:

The Greater Manchester Combined Authority is requested to:

- The Commitment Period be extended by one year from June 2018 to June 2019. This will result in the Maven’s term changing from a five year commitment period and three year run off period to a six year commitment period and a two year run off period.
- The Fund Term be extended by two years from June 2021 to June 2023. This will give the Fund the flexibility to continue to make investments with a minimum term of four years, throughout the commitment period.
- The GMCA to replace MCC’s existing commitment to the Fund via repayment of capital (£5.5m) and accrued interest thereon (£0.4m).
- Any further partner commitments required (estimated at £2m) are funded from GMCA rather than MCC.
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BACKGROUND PAPERS:

<table>
<thead>
<tr>
<th>TRACKING/PROCESS</th>
<th>YES</th>
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<tbody>
<tr>
<td>Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board</td>
<td>YES</td>
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<tr>
<th>EXEMPTION FROM CALL IN</th>
<th>NO</th>
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<tr>
<td>Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?</td>
<td>NO</td>
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<th>AGMA Commission</th>
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Risk Management – see paragraph 5

Legal Considerations – see paragraph 6

Financial Consequences – Revenue – see paragraph 7

Financial Consequences – Capital – see paragraph 8
1. Introduction

The Greater Manchester Loan Fund (‘GMLF’ or ‘the Fund’) was established in June 2013 in response to market constraints which significantly reduced the availability of debt finance.

The Fund was set up to provide debt finance of between £100k and £500k to small and medium enterprises in the Greater Manchester region, with the objective of generating business growth, creating and safeguarding jobs.

Investments in the Fund were to be up to £14m (with an allowance for up to £6m to be recycled, creating a notional £20m Fund). The £14m was funded through a £2m RGF contribution to be invested by the GMCA with the balance to be invested by Manchester City Council (‘MCC’) acting as lead Authority on behalf of the ten Greater Manchester local authorities. A total of £7.5m of the total partner commitments have been drawn to date, £2m from the GMCA and £5.5m from MCC.

The Fund Term runs for a period of eight years to June 2021, made up of a five year period in which funds can be invested (the “Commitment Period”) and a three year run off period over which investment capital will be repaid.

Maven Capital Partners UK LLP (“Maven”) were appointed as Fund Manager, to operate and manage the Fund on behalf of investors, through a formal procurement process.

Fund performance has been strong to date, leading to proposals for the Commitment Period to be extended by 1 year in order to allow Maven to continue to invest post June 2018.

In addition, the GMCA is now in a position to fully fund the partner commitments and this paper sets out a proposal for the GMCA to repay MCC and assume the full investment into the GMLF.

Role of the Authorities

GMCA

The GMCA invested £2m of RGF monies in the Fund on a ‘first loss’ basis, with an expectation from the outset that the GMCA capital would be utilised to cover Fund overheads and losses expected to be incurred (in excess of income received). To date, the Fund has a default rate of 3.1% which has been mitigated by profits earned through redemption premiums on the loans. If the default rate was to continue at the current rate, it is forecast that the GMCA would recover all of its capital.

MCC

MCC made investments in to the Fund acting as Lead Authority on behalf of the ten Greater Manchester local authorities, with £5.5m invested to date. The investment is underwritten by each of the local authorities, who would be required to make good their share of any cash shortfall of the Fund in excess of the ‘first loss’ capital invested by the GMCA. However, the MCC investment has very little risk associated with it, given the headroom created by the GMCA initial investment.

Following the same assumptions as above, all MCC capital sums drawn would be paid along with the accrued interest (accruing at a rate of 3.5% per annum and currently equating to £192.5k).
If the GMCA were to repay the MCC position, the GMCA would be assuming MCC’s low risk investment and would earn the interest currently accruing to MCC. Using the above assumptions, this would reduce the GMCA deficit down to £0.6m (in a prudent scenario), assuming capital repayments back to GMCA commence post the commitment period.

2. GMLF Current Performance
The table below compares the original objectives of the Fund (to be achieved over the eight year period to June 2021) with the performance of the Fund to 30 September 2017 and the outputs that it is currently forecast to achieve by June 2018:

<table>
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<th>Objective</th>
<th>Target to June 2021</th>
<th>At 30 September 2017</th>
<th>Forecast to June 2018</th>
</tr>
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<tbody>
<tr>
<td>Jobs created/safeguarded</td>
<td>800</td>
<td>942</td>
<td>1,000</td>
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Total committed funding since commencement of the Fund to 30 September 2017 is £14.3m, with amounts invested to date of £13.2m. A summary of the position of the Fund at 30 September 2017 is as follows:

<table>
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<tr>
<th>At 30 September 2017</th>
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<tr>
<td>Total committed funding</td>
<td>£14.3m</td>
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<tr>
<td>Investments in the pipeline</td>
<td>£4.5m</td>
</tr>
<tr>
<td>Unrealised investments</td>
<td>£6.2m</td>
</tr>
<tr>
<td>Interest/Other income</td>
<td>£1.8m</td>
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<tr>
<td>Internal rate of return</td>
<td>9.1%</td>
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GMLF is therefore performing strongly, with job targets already exceeded reflecting the high level of reinvested funds.

The size of the current pipeline and potential opportunities demonstrates a continued demand for the Fund and further opportunity to generate/safeguard jobs.

Based on the current investment rate, it is anticipated that a further c£2m of funds will be required to be drawn on top of the £7.5m drawn down to date, taking total investments into the Fund to £9.5m.

3. Proposed amendments to the Limited Partnership Agreement (LPA)
As currently drafted Maven would not be able to make new investments post June 2018, and would not be able to offer loans with term dates running past June 2021. Given the success of the Fund to date the following has been considered:

- Extension of the five year Commitment Period by a minimum of one year enabling the Fund to continue to make new investments until June 2019. Legal advice has confirmed that this can be achieved with the consent of MCC and the GMCA – there are no procurement issues arising from this.
- Extension of the Fund Term by two years, taking the Fund Term to 2023 – this would ensure that the Fund could continue to make investments throughout the life of the Commitment period with a minimum term of
four years. Legal advice has confirmed that this can be achieved with the consent of MCC and the GMCA – there are no procurement issues arising from this.

- GMCA to repay to MCC’s total capital contribution to the Fund (£5.5m), interest accrued to date (£0.4m) and take on all future investment responsibilities (c£2.0m). Legal advice has confirmed that this could be achieved by an amended and restated Limited Partnership Agreement being signed by all parties.

Whilst both the Fund Term and Commitment Period can be extended with relative ease, it is not possible to extend the contract for the Fund Manager without re-procuring the Fund. The implications of this are that in the absence of a re-procurement, Maven’s term as Fund Managers would cease two years before the end of the Fund Term, meaning that whilst they would no longer be making new commitments, there would be an outstanding loan book to be managed.

This could be addressed through Maven including assignment rights in their loan agreements allowing for loans to be re-assigned to the GMCA at the end of their contract where they could be managed by the Core Investment Team. Legal advice has confirmed that this is possible.

4. Conclusion and recommendations

The legal advice has confirmed that an extension to the Commitment Period and the Fund Term would be permitted under the terms of the current agreements. This would enable GMLF to make additional investment into SMEs within the Greater Manchester region and continue to support growth through creation/safeguarding of jobs.

It is recommended that:

- The Commitment Period be extended by one year from June 2018 to June 2019. This will result in the Maven’s term changing from a five year commitment period and three year run off period to a six year commitment period and a two year run off period.

- The Fund Term be extended by two years from June 2021 to June 2023. This will give the Fund the flexibility to continue to make investments with a minimum term of four years, throughout the commitment period.

- The GMCA to replace MCC’s existing commitment to the Fund via repayment of capital (£5.5m) and accrued interest thereon (£0.4m).

- Any further partner commitments required (estimated at £2m) are funded from GMCA rather than MCC.

5. RISK MANAGEMENT

The Fund is governed under the existing investment framework which includes ongoing monitoring of performance.

6. LEGAL CONSIDERATIONS
Refer to section 3. Amendment to the legal agreements will be based upon the existing Limited Partnership Agreement in place.

7. FINANCIAL CONSEQUENCES – REVENUE
There are no revenue implications.

8. FINANCIAL CONSEQUENCES – CAPITAL
Partner commitments funded by the GMCA will be made from recycled funds.