



PRESS RELEASE

Deloitte explains some lessons from a high tech seed fund

Bristol, 14th October 2010

Richard Vellacott, Director at Deloitte, today presented the results of a study examining the investment performance of a University Challenge Seed Fund.

The UCSF's are a series of small seed funds, of between about £3 and £10 million, set up initially in 1999 and financed primarily by the government, the Wellcome Trust and the Gatsby Foundation.

The objectives of these Funds were threefold:

- to foster a spirit of entrepreneurship within universities,
- to help finance spin-out companies, and
- to make a sufficient return on the investment to become evergreen.

The universities of Bath, Bristol and Southampton have run one of the more successful UCSF's, the Sulis Seedcorn Fund, and the management of this Fund has kept good records on the progress and financings of its spin-out investments since 1999. Deloitte were given full access to these records and invited to research the Fund's performance.

The UCSFs themselves operated under restrictive rules, the most significant of which was a limit of £250k per investment. This effectively ruled out the UCSFs ability to make follow-on investments.

Deloitte have remodelled the performance of the Sulis Fund under a number of scenarios in order to answer two questions.

- If the Sulis Fund could have made follow on investments would it have made better returns?
- What size of fund would have been required?

Today sees the publication of the results of this project and a presentation by Richard Vellacott at the SETsquared Annual Investor event in London.

Richard reported *“It is clear from the research that returns would be enhanced if seed investors could selectively follow their money. Investing in early stage high tech companies should be considered a process not an event.*

We found that a fund of £30m, pursuing the correct strategy would have made at least double the profit and a much higher internal rate of return than the Sulis Fund. This performance is likely to have made the fund evergreen and enable it to finance the next generation of spin-outs.”

The research was made possible with the support of the current fund manager Wyvern Asset Management.

Andy Allars, CEO of WAM, commented *“The first two objectives of the University Challenge Funds have largely been achieved. The third, however, was unrealistic given an understanding of how the financing of young high tech companies works.*

The key to successful returns is to capture value at the seed stage, help the companies grow and preserve investor value by selective follow-on investment in the successful companies at later stage financings. Without this, dilution and the preferred terms required by later stage investors damage the seed investors’ returns.

It is essential for the future of the UK economy that we harvest the bounty from our research universities. This research shows that investors can make money by

investing in spin-outs and early stage high tech companies provided one applies the lessons of experience.”

Notes to Editors:

A copy of the report entitled

Boosting Returns

Lessons learned from a University Challenge Fund

is available from Rona Wagstaffe (see below)

Wyvern Asset Management Limited (WAM)

In 2008 Sulis Seedcorn Fund was reorganised and renamed the Wyvern Seed Fund.

WAM is the fund manager of the Wyvern Seed Fund. Its CEO, Andy Allars, is an experienced venture capitalist with over 20 years experience working with high tech start up companies. WAM is controlled by the Universities of Bristol and Southampton and regulated by the FSA.

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