APPENDIX 2

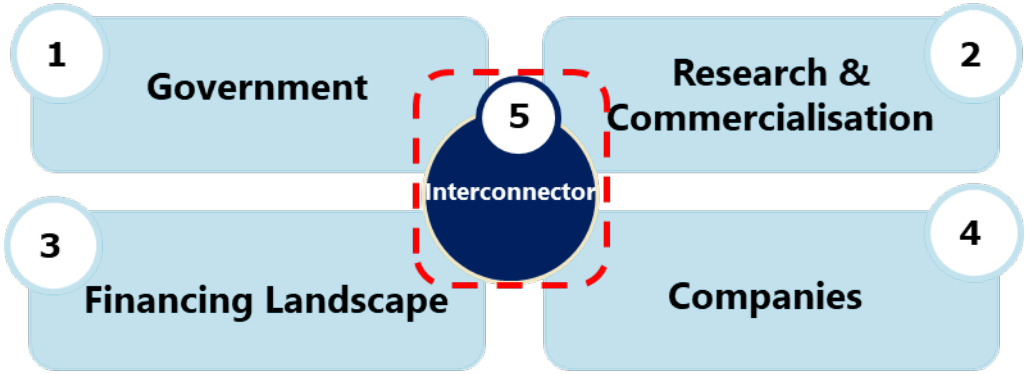
Finance for Sustainable Growth in the North East

Proposed Approach

The 'Elements of Success' that Underpin Green Cluster Growth

- To reach Net Zero by 2050, we need to do more to help SMEs providing sustainable solutions access the finance they need to scale up in all parts of the UK
- An analysis of 845 companies that have attempted to receive finance in the last three years shows that access to finance is a problem especially pronounced outside of London and the South East
- The research has also identified four 'elements of success' underpinning green cluster growth. These are: accommodating policy, access to finance, research and the presence of corporates

Key Success Factors/Cluster Pillars



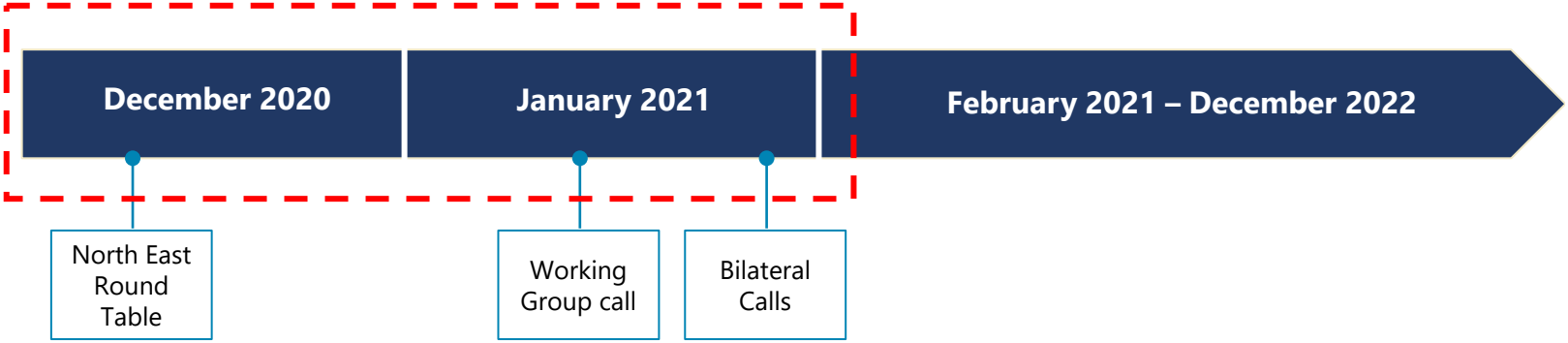
The Finance for Sustainable Programme aims to focus on each region of the UK and support ecosystem development and visibility, starting with the North East

Enhancing Visibility of North East Interconnecting Initiatives

Objectives of the Finance for Sustainable Growth programme in the North East

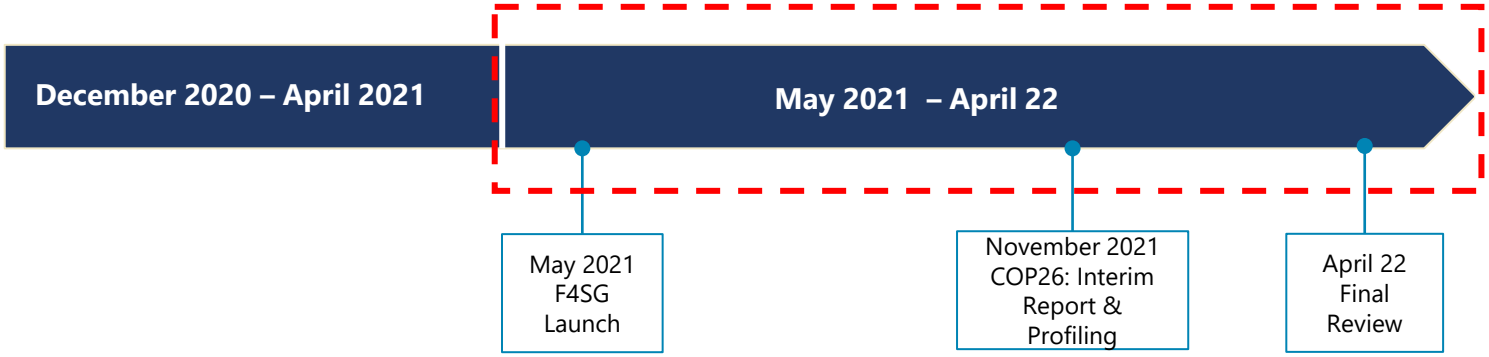
1. Facilitate the connection of North East green research and innovation to London
2. Enhance visibility of regional green innovation and interconnecting initiatives
3. Support an increase in the flow of green investment to the region
4. Support ecosystem formation for sustainable business growth in the region

What our North East partners have told us so far



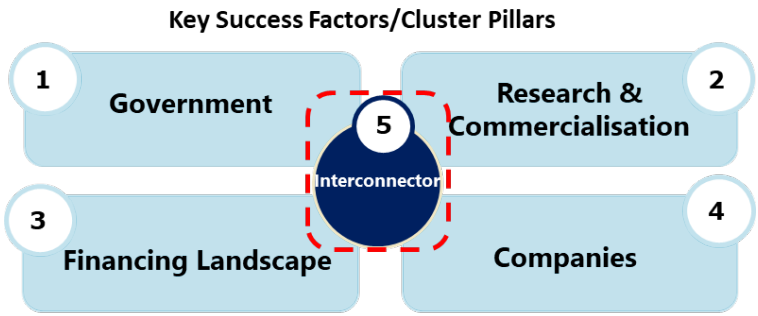
- The region has a good level of sustainable innovation activity, with a developed University research base and ecosystem
- The ecosystem is fairly well connected, with key players (NELEP, pan-University community, funds etc) already working together on various initiatives
- This all needs to be made more visible to investors, and connected with London Financial Services sector and large corporates
- The City Corporation can play a role in working with partners in the North East to **amplify the work already being done** supporting sustainable business

A Twelve Month Partnership Programme



A new collaborative Partnership Programme between the City Corporation and North East stakeholders

North East
Local Enterprise Partnership



Northern Accelerator

Durham University

Northstar
Ventures

TBC

Delivery of Activities under the Partnership Model

The City Corporation will conduct a range of amplifying and profile raising activities (quarterly at the minimum) with the support and input of its partners.

Delivery Partners

Inputs

- One representatives per 'element of success'
- Access to regional networks
- Regional intelligence on existing programmes
- Calendar of future events
- Regional success stories and marketing collateral
- Feedback and input on activities
- Input on the regions strategic priorities

City Corporation

Example Outputs

- Start-up pitches/connection
- Showcasing North East success stories
- Sandpits focused on specific technologies
- Dedicated slot during Lord Mayor visits
- Facilitating managerial mentorship/skills building for founders (gaining support from multiple stakeholders, customer traction)
- Facilitating coaching on navigating deals/accessing finance (building investor readiness and founder confidence)
- Repository of contacts for support available to founders
- Facilitating Angels mentoring Angels (building investor confidence and mindset shift)
- Convened thematic roundtables

CITY OF LONDON

Finance for Sustainable Growth Research Executive Summary

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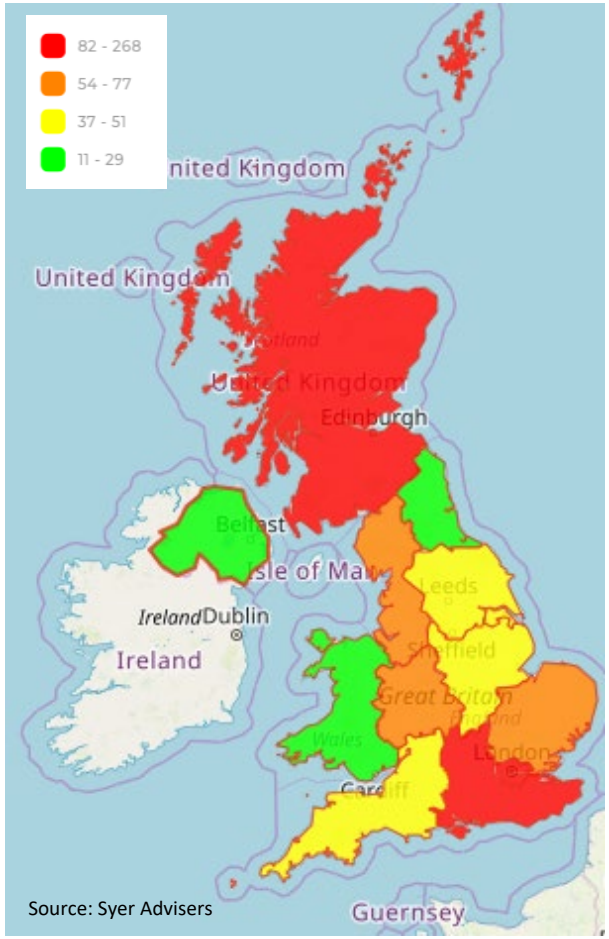
Towards an Industrial Strategy for Green Growth

SYER ADVISERS

Unbalanced and unsustainable economic growth jeopardises the ability of the UK to level up and meet its 2050 net-zero commitment

Finance for Sustainable Growth

- Companies that design and build innovative, green and sustainable solutions often struggle to access the funding they need to scale
- An analysis of 845 companies that have attempted to receive finance in the last three years shows this problem is especially pronounced in areas such as Wales, Northern Ireland, the North East and the East Midlands
- The emergence of innovation led companies and clusters provides a commercial opportunity for UK companies to drive the transition to net zero and achieve significant growth. We need more of them across the country, leveraging existing expertise in region.
- This research maps the funding ecosystem for regional green tech firms and sustainability–led growth companies. It uncovers insights capable of supporting decarbonisation and the creation of innovation and jobs throughout the UK.



Source: Syer Advisers

Heat map: # of UK ESG SMEs in pipeline looking for financing

Scope of the Research

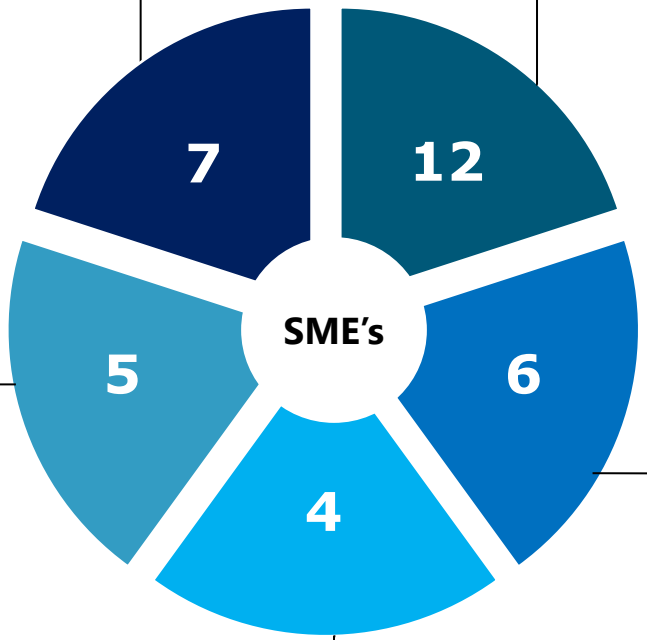
SYER ADVISERS

The mapping & analysis of Syer's pipeline of 845 SMEs that have looked for financing over the last three years across a number of different categories is illustrated below.

Deal Types
Grant
Accelerator/Incubator
Seed
VC Early
VC Growth
PE Buyout/LBO
M&A

Business Types
Service
Software
Hardware
Projects
Solutions

Company Maturity Stages
Seed
Early
Growth
Mature



UK Regions
Greater London
South East
Scotland
East of England
North West
South West
Yorkshire & The Humber
West Midlands
East Midland
North East
Wales
Northern Ireland

Sectors
Energy
Waste
Food & Ag
Mobility
Built Environment
Water

What are the 'elements of success' at the local level?

SYER ADVISERS

Five factors have been identified as key to delivering clusters that underpin sustainable business growth. This analysis shows how the CoLC can make more of those factors where present and introduce them where absent.

Core Hypothesis	A holistic approach is required, which ensures all conditions for success are present in all parts of the UK. Initiatives targeted at our identified conditions for success in isolation, either at local level or nationally, are likely to provide more modest results and miss out on "virtuous circle" dynamics

Key Success Factors/Cluster Pillars

1 Government

National and local political "infrastructure" in place, e.g. policies, strategies, and funding schemes

2 Research & Commercialisation

Universities, Research Institutions and Science Parks with the knowhow, invention and talent, which is commercialised with the support of Accelerators & Incubators

5 Interconnectors glue cluster components together

3 Financing Landscape

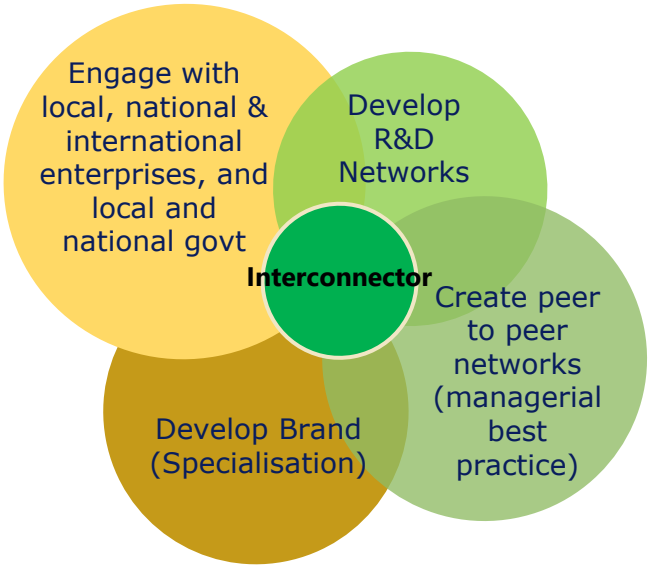
Various forms of specialised financing are vital to the formation and growth of companies through the various stages of maturity and risk e.g. angel, VC, broader alternatives market (PE, Private Debt), and Banks

4 Companies

Building on and adapting existing corporate ecosystems along areas of historical strength is also an important factor, which can lead to positive "coopetition" dynamics forming and attracting further corporates to a cluster

The fifth element

Interconnectors are organisations that bring these different conditions for success together and play a critical role in the formation and development of cluster ecosystems.



State of play across ColC regional partnerships

SYER ADVISERS

The situation across the UK is unbalanced: overall cluster density is strongest in London, the South East and Scotland but all parts of the UK enjoy different sectoral specialisms that can be built up and built out.

Belfast | #1 sector: Energy & Built Environment

- Low cluster of ESG companies around Belfast
- Two universities and educated workforce but lack of companies to retain them
- Low R&D spending from government and businesses
- Recent government strategies developed such as the "NI Innovation Strategy"

Gov	R&C	Finance	Companies	Score
				LOW

Edinburgh | #1 sector: Energy

- Third larger cluster of ESG companies in the UK
- Strong higher education and public research funding, especially in renewable energy
- Strong presence of investors
- Strong network of accelerators and incubators

Gov	R&C	Finance	Companies	Score
				HIGH

Birmingham | #1 sector Energy & Mobility

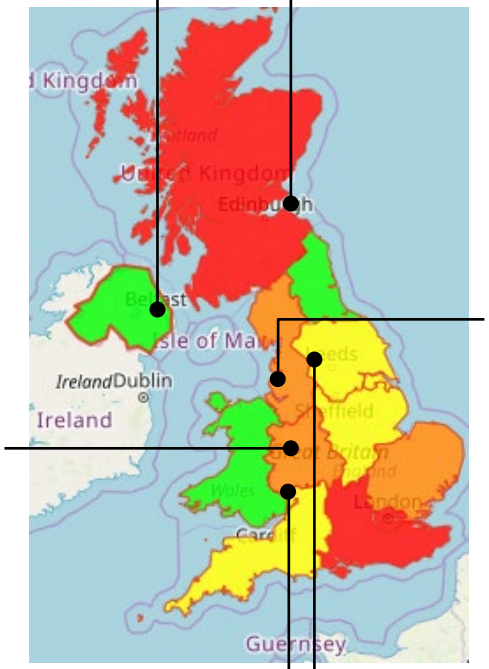
- Strong existing industrial cluster, with some of the largest energy companies in the UK
- Significant research capacity in the mobility sector
- Strong research community
- Regional government strategies recently developed: "West Midlands High Speed 2 Growth Strategy" and "Regional Energy Strategy 2018"

Gov	R&C	Finance	Companies	Score
				MEDIUM/LOW

Manchester | #1 sector: Energy & Waste

- North West is the fifth largest pipeline cluster
- Local industrial government strategies: 'Greater Manchester Clean Growth Productivity Programme' and 'Lancashire Energy Strategy 2019'
- Hubs and Enterprise zones recently established but results not yet seen
- Fairly active in terms of R&D expenditure

Gov	R&C	Finance	Companies	Score
				MEDIUM



Cardiff | #1 sector: Energy

- Low density cluster
- Recent government strategies developed such as the "Energy Efficiency Strategy 2016-2026"
- Low R&D investment due to lack of base in the country

Gov	R&C	Finance	Companies	Score
				LOW

Leeds | #1 sector: Energy & Built Environment

- Region is 7th largest cluster of ESG companies in UK
- High potential for offshore wind in the region
- Low levels of investment in innovation in the region
- Low R&D investment
- Recent government strategies developed such as the "Humber Local Energy Strategy 2019"

Gov	R&C	Finance	Companies	Score
				MEDIUM/LOW

# of UK ESG SMEs in pipeline looking for financing

- 82 - 268
- 54 - 77
- 37 - 51
- 11 - 29

Source: Syer Advisers

Towards an Industrial Strategy for Green Growth (1/2)

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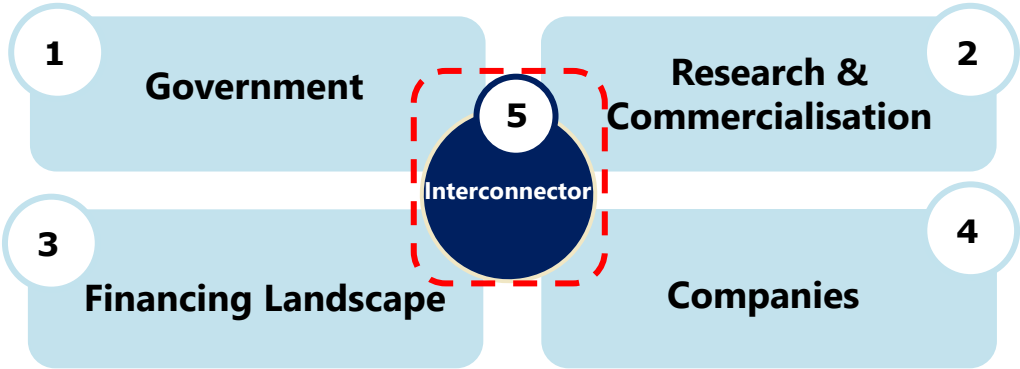
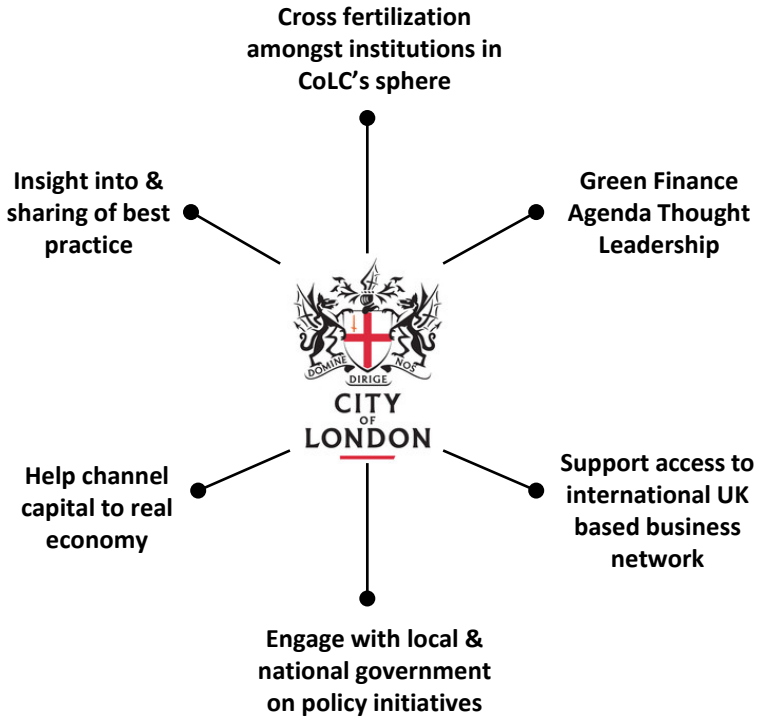
CoLC can connect the real economy with the City's knowhow, network and international reach, with a policy influence overlay. This is the Fifth Element: the Interconnector.

Key Success Factors/Cluster Pillars



The Role of the City Corporation



The CoLC, thanks to its convening power and position at the interface between public and private sectors, and strong finance overlay, can help bring together the different stakeholders that underpin these 'conditions for success'. We can leverage our regional partnerships with Belfast, Birmingham, Cardiff, Edinburgh, Leeds and Manchester to form a UK hub.

The CoLC can work, in collaboration with its regional partners, to bring these critical Interconnector components together and push the green and sustainability agenda across the UK

Towards an Industrial Strategy for Green Growth (2/2)

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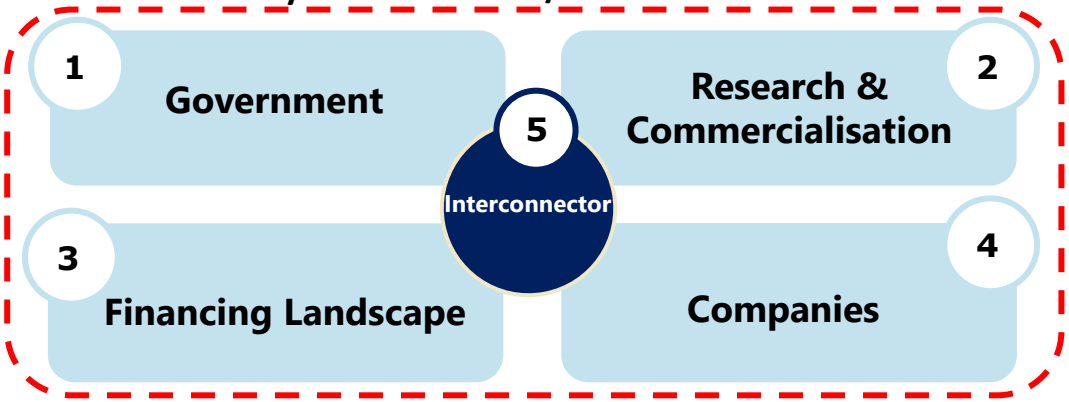
As we look towards the long term, we will engage on all five conditions for success, ensuring each is addressed as part of this holistic approach. Indicative actions are detailed below.

Key Success Factors/Cluster Pillars



1 Government

- Coordinate industrial & regional development policy and public financing
- Link skillset developments with regional cluster strength
- Shift discussion from bank-centered risk management and disclosure to concrete solutions with allocated capital
- Promote regulatory review to support emerging innovative asset managers and reduce set up barriers and costs
- Review tax policy and fiscal incentives to support investing

2 Research & Commercialisation

- Set up green innovation R&D hub/centres
- Leverage existing programmes (Innovate UK network) or entities (e.g. catapults) to drive sector specific solution
- Leverage position of strength in Universities
- Explore LEP role and where best practice happens
- Identify scalable solutions requiring further R&D inputs

3 Financing Landscape

- Collaborate with the BBB as a conduit for green/sustainable programme
- Work with the BBB also as a key driver of fund manager innovation focused on growth financing and sustainability
- Potential to expand with international angle via partnerships with MDBs (e.g. IFC)

4 Companies

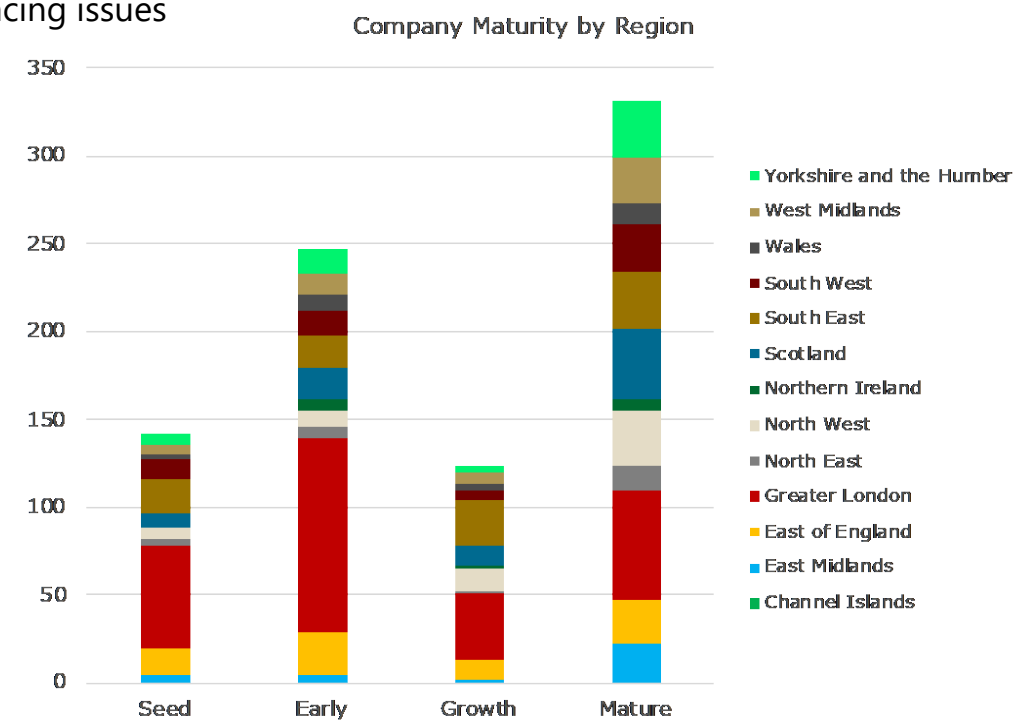
- Promote role and budget of Innovate UK as risk capital provider to innovative corporates
- Raise regional awareness of financing available to growth companies

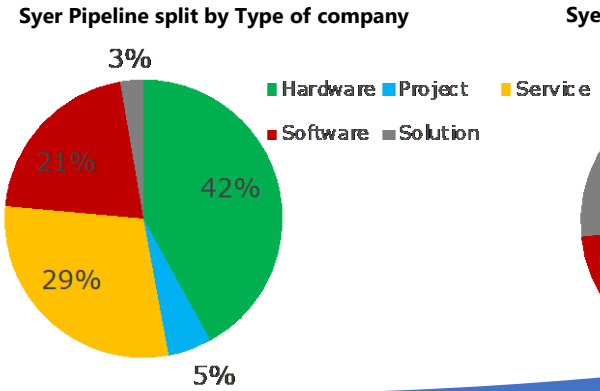
What is the UK picture?

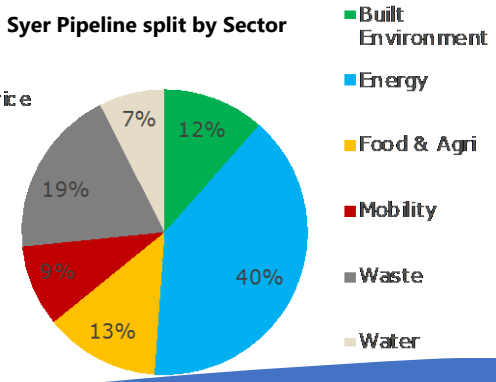
SYER ADVISERS

Strong concentration in larger cities, typically with university links or historic industrial cluster angle, with energy as the largest sector in the pipeline. Early stage and mature companies are the most common, with a gap in growth companies pointing to potential financing issues

	Key Findings
Maturity Stage	• Low number of companies in Growth stage and high M&A deal count suggests a lack of funding options for growth stage • Largest number of companies in Mature and Early stage • Early-Stage pipeline concentrated in Greater London • Mature Stage companies relatively well balanced across regions
Regions	• Main clusters and innovation focused in four regions (London, South East, East of England and Scotland) • Other regions, like Manchester in the North West, are catching up with a significant increase in investment in the recent years • Other smaller regional ESG clusters are linked to existing industrial clusters, e.g. in the North and Midlands
Sectors	• Energy is the largest sector, driven by innovation in energy transition, historic Oil & Gas industry and a strong regulatory framework
Company Type	• Overall dominance of Hardware and Service companies across regions and sectors • London is the only region where Software, Hardware and Service have parity • For Software companies, Energy is the largest sector of focus (40%)







Source: Syer Advisers

What is the UK picture? Financing

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The UK alternative finance sector is strong but remains very London centric. Financing for growth stage companies requires attention. Innovate UK and the British Business Bank play important roles that could be expanded with a green growth bias

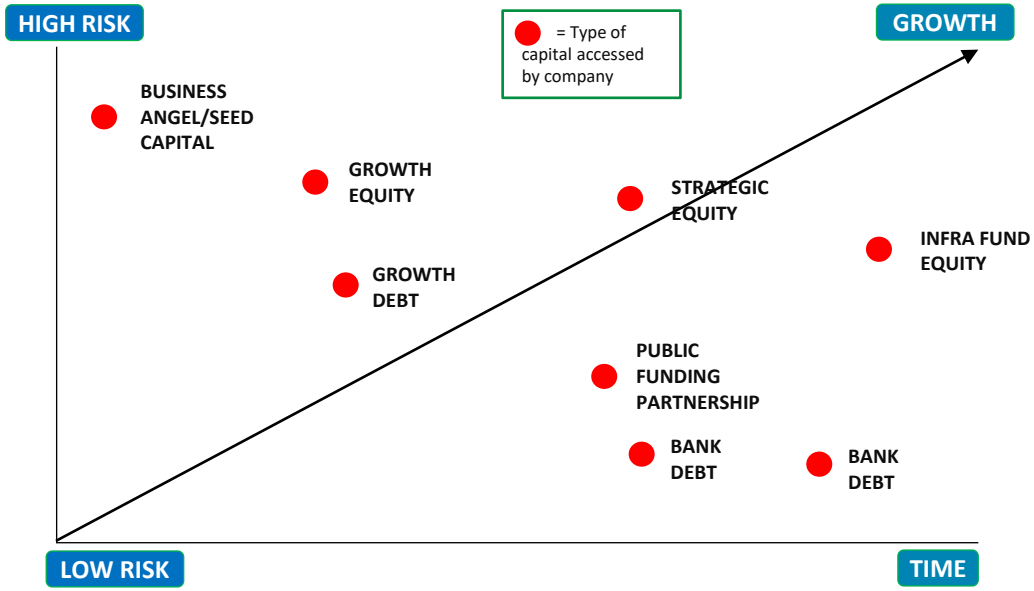
- Very London-centric market. Distance can create friction and reduce awareness regionally
- Emergence of thematic Green & Sustainability funds in private markets, but from a low base. More innovation required
- Importance of wider financing ecosystem (brokers, corporate finance advisers, service providers, etc) to drive awareness and match supply & demand
- Potential for technology to reduce access barriers & friction
- Increasing appetite from institutional investors to deploy capital into ESG/thematic investing but long way to go on allocations
- BBB has played a key role in driving non-bank financing solutions and helping fund managers get off the ground and scale
- Financing gaps primarily in Growth Stage and Venture Debt. Early stage financing very tax driven and less sophisticated

Corporate Case Studies

SYER ADVISERS

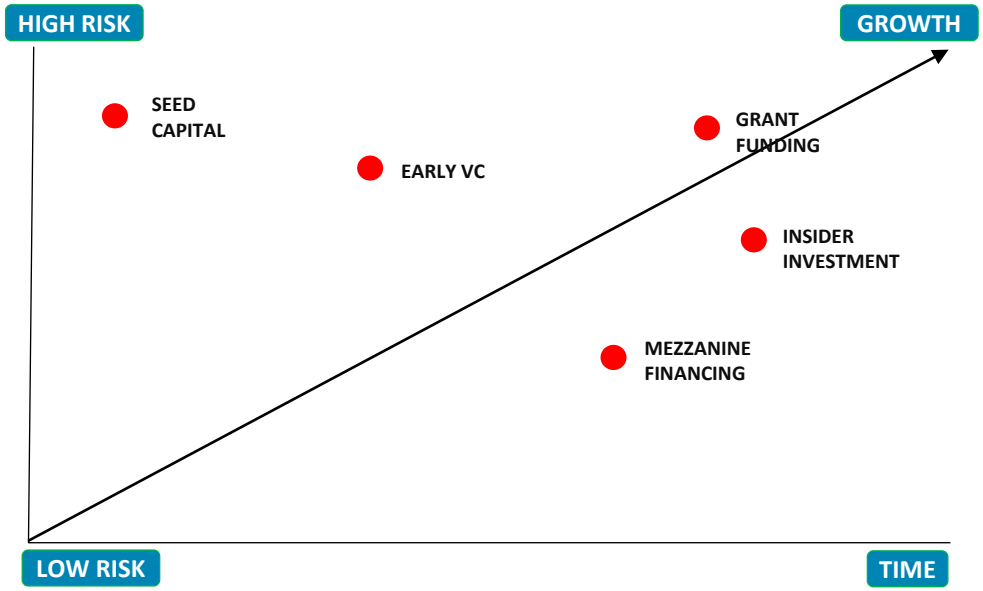
There are many corporates that have successfully navigated the complex financing landscape to raise public & private capital, drive innovation, growth, economic activity and international expansion

A pioneer in battery storage, Zenobe accessed different pools of capital during its growth journey, matching different risk profiles to different capital providers, and taking an innovative approach to "parcelling" risks across its corporate structure to reduce its cost of capital



Challenges and Growth Barriers
Limited commercial history
New markets subject to regulatory change created funding and trading uncertainty
Significant cost and time friction to get going and raise capital (e.g. high legal and due diligence costs)
Initial high net worth equity raise and time consuming "herding cats" concept

Focused on the integration of distributed renewable generation into constrained networks, SGS is an innovative leader that has expanded internationally despite its difficulties accessing the quantum of patient capital needed to accelerate growth



Challenges and Growth Barriers
Market challenges: Distribution Networks / Smart Grid is generally a conservative and slow-moving industry
Customer behaviour driven mainly by regulatory framework
Customers tend to be conservative, initial sales cycles are slow and usually start with long technology proof-of-concept, and then scale up much later
Market is fragmented globally, due to varying regulatory frameworks

Investors Case Studies: Ambienta + Environment Agency Pension Fund

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Thematic funds are an opportunity to channel capital to deliver positive outcomes without compromising on returns, and should be able to rely on some UK LPs' thought leadership in decarbonising capital markets for support

	AMBIENTA	Environment Agency Pension Fund
Business Description	• One of the largest and most experienced sustainability private equity investors, with over €1.2 billion of assets under management • Currently investing its 3rd fund, a 2018 €635m vehicle • Diversified mix of blue-chip global investors, which include insurance companies, banks, pension funds, foundations and asset managers	• Defined benefit pension scheme for the Environment Agency with c£3.9bn of assets under management on behalf of 39,500 members
Reason for feature	• One of the early adopters of sustainability thematic investing in European private markets • Successful in growing the strategy across several fund cycles, and **viewed as succesful example of thematic investing (latest fund oversuscribed and hit hard cap)**	• Viewed as thought leader in stewardship and climate change • **Investment strategy validated by strong performance and well funded scheme** • Have backed innovative sustainability themed managers in the pivate markets space • Public pension fund driving best in class sustainability and ESG asset allocation - highlights role of public pension funds in leading charge of sustainable capital allocation
Investment Strategy	• Focus on European businesses driven by the environmental sustainability trends of Resource Efficiency and Pollution Control • Traditionally focused on more industrial (rather than tech) businesses	• Has set specific targets to drive investment portfolio and processes in line with Paris agreement targets. • Recently met ahead of time its 2020 targets of: – 15% of the fund tied in climate mitigation opportunities. – Supported progress towards transition to low carbon economy through actively working with asset owners, fund managers, companies, academia, policy makers and others in the investment industry. • Has significant investments in private market managers with a sustainability or impact theme, including Ambienta