INGENIθUS

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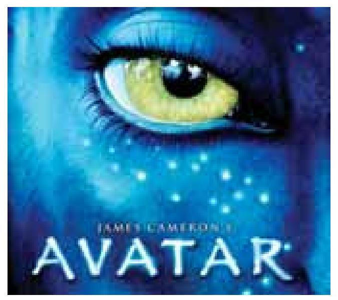

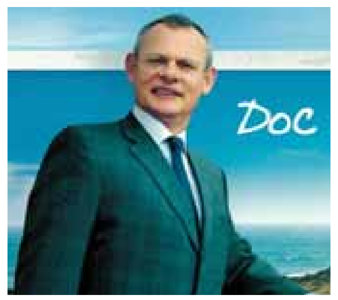

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WELCOME TO THE FIRST EDITION OF *INGENIOUS*

Introduction by Patrick McKenna

This publication marks a significant moment in the growth of Ingenious. For twelve years since the company was founded we have kept a low profile, well known to our clients, professional advisers and intermediaries, but generally not so well known to audiences outside the media and investment communities.

It has been our style to be understated despite being the UK's leading investor in the creative industries. This might be considered unusual or even eccentric in the worlds of media and entertainment, but it is a stance that has served us well and one that we have been comfortable with.

However, given the breadth and scale of what we now do across the full range of our activities, we've decided it's time for a change. The range of these activities is, we believe, unique - from investments in record-breaking films like *Avatar* to involvement in high profile corporate finance transactions in the TV sector, from engagement with ministers in policy debate to the development of innovative investment frameworks in our asset management business. In short, we have a story to tell.

In part this is a story about bridge building. We build bridges between the investment and creative communities. This is ever more important at a time when access to growth finance through traditional banking routes is severely constrained.

We are especially proud of the fact that, over the last decade, we have been responsible for raising more than $10 billion to invest in the creative industries across the full range of the sector – from film and TV to marketing services, from publishing and music to the games industry.

In part it is a story about performance or, less modestly, about outperformance, because as we show in this newsletter in many of our activities we have outperformed the market and outperformed our competitors.

In these pages we begin to tell the Ingenious story. We plan to update it regularly by publishing this newsletter twice a year. I hope you find it of interest. Please do get in touch if you have any comments or criticisms to contribute. I would love to hear from you.

OUTPERFORMING THE BENCHMARKS

Ingenious Asset Management opened its doors for business a few days before Christmas in 2003. It had just two clients. Today the firm manages more than £1 billion across 1,000 portfolios for several hundred clients.

By Guy Bowles

The possession of wealth is not without its challenges, not least how to invest it. The noise of the markets and the investment media appear to make the process of investing at best complicated and at worst confusing and opaque. Fortunately it is not, in reality, any of these things.

Rightly, many individuals make the decision to pass the responsibility of the management of their money to a professional fund management firm. It is the intellectual capital within a firm that differentiates one manager from another. Intellectual capital is a function of the quality of the thinking, not the corporate resources of the thinker; in fact, in investing, small is often beautiful.

Warren Buffett encapsulates well the essence of successful investing:

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding the framework."

(Source: Warren Buffett, *The Intelligent Investor, 2003).*

While this makes investing sound simple, creating the decision-making framework requires considerable insight derived from both empirical evidence and experience.

Our framework at Ingenious Asset Management is built on the following beliefs:

1. Investors are particularly sensitive to losses rather than necessarily being averse to taking risk

This insight of "loss aversion" leads us to define investment risk simply as "anything that could erode the value of your assets". We seek to identify, measure and ultimately protect as best we can against all of these threats to our clients' capital. For example, the volatility of asset prices, for which we have developed mathematical models to help control the likelihood of a possible loss.

2. Investors focus on absolute returns

The corollary to our view that investors wish to avoid losses is that they seek positive returns. Cash, the so called "riskless asset", offers a known return for minimal risk. An investor who entrusts us with a portion of their assets must expect us to deliver a return in excess of that available from leaving their money in the bank.

Since their inception our three model portfolios ("defensive", "balanced" and "growth") have all substantially outperformed cash, with the higher risk models producing the greatest degree of outperformance.

3. Asset allocation drives returns

Academic studies have repeatedly shown that long term investment returns are primarily driven by asset allocation decisions rather than stock selection decisions. That is, determining what proportion of a portfolio is invested in UK equities, say, far outweighs the particular choice of equities to hold. Three important conclusions flow from this insight.

Firstly, if asset allocation is the primary determinant of returns then it is also the primary driver of risk. Hence the most powerful way to manage risk is through asset allocation.

Secondly, as typically over 80% of any investor's return is due to asset allocation decisions then the vast majority of a manager's resources should be allocated to making these decisions.

Thirdly, asset allocation should be actively managed. It is only by being willing to make bold changes to asset allocations that significant gains can be made for clients during favourable markets and capital can be protected in unfavourable conditions.

4. No investment manager has a monopoly on good ideas

We believe we are skilled at structuring portfolios and in forecasting the returns available from different asset classes. However, we recognise there are external managers better able to pick stocks than we are. We firmly believe it is in the best interests of our clients to seek out these few truly excellent outside managers and to employ them by investing in the funds they manage.

5. Our interests should be aligned with our clients

As investors ourselves part of our motivation in establishing Ingenious Asset Management was to create the firm we would wish to manage our own monies. We have remained true to this ideal and invest our own portfolios in exactly the same way as we manage those of our clients. We hold a deep conviction about the strength of our approach to money management and could hardly expect our clients to share this conviction if we didn't invest alongside them.

A GREAT YEAR OF HITS FOR INGENIOUS INVESTMENTS

In many ways, 2010 was a landmark year for Ingenious Investments, the alternative investments division of the Ingenious group.

Avatar

By James Clayton

Despite the on-going global economic crisis, both the content we backed and our funds under management hit new highs. With the media and entertainment sector reinforcing its recession-resistant status, our funds were ideally placed to capitalise on continued demand for premium audio-visual content.

In the cinemas, *Avatar* soared into the record books as the highest grossing film of all time while the success of *Streetdance 3D*, showed that 3D doesn't have to come with a huge price tag.

On the small screen, we established a multi-channel presence as a string of prime time dramas such as *Strike Back, Doc Martin, Law and Order: UK* and *Bouquet of Barbed Wire* aired on the BBC, ITV and Sky, while the fund behind them, Ingenious Broadcasting, achieved pre-tax returns of 12% per annum over a 3 year period.

In the live events arena, we enjoyed another strong summer. Our well-established *Creamfields* festival sold out to 80,000 people and won the acclaimed *Music Week* award for "Festival of the Year". Elsewhere, attendance at our fledgling *80's Rewind* festival was up 75% in only its second year. With strong performance across the rest of our events portfolio, the net asset value of our Live and Entertainment VCTs climbed to the highest in their sector.

In fund raising terms 2010 proved testing, however we still raised over £500m, taking our total funds under management in Ingenious Investments to £6.1bn. For media investors, we believe direct investment into portfolios of content and the associated cashflows is preferable to buying quoted media stocks and running the risk of adverse stock market sentiment and poor management decisions. By aligning our interests with blue chip partners, investing only in premium content and using our know-how to preserve capital, we achieve minimum returns well in excess of cash and ensure genuine upside potential.

Ingenious Investments continues to plough funds back into the business and 2010 was no different. As well as increasing headcount, it was also a year of diversification as we expanded beyond our media heartland in response to investor demand. We are delighted to have launched a UK solar energy fund and a wine fund, both of which apply our trademark investment expertise to exciting growth areas.

We have also launched the third iteration of our Shelley Media fund, which is occupying the ground once held by banks and providing much needed senior capital to the entertainment sector for excellent returns relative to the risk.

We are constantly striving to exceed expectation and, with our fundamentals stronger than ever, we are optimistic about the coming twelve months. Opportunity is everywhere in 2011. With *Zen* airing to hit ratings on BBC1, the Scottish edition of *80's Rewind* selling fast, *127 Hours* nominated for 8 BAFTAs and a new film venture with Fox Searchlight, there is enough to keep us busy until *Avatar 2*!

notwithstanding the global downturn, we still raised over £500m in the year

In response to demand from investors, we have been expanding our business beyond media.

BEYOND MEDIA

As a consequence of volatility in financial markets and low interest rates, investors are seeking to diversify their portfolios with positions in low-correlated alternative asset classes carrying predictable returns.

By Sebastian Speight

With unparalleled sector expertise in media and proven investment management capability, Ingenious Investments has for the past 12 years delivered innovative off-market investment opportunities across the media space with inflation beating returns but without excessive capital risk.

In response to demand from investors, we have been expanding our business beyond media into other low-correlated sectors. We have now developed two exciting new offerings that, like our media funds, combine a robust commercial engine, capital preservation, minimum returns above cash and true upside potential.

In the emerging UK renewable energy sector, we have partnered with the Low Carbon Group (LCG) to launch two Venture Capital Trusts (VCTs) to invest in a portfolio of solar energy projects across the south of England. LCG is one of the largest sector specialists in the UK with whom we are committed to building a platform to give our investors access to the same wide range of opportunities in renewable energy that we offer in media.

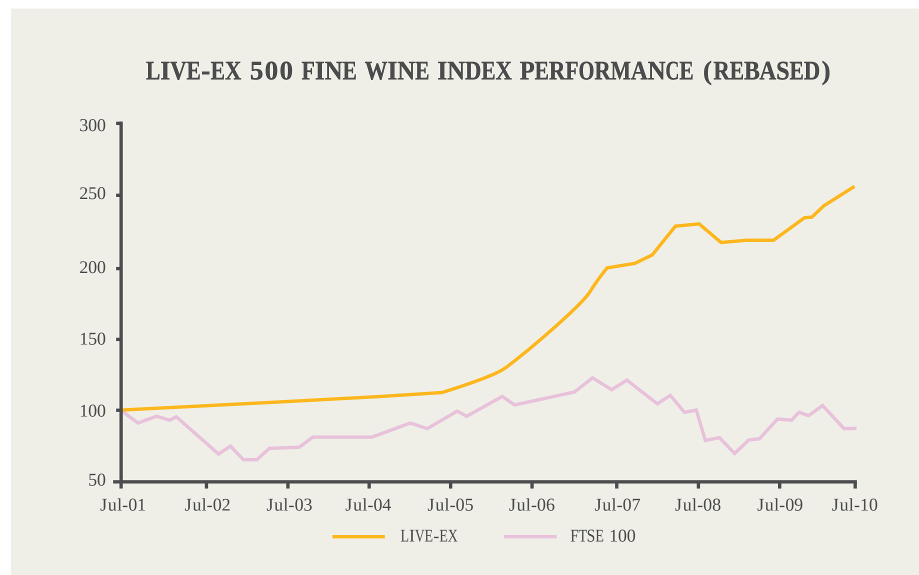
In April 2010, the UK government introduced an incentive known as the Feed-in Tariff to stimulate investment in renewable energy projects in the UK. For producers of solar energy, this provides a guaranteed 25 year index-linked price in addition to the market price. One of the principal attractions of UK solar is its simplicity – stable energy output from predictable sun hours, low maintenance costs from long lasting, high performance equipment, no Eurozone risks and secure long term cashflows stemming from the Feed-in Tariff.

The VCTs are targeting annual tax free dividends of 6% and a post-tax return of 17.1% per annum over 5 years (including return of capital), with a low degree of risk and downside protection by way of VCT tax benefits.

However, the Government's recently announced intention to review the Feed-in Tariff has created an element of doubt over its future availbility in certain circumstances and while we do not expect our specific area of investment to be impacted, our fund raising is now likely to take place after the outcome of this review.

Meanwhile, in the world of fine wine we have partnered with Peter Lunzer, an experienced wine expert with 30 years in the industry to launch Vindemia, a fund that will capitalise on strong growth in the fine wine sector fuelled by surging demand from emerging markets. The main measure of the sector the Live-Ex Fine Wine 100 Index, increased 40.8% in 2010. The chart below illustrates the sector's performance against the FTSE. Peter has a strong track record in wine selection and returned 108% over 5 years on a previous wine fund (a compound annual growth rate of 15.8%). Vindemia is targeting a pre-tax return of 21% per annum over 3 years, with risk mitigated by the benefits of the Enterprise Investment Scheme (EIS).

Our core proposition has always been to offer innovative, commercially driven investment opportunities in vibrant low-correlated sectors, which we support with both deep sector expertise and our own capital. As we expand our horizons, our investors can look forward to a growing range of exciting alternative investments in the media sector and beyond.



INGENIOUS AND THE PUBLIC POLICY ARENA

Too few incentives to encourage investment in content? Too little action against "piracy" in the music industry? Too much red tape in the VCT market?

By Martin Smith

These are just three of the many issues addressed in Ingenious' submissions to government over the last few years.

Government regulates many aspects of the way in which business is conducted in the creative sector and invariably finds it hard to keep up with the pace of changes in technology and consumer behaviour. The cry for deregulation goes up every now and again but invariably results only in "re-regulation" – with the goalposts being moved.

Objective conflicts of interest abound, especially in relation to IP and competition issues. Heavy lobbying of ministers and officials, especially by the US "majors", is a familiar element of the political scene in London and Brussels in the creative economy as in other sectors of economic activity.

Against this background the voice of content investors is heard all too infrequently in Westminster and Whitehall, partly because there are so few of us who focus exclusively on the media and entertainment sector.

Since first giving written and oral evidence to the House of Commons Select Committee on Culture's inquiry into *New Media and the Creative Industries* in the Parliamentary session 2006-2007, Ingenious has regularly contributed to Parliamentary and public debate.

In April 2007, partnering with the DCMS (Department for Culture, Media and Sport) and the old DTI (Department of Trade and Industry), we convened the very first UK Roundtable to bring together investors, creative entrepreneurs and business leaders to debate policy. At the time this was regarded as almost revolutionary. One seasoned music executive commented that no government minister had ever previously been interested in what he thought about anything!

Subsequently we published a transcript of the proceedings under the title of *Sustainable Investment for the Creative Industries?* This remains an excellent introduction to some of the issues facing the sector.

In October 2009 Patrick McKenna was the keynote speaker on *Scale, Risk and Investment in the Creative Industries* at a unique government event held under the auspices of C&binet (Creative and Business International Network). As a trustee of NESTA (National Endowment for Science Technology and the Arts) and of the British Council, Patrick takes a lead on these issues in two of our most prominent national bodies.

Ingenious speakers have contributed key-note addresses to government and EU-sponsored creative industry events as far afield as Mumbai, St Petersburg and Beirut. Our goal is to ensure that our voice is heard in any forum, national or international, in which the great creative policy issues of the day are debated.

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INGENIOUS GROUP

NESTA AND THE CREATIVE ECONOMY

By Martin Smith

Patrick McKenna has been invited to chair NESTA's Creative Economy Committee. NESTA (National Endowment for Science, Technology and the Arts) is an endowed public body whose mission is to make the UK more innovative.

NESTA, which recently published *Next Gen*, a ground-breaking skills review on the video games and visual effects industries (commissioned by Communications and Culture Minister Ed Vaizey), has designated the arts and the creative industries as one of its three "pillars", or core work programmes, for the foreseeable future.

One of Patrick's aspirations for NESTA's work in this area is to help develop a coherent and united public voice for the whole creative industries' sector. "One of the problems the sector faces is that too often there are conflicting messages coming from different industries and too much partisan lobbying by particular interest groups" he says. "We need to articulate a much clearer unifying narrative of the action required to boost the competitiveness of the UK's creative economy as a whole. NESTA can play an important role in this process."

LOOKING AT THE PROSPECTS FOR M&A ACTIVITY IN 2011

Since the collapse of Lehman Brothers in September 2008, the financial markets have generally been characterised by instability and fear.

The light installation in Engine's reception

By Nick Harvey

This has proven exceptionally challenging for corporate financiers everywhere – particularly during 2008 and 2009 when the inability to raise finance resulted in a chronic lack of confidence among buyers and sellers alike. However, the middle of last year saw greater stability return to the markets along with a degree of confidence, persuading both buyers and providers of capital to re-enter the market.

From the viewpoint of the UK media sector, 2010 actually turned out to be a remarkably good year with the sector rising overall by 21.1% against a 10.9% rise for the FTSE All Share index. The media sector is currently seen by many analysts as under-valued against the market as a whole. This suggests revenues and profits should rise in 2011 ahead of the broader economy as recovery moves into growth, thereby generating a climate for increased levels of activity.

Reflecting the improved economic climate, Ingenious Corporate Finance has successfully concluded six transactions since April 2010. This includes a £70 million capital raising for the Engine Group and the successful take-private of Shed Media in a £120 million deal financed by Warner Bros.

These transactions are clear evidence that the marketing services and independent TV sectors, in particular, are being driven by the digital world. The latter is having a fundamental impact on every aspect of how we live, do business, are entertained and communicate with each other. It is hard to contemplate life without Google, Facebook, Twitter, smartphones and the iPad, and yet Google has only been in existence since September 1998 and has a market value of over $200bn.

Meanwhile the relative "old timer" Apple is now the largest technology company in the world, valued at $330bn, and may well soon become the largest company on the planet. Facebook and Twitter have also leapt to the forefront of attention, loosely valued at $50bn and $10bn respectively. Whether they both live up to these vast sums remains to be seen yet their imprint on the zeitgeist is unquestionable. AOL's recent acquisition of *Huffington Post* for $315m and the reported potential "valuation" of Zynga of between $7bn-$9bn, are both further evidence of the market's appetite and enthusiasm for the brave new world of digital media.

So while the general economic climate remains uncertain, with serious concerns about overall underlying growth rates, interest rates and inflation, the rapidly changing media sector continues to generate significant business activity with structural upheaval producing huge opportunities. Innovative and creative companies are leapfrogging the competition, especially in the digital, online and e-commerce areas, where technology and increased broadband penetration are combining to facilitate the starting and development of valuable businesses.

Private equity investors are showing increased interest in backing companies with strong growth prospects and there is evidence of a renewed appetite for making key strategic acquisitions.

Market activity is being driven not only by the demand for compelling content in all areas of the media, but also by the necessity to collect and interpret associated data. The continued proliferation of content delivery platforms (on-demand, digital video channels, IPTV services and video hosting sites among others) will ensure continued demand for quality content irrespective of format. Businesses capable of creating, capturing and/or delivering top-notch content will, therefore, command attention.

Against this background, media sector M&A activity is generally expected to hold up well in 2011. As in 2010, we expect the sector to outperform much of the rest of the economy on some measures, including overall growth trajectory. Advertising expenditure is expected to grow by some 2.3% in 2011 with stronger performance in the second half as the 2012 Olympics' effect begins to build. This contrasts with current forecasts of overall GDP growth of around 1.1% for the economy as a whole.

The sharp rebound in advertising revenue in 2010 has actually demonstrated that the TV sector is perhaps more resilient than many had thought. Television viewing figures continue to rise in spite of the proliferation of alternative modes of accessing content, attracting renewed interest in the performance of indie TV stocks.

Despite markets generally remaining fragile and uncertain, we are optimistic that the vibrant nature of the media market will continue to generate transactional activity over the coming 12 months.

Advertising expenditure is expected to grow by some 2.3% in 2011 with stronger performance in the second half as the 2012 Olympics' effect begins to build

A STUNNING YEAR IN THE MOVIES: BUILDING ON THE SUCCESS OF *AVATAR*

Film production has been an important part of our business since the early days at Ingenious. 2010 was a spectacular year and we got off to a roaring start when *Avatar* smashed box office records to become the highest-grossing release of all time.

By Nik Bower

James Cameron's sci-fi epic found a special place in the hearts of audiences in every corner of the earth, and took over $2.7 billion at the box office, decisively beating Cameron's previous blockbuster, *Titanic*, into second place almost a billion dollars behind. The film also carried off the Golden Globe awards for Best Picture and Best Director, and more than 40 other international prizes including a handful of Oscars.

It was particularly gratifying for Ingenious, as we first committed to the project five years ago, when the infrastructure for distributing this ground-breaking film didn't even exist. It's no exaggeration to say that *Avatar* created the modern 3D revival as the film-makers developed visionary new technology and techniques for 3D production. Indeed it was the anticipation of the film's release that drove the widespread adoption of 3D projection facilities by cinema exhibitors around the world.

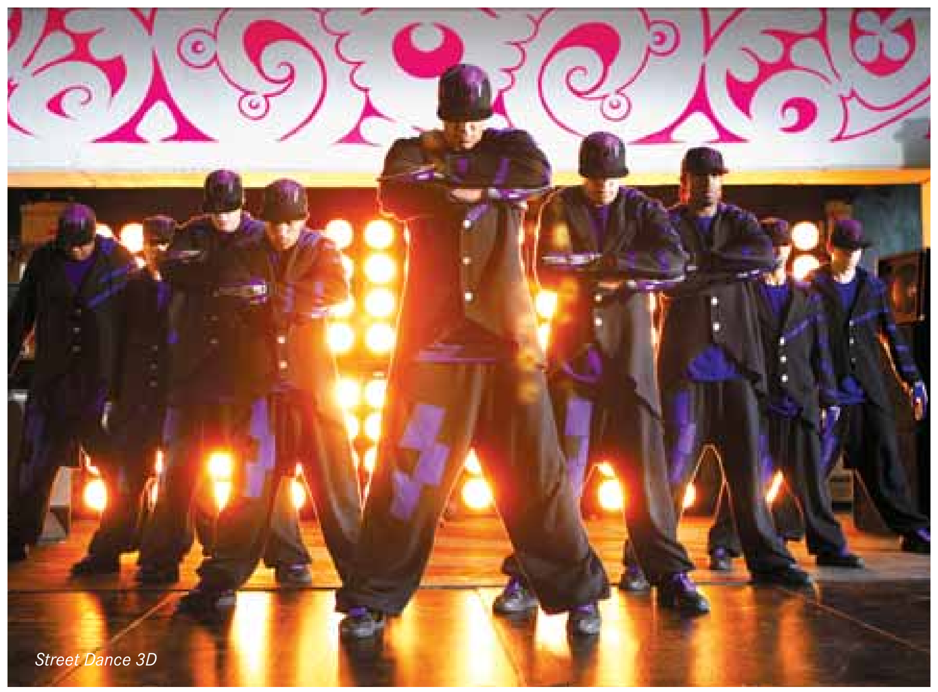
The triumph of *Avatar* was the latest fruit of our excellent and long-standing relationship with Twentieth Century Fox, who have partnered with us in the past on a variety of successful films from *Alien vs Predator* and *X Men: The Last Stand* to *Die Hard 4.0* and *Night at the Museum*.

At the other end of the budget scale, we also had 3D success closer to home this year with the first ever 3D dance movie, *Streetdance 3D*. Blistering performances from dance combos Flawless and Diversity and *Britain's Got Talent* winner George Sampson set the backdrop for a modern story of star-crossed love. Fuelled by a soundtrack featuring the hottest tracks of the summer, the film dominated the British box office for weeks, beating Hollywood blockbusters *Robin Hood* and *Prince of Persia* to the top spot. It also toured the world, opening in the top three in countries as diverse as France, Germany, Finland, Taiwan, Israel and the UAE. Altogether it has grossed over $45 million to date, an extraordinary achievement for a low-budget British independent film.

Sticking with independent film, we were busy throughout 2010 on the production of *Bel Ami*, a new adaptation of the Maupassant novella starring Uma Thurman, Christina Ricci and Kristin Scott-Thomas in supporting roles. All the gossip blogs were abuzz with news of the film, which headlines the *Twilight Saga* heart-throb Robert Pattinson, possibly the hottest young actor of his generation, as the protagonist Duroy. *Bel Ami* will premiere in 2011.

The London Film Festival in October is the culmination of the year's industry events in the UK and a world-class celebration of international cinema. The gala screenings held on the opening and closing nights of the festival are glitzy black-tie events followed by star-studded after-parties, and there is fierce competition for the prestigious slots. This year, films backed by Ingenious were chosen for both. The opening night film was Mark Romanek's *Never Let Me Go*, exquisitely adapted from Booker-winner Kazuo Ishiguro's much-loved novel and showcasing a dazzling array of young British talent in front of the camera and behind it. The closing night was Danny Boyle's *127 Hours*, an unmissable, unforgettable true story of superhuman courage brought to life by Boyle's incomparable visual invention and flair.

We're not resting on our laurels, of course. This January saw cameras roll on Ang Lee's ambitious 3D adaptation of the Booker-winning international best-seller *Life of Pi*, conceived as a heavy-weight Oscar contender and a strong commercial performer that will appeal to audiences across the globe. We are also anticipating a raft of exciting releases this year, including the next instalment in the rebooted *Planet of the Apes* franchise and star British director Matthew Vaughn's *Kick-Ass* follow-up, *X-Men: First Class*. So there's a lot to look forward to in 2011!


Street Dance 3D

HERE COMES THE SUN

THE CHANGING FACE OF VCTs

Introduced in 1995, Venture Capital Trusts (VCTs) were designed to encourage individuals to invest in smaller growth companies. Since the onset of the credit crunch and the failure of the banks to continue lending, the VCT has come into its own as a source of capital for smaller companies.

By Paul Bedford

With the new 50% top rate of tax and pension relief curbed for higher rate tax payers, the VCT is increasingly atrractive, offering 30% income tax relief, tax free dividends and no capital gains tax on the sale of VCT shares. Indeed the annual market has grown from £267m in 2006/07 to an estimated £500m for 2010/11.

This trend looks set to continue as investors and advisors wake up to the important role that VCTs can play in pension planning, particularly in the context of the so-called "planned exit" or "limited life" VCTs. These VCTs are specifically designed to return capital to investors as soon as possible after the five year minimum holding period, an approach that was first pioneered by Ingenious with the launch of our Music VCT in 2004. This new approach to VCT investment has proved popular with investors and now accounts for almost 60% of the total VCT market.

This perfect storm of market conditions won't last forever. The market should normalise again as the pressure for banks to lend increases and the recovery takes hold. However, the days when VCTs were seen as the preserve of only higher net worth investors are all but over. Well managed "limited life" VCTs are now firmly on the radar of most investors, especially where greater emphasis is placed on risk management. With the entry levels for investors reducing, so has the average investment.

At Ingenious our client base has grown considerably as the size of our average investment has decreased - from £35,000 in 2008 to £15,000 in 2011. This only serves to demonstrate the new appeal of VCTs while showing the long term confidence of investors in these products.

Our Live and Entertainment VCTs are the top performing VCTs of their peers. In 2010 our exciting portfolio of investments continued to perform strongly with highlights including:

- The *Creamfields* festival, our live dance music event, continues to go from strength to strength becoming a sold out event attended by 80,000 people in 2010.
- Our *80's Rewind* festival also saw a massive increase in profitability as attendance levels increased from 20,000 in 2009 to close to 40,000 in 2010.
- New investments in 2010 include an exclusive deal to re-launch the well known comedy brand *Jongleurs* and a deal with SuperVision Media who are taking advantage of digital delivery to bring alternative content to UK cinema screens.

But what of the year ahead? In 2011, as well as building on the success of our Live and Entertainment VCTs with a new E & F share offer, we are pleased to welcome a new member to our VCT family, the Ingenious Solar VCT. This new fund represents our first step into the renewable energy sector and we were hoping to launch the fund in the current tax year. However, in the light of the Government's recently announced intention to review the Feed-in Tariff, we now expect our fund raising to take place later in the calendar year, after 6th April 2011.

We are excited by the role that VCTs can play in investment planning for individuals and are commited to growing our presence in the VCT market. We continue to look for exciting opportunities as we seek growth companies operating in the media and renewable energy sectors.

UPCOMING EVENTS

ENTERTAINMENT VCT EVENTS

Golf Live
London Golf Club, Kent
20th – 22nd May

Field Day Festival
Victoria Park, London
6th August

Taste of London
Regents Park, London
16th – 18th June

80's Rewind: England
Henley-on-Thames, England
19th – 21st August

80's Rewind: Scotland
Scone Palace, Perth
29th – 31st July

Creamfields
Daresbury, Halton, Cheshire
27th – 28th August

FILM RELEASES

Water For Elephants
UK Release
May

X-Men: First Class
UK Release
June

Bel Ami
UK Release
Autumn

Caesar: Rise Of The Apes
UK Release
November

The Best Exotic Marigold Hotel
UK Release
Autumn

The Big Year
UK Release
October

Images (Clockwise from top): *80's Rewind* Festival at dusk, festival crowd at Field Day, Rufus Hound performs Cheryl Cole's *Fight For This Love* for *Sport Relief*, Golfer Paul Casey at the 2010 Golf Live tournament, chef Angela Hartnett at the 2010 *Taste* festival.

THE CREATIVE INDUSTRIES IN THE UK: HOW GOOD ARE WE REALLY?

In recent years the "creative industries" have been lauded by British politicians of all parties. Without question, when it comes to film, music, TV and games, not to mention architecture, publishing, fashion design and the visual and performing arts, we punch well above our weight on the global stage.

By Martin Smith

Now that we have fallen out of love with credit default swaps and other such exotic financial instruments, there is enormous pressure on the Coalition government to articulate a credible "growth path" for the economy. Biosciences, avionics and pharmaceuticals are just three of the non-financial services segments of the "knowledge economy" expected to lead us out of recession. Can the creative sector also play a role?

Let's look at the economic evidence. On the positive side our creative industries generate a higher proportion of aggregate gross domestic product (GDP) than in any other developed market. In terms of share of global GDP the music, TV, publishing and games industries perform especially strongly. Other industries, including the advertising, film and fashion industries, as well as the performing arts, also perform strongly on some indicators, though not all.

On the less positive side, while the UK performs highly on a number of measures, UK-owned companies hardly ever emerge as global leaders in any part of this universe. Indeed we have lost the leadership positions we used to have in the hey-day of J Arthur Rank and Sir Joseph Lockwood.

The consequence is that most of the commercial benefits that derive from control of the value chain in creative businesses do not revert to the UK. That in turn means that the Treasury misses out on significant tax revenues.

The film industry is a case in point. Of the leading fourteen film companies in the UK and Europe measured by aggregate operating revenues, well over half are American. There is only one UK theatrical distributor on the list, one UK film finance company (Ingenious) and no stand-alone UK film production company.

Although film is to a degree a special case, due to the power of the Hollywood studios, the pattern is broadly mirrored in most of our content sectors. We should therefore not delude ourselves into thinking that we are thoroughgoing top dogs, even though on many creative measures we undoubtedly are!

The recent £100 million decision by Warner Brothers to buy Leavesden Studios near Watford, famously home of the eight *Harry Potter* films, is welcome on one level, but also highly symbolic. Whilst the filming carried out there does stimulate significant economic activity, and profits, for UK businesses, the super-profits flow back to rights-holders in the USA, where they are taxed.

Are we satisfied with this? Surely we need to set our sights much higher than this by identifying ways to encourage the sustainable growth of our own companies – in games, music and TV as well as in film.

There is a huge opportunity out there for content businesses in the UK provided we play our hand right. This hand is a strong one. In a global market for cultural goods and services which is expanding rapidly "Brand UK", from Robin Hood to the Sex Pistols and *Top Gear*, via Sherlock Holmes and countless costume dramas, holds an undiminished fascination for global audiences.

More than 375 million people speak English as their first language. Between 470 million and a billion people speak some English as a second language. This is an enormous potential market for our creative goods and services.

However in order to grasp the prize we do have to up our game. What does this mean in practice?

First, we have to attract a higher calibre of business talent to the creative sector – ambitious leaders who are motivated to help build globally competitive companies from small beginnings. Second we need to create more sources of "knowledgeable" investment like Ingenious. Third we need to attract more risk capital to the sector. These factors are interlinked.

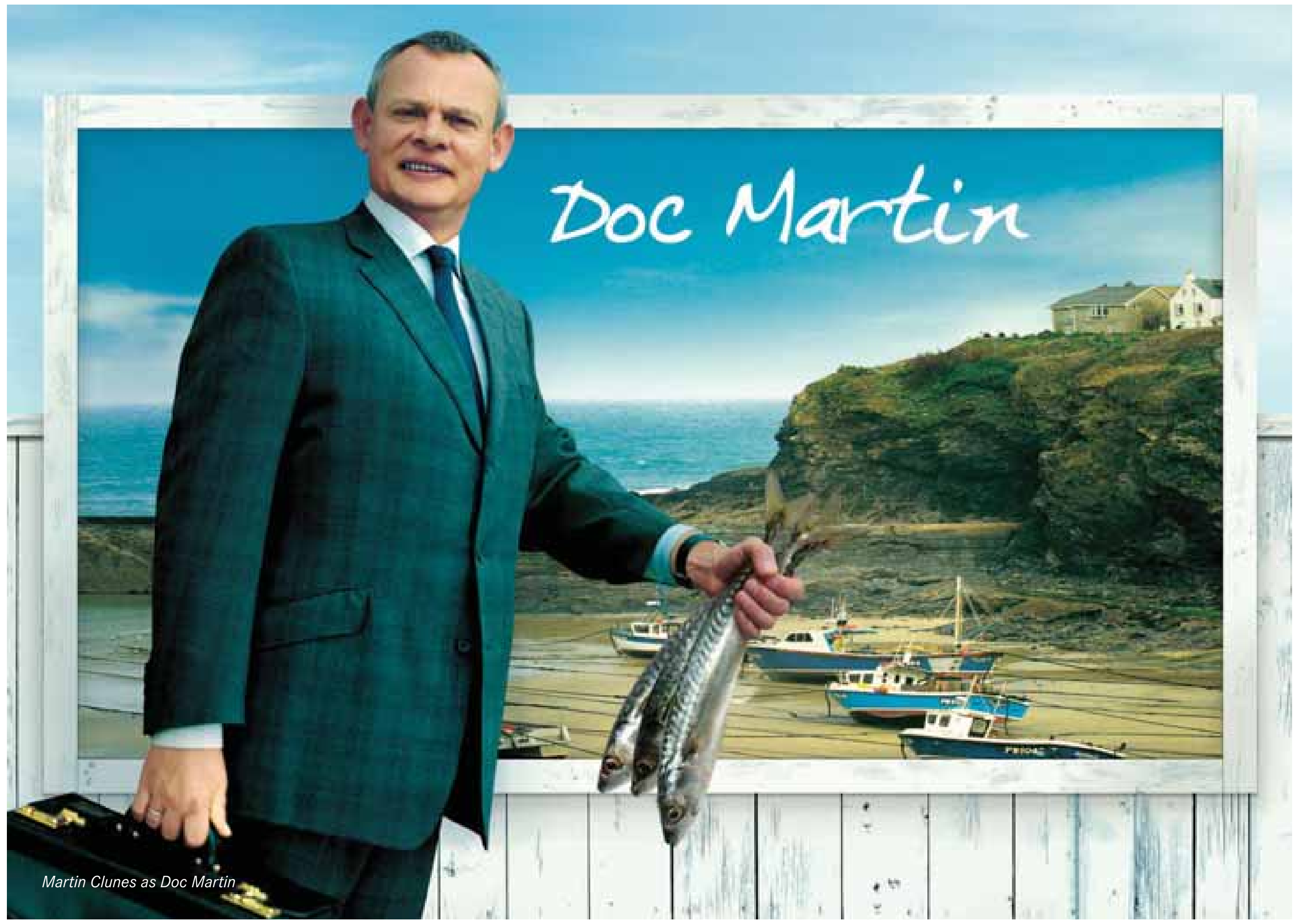
This is a complex policy agenda but the payback for UK PLC could be huge if we get it right.

INGENIOUS INVESTMENTS

CREAMFIELDS CROWNED 'BEST DANCE EVENT' AT UK FESTIVAL AWARDS

Ingenious Live VCTs' festival *Creamfields* was crowned "Best Dance Event" at the UK Festival Awards 2010 for the second consecutive year. Consistently delivering on line up, atmosphere, attractions and value for money, *Creamfields* witnessed a sold out attendance of 80,000 people across the 2010 August bank holiday weekend. *Creamfields* 2011 takes place on Saturday 27th and Sunday 28th August where we hope to make an even bigger footprint in the live music festival industry.

Law & Order: UK



Martin Clunes as Doc Martin

CONTENT REMAINS KING

Ingenious Ventures is probably unique amongst venture investors in its knowledge and understanding of the content aspect of media. While many funds describe themselves as being "technology and media" investors, few investment funds are comfortable with content production, distribution and exploitation.

By Patrick Bradley

There has been a long running debate as to what is more valuable – delivery platforms or the content that goes across them? Whereas technology is tangible, with measurable data and outputs, content is more unpredictable, with its value driven by the subjective tastes of consumers.

The truth is that content and delivery go hand in hand – and new technological innovations (such as internet delivered streaming or advanced gaming consoles) can revolutionalise the consumer's content experience, generating new revenue models for content producer and delivery platform alike.

It is the power of compelling content that brings and glues consumers to platforms – enabling the platform operators to monetise these audiences by selling their advertising inventory to brands and consumer retailers.

Ingenious, through its deep sector knowledge and experience, is comfortable with the risk profile of investing in content-owning companies. In other words, companies that produce, sell or exploit content, as opposed to being providers of the technical platform (such as broadcasters).

What we know is that content businesses rely on the quality of its people, with technology complementary to that core value. Content production demands strong creative talent wedded with robust commercial skills. It may be show business, but if the 'show' is bad, or the business skills aren't there, the formula won't work.

This translates into finding management teams who can not only come up with the best creative ideas, but just as importantly, execute those ideas to deliver a commercial return. These are rare skills. There is no shortage of ideas, but finding them combined with business acumen is where our market presence and experience of the sector count.

In practice, our investment in Whizz Kid is an example of this. Malcolm Gerrie, the founder, is an experienced TV producer who successfully ran his own company, Initial, which he subsequently sold to Endemol. Despite all of his success at Endemol he wanted to return to his roots, so Malcolm approached Ingenious to see if there was a way he could go again as an independent.

The result: Whizz Kid. Although a start-up, the risk was mitigated by Malcolm who continued his successful work as a producer, as opposed to embarking upon an entirely new and untested business model. Because of this, commissions soon started to flow, with Whizz Kid producing the *BAFTA film and TV awards*. Malcolm's profile attracted other premium events commissions – including *Elton John's 60th Birthday Concert* at Madison Square Gardens, New York and *U2 live from the Hollywood Bowl* last year.

The company has also established itself as a shiny floor entertainment producer, developing new shows for mainstream audiences, such as *Let's Dance* for the BBC. Viewers have been entertained by celebrities attempting to dance famous routines, such as *Peep Show's* Robert Webb's performance of *Flashdance*. *Let's Dance* has been exported internationally as a format to be produced for broadcasters in overseas territories, including Holland and Russia.

It is the power of compelling content that brings and glues consumers to platforms – enabling the platform operators to convert these audiences into paying advertisers


Taste London

Where Whizz Kid is a producer, our other investment in the sector, Digital Rights Group, is a distributor of finished content and formats to international broadcasters. DRG represents a deep catalogue of programming, including *Peep Show, Shameless, The In Betweeners, Road Warriors, The Real Hustle* and *Doc Martin*.

With *Doc Martin*, DRG has not only been successful in selling both the UK programme, starring Martin Clunes, to overseas audiences, but also selling it as a scripted format to broadcasters in Germany, France and Spain. So these territories now have their own localised 'Doc Martin', albeit no longer an English doctor in Cornwall, but instead a *Doktor Martin* in Germany and *Doctor Mateo* in Spain.

This demonstrates how content can cross national boundaries, generating overseas revenues to the producer of content. This is of key importance to us in all of our content companies – can the management exploit international opportunity, delivering scale and making them attractive acquisition targets for domestic and foreign buyers.

Television formats can also generate a diversified range of revenues as they are extended into other areas of media. Our investment, Brand Events, has successfully translated television formats into live events – the best known being their *Taste* festivals, a joint venture with Channel 4, with its flagship summer event in Regents Park. The event is a celebration of food and drink and, in particular, the enduring interest of audiences with celebrity chefs, such as Georgio Locatelli and Gordon Ramsey, whose restaurants provide taster meals at the events.

Taste has been successfully replicated in Edinburgh and Dublin, as well as South Africa, Australasia and the Middle–East, where Brand Events partners with regional operators to deliver a localised event.

Brand Events also produces *Top Gear Live*, with Jeremy Clarkson, James May and Richard Hammond, again taking the show to domestic and international audiences. In 2010, Brand Events also acquired the live rights to *Masterchef Australia*.

So our belief remains that content can deliver attractive returns for knowledgeable, connected investors. And we know that demand for premium, compelling content, will always be there, enhanced by new demand created from the continual development of technology.

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Photo by Philip Vile

YOUNG VIC THEATRE 40TH ANNIVERSARY

The internationally acclaimed Young Vic Theatre Company, which is chaired by Patrick McKenna, was founded in 1970 as a new kind of theatre – unconventional, classless, open and cheap. Forty years on and six years after being splendidly rebuilt, it is still a "paperback" theatre where an enormous range of the highest quality work is accessible to everyone.

Ingenious is proud of its long and deep association with a Company whose ground-breaking artistic work never ceases to attract plaudits and headlines.

Happy Birthday Young Vic!

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CREATIVE LEBANON

Martin Smith was a keynote speaker at a British Council event held in Beirut on November 25th 2010 entitled *Investing in the Lebanese Creative Economy.*

The main purpose of the event was to assess the potential for the Lebanon to develop its role as a regional and international creative business hub and to highlight opportunities for investors.

Martin commented that the conference provided ample evidence of the high level of creative skills to be found in the local economy, but that a number of key infrastructure issues, including the absence of broadband, had to be addressed urgently if the commercial opportunities were to be fully exploited.

"This will require co-operation and political imagination", he added, "as well as strong local leadership to provide the basis for partnership between the public and private sectors, including the investment community".

OUR INVESTMENT PERSPECTIVE

The key question for investors is "will stockmarkets continue to rise in 2011 and beyond?"

By Peter Clark

In our opinion the short answer is "yes". It is often said "bull markets climb a wall of worry". This phrase captures the phenomenon that rising stock markets are nearly always characterised by nervous investors wringing their hands and fretting about what could go wrong. Yet, despite this, the market continues to climb steadily. We believe this is the situation we are currently in.

Perhaps the biggest threat to the financial system was a depression in the United States. Happily this now looks unlikely. We have argued before the American authorities were fully aware of the threat of deflation developing and would do all in their power to prevent it happening. They have. The arrival of another round of Quantitative Easing (known as QE2), continuing low interest rates and the extension of the Bush tax cuts confirms our view that the United States is now fully committed to growing its way out of debt.

Another brick in the "wall of worry" revolves around sovereign debt in the Eurozone. The problems of the peripheral countries are well-documented: these are very real and will need to be addressed in the year ahead. However, it is important to remember that the political class in Europe has invested considerable intellectual capital in the project and will, ultimately, be prepared to pay a high price to defend it in much the same way as the Federal Reserve has done to combat the deflationary threat. This will mean the Germans making a significant financial contribution, which they can well afford to as their economy booms due to the weakness of the Euro.

So as the year progresses, the recovery should begin to gain traction in the United States, the debt issues in Europe will be resolved one way or another and investor sentiment should continue to improve. This is not to say that the future is suddenly rosy: it is not, but the fog is now beginning to clear.

On the currency front we remain cautious about the US dollar and pound sterling over the longer term. The lack of a clear alternative, and perceived safe haven status, suggest both will hold up in the short term. The brighter prospects for the US economy may even suggest a rally in the dollar in the coming months. Over the longer run however, we believe that the currencies of the Far East and emerging markets will prosper.

The outlook for bonds is troubling. In the major economic blocks the yield on ten-year government debt is simply too low in all but a disaster scenario that, as the year progresses, will look less and less likely. Hence we will continue to avoid bonds as we anticipate their prices have substantially further to fall. The exception is inflation-linked bonds and we will add to our holdings in this area.

In equity markets our enthusiasm for the Far East and emerging markets remains undimmed although we would concede, bearing in mind their strong performance in 2010 and growing inflation problems in some markets, that returns in the short term may be muted. By contrast, our expectations for the developed markets are improving and we would not be at all surprised to see good gains in 2011, led by the United States.

ON ITALIAN DETECTIVES AND FINE WINES

By Jim Reeve

Much has changed since the Enterprise Investment Scheme (EIS) was introduced in 1993/94. Growing from a market of £4 million in its first year to a dot com peak of £1 billion in 2000/1, many of the high risk, high value start-up investments of the boom years ended poorly, giving EIS a bad name.

Yet, EIS investments do not have to carry a high probability of failure. With the current market standing at an estimated £500 million, EIS offers UK taxpayers the opportunity to invest in certain approved business sectors. By doing so, they can obtain a 20% tax credit against income, potentially unlimited capital gains tax deferral and the ability to qualify the investment as free from inheritance tax.

Since 2006, Ingenious Broadcasting has been investing in EIS-qualifying television production companies. Following a carefully designed strategy to limit risk and protect capital, it has delivered average pre-tax returns of 12% per annum.

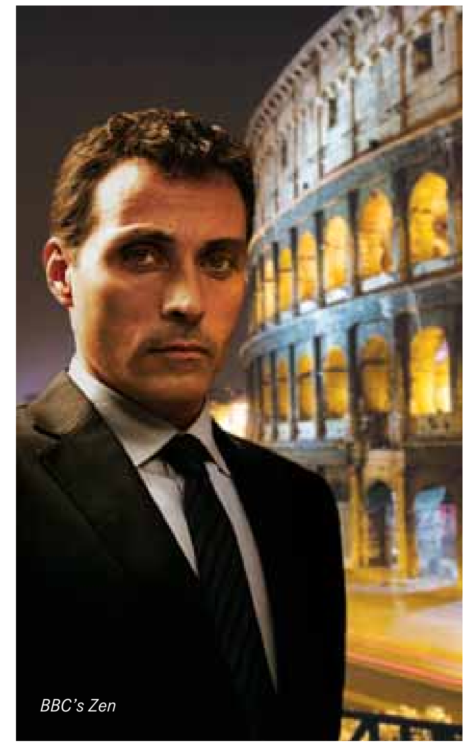
In 2010 we raised a healthy £60 million for investment in EIS media companies and built on the success of Ingenious Broadcasting with the launch of Shelley Media, an HMRC approved EIS fund. After two successful fund raisings last year, the third Shelley Media fund is currently raising capital and with an entry level of £10,000 is taking EIS to a new audience. Investing in a broader range of content companies beyond television and targeting average pre-tax returns of 14% per annum, it employs the same risk-mitigation strategy as Ingenious Broadcasting.

Last year alone, Ingenious Broadcasting produced 31 new television projects, including a slate of high quality, high rating television dramas like *Bouquet of Barbed Wire*, a remake of the 1970s classic starring Trevor Eve, and a new series of *Foyle's War* which returned to ratings of nearly 6 million on ITV.

2010 also saw our first project with Sky, *Strike Back*, based on Chris Ryan's novel, starring *Spooks*' Richard Armitage. To balance action fact with fiction, we also had *Road Warriors*, a documentary about the Royal Logistics Corps in Afghanistan. Under constant threat from snipers and road side bombs, the Corps ensures that supply convoys make it to the front line. The premiere in front of these brave men and women was a moving event.

Looking ahead, we have 23 shows on air this year and 2011 got off to a flying start with 3 shows in January alone. Based on the novels by Michael Dibdin, *Zen* for the BBC, starred Rufus Sewell as the eponymous Italian detective, while *Man to Manta* for ITV saw Martin Clunes head off in search of giant manta rays. And *Primeval* came back with a bang in its fourth instalment and is our first project with the team who gave us *Walking with Dinosaurs*.

Finally, we are delighted to start 2011 with the launch of Vindemia, an EIS fund providing investors with access to the buoyant fine wine sector. We are pleased to be working with wine expert Peter Lunzer who brings over 30 years experience in the trade. He previously held a similar role with The Wine Investment Fund and delivered growth in excess of 15% per annum over 5 years. Global demand for this sector continues to grow – particularly from the Far East – and with the Live-Ex indices surging and sales of fine wines at the top 3 auction houses doubling in 2010, we are excited about the potential for Vindemia, which is targeting pre-tax returns of 21% per annum.



BBC's Zen

Goldsmiths new building

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GOLDSMITHS COLLEGE NEW BUILDING

Archie Norman, chairman of ITV plc, was the guest of honour on 22nd February at the official opening in Lewisham of the New Academic Building at Goldsmiths College in the University of London. The building is now home to the Department of Media and Communications and the Institute for Creative and Cultural Entrepreneurship (ICCE).

ICCE, whose advisory board is chaired by Patrick McKenna, was launched in 2010 and is rapidly establishing an international reputation. It delivers postgraduate courses, research and events to support entrepreneurship in the creative industries.

INGENIOUS CORPORATE FINANCE AND UK INDIE SECTOR CONSOLIDATION

2010 was a significant year for Ingenious Corporate Finance, marking our tenth year of providing corporate finance advisory services to the media sector. During this period Ingenious has played a pivotal role in the consolidation of the UK independent TV production sector.

By Tom Manwaring

Back in 2000, the UK's indie sector was quite different – it was highly fragmented, typically privately owned and characterised by a large number of small companies making relatively modest profits. In a period of just 10 years, the market has gone through a fundamental restructuring and seen the creation of a number of UK super indies, All3Media, Shine, Zodiak/RDF and Shed being the most prominent, each supplying a significant proportion of the UK broadcasting schedule. These super indies are now world leading format exporters and are responsible for making a significant contribution to the UK's creative output and economy.

What was the catalyst for such a period of change and what does the future hold for one of the UK's most successful creative sectors?

Undoubtedly the indie sector has always been renowned for its market leading creativity, but it was the new terms of trade agreement, introduced in January 2004, and the BBC's Window of Creative Competition ("WOCC") introduced shortly afterwards, that were key in igniting the sector's commercial success. The new terms of trade allowed indies to retain the secondary exploitation rights to the programmes and formats they created and produced. This had the effect of significantly improving indies' profit margins. In addition, the BBC established the WOCC which meant that in addition to the 25% of output by hours it had to commission from the indie sector, it would open up a further 25% for free and fair competition between the indie sector and BBC in-house production. This significantly increased the volume of indie sector commissions.

Higher profitability and growth prospects attracted institutional sources of capital to invest in the sector, in order to drive consolidation of the best of breed indies across genres and to share resources for the exploitation of their newly owned content. It was in this market that Ingenious floated both Shed Productions and RDF Media, and subsequently advised on the transactions which saw the factual entertainment and factual producers, Ricochet and Wall to Wall respectively, join the Shed group.

As indies increasingly retained control of their format rights, so they looked abroad, particularly to the significant US market, to exploit them. UK created shows such as *American Idol*, Wife Swap, *Supernanny, Who Wants to be a Millionaire, Kitchen Nightmares* and *Weakest Link* all became household names in the US and generated significant returns for their creators. Indeed, by the 2006-2007 Autumn schedule, 49% of non-scripted US network programming was sourced from overseas formats, the vast majority of which came from UK producers. (Source: Oliver & Ohlbaum).

It was this US success that started to interest international media groups in the UK indie sector. In 2005, Ingenious sold *American Idol* creator 19 Entertainment to CKX for £100m. In 2006, Tiger Aspect and Darlow Smithson were sold to IMG Media, and then later sold on to Endemol in 2009. In 2008, Sony acquired the creator of the *Who Wants To Be A Millionaire?* format, Celador/2 Way Traffic, for approximately £140m. In 2010, RDF was sold to European group Zodiak for £150m and Ingenious advised the management of Shed Media on a take private transaction backed by Warner Bros, valuing the business at £120m. More recently it has been reported that Shine is in advanced discussions to be acquired by Newscorp. This would leave All3 Media as the only remaining UK-owned super indie, and they too are believed to be actively considering their strategic options which may well result in them being owned by an overseas investor.

Ironically, whilst the UK government undoubtedly has played an important role in creating a vibrant independent UK TV production sector, their very success may result in the ultimate ownership of these indies being transferred overseas which would certainly not have been the original intention.

Despite the consolidation of the super indies, the UK independent sector remains robust with a significant number of new indies emerging, no doubt spurred on by the success of many of their larger competitors over the past ten years. We expect there to be a continuing strong level of M&A amongst the smaller indies and this will be helped by the welcome recovery in broadcasters' advertising revenues. A number of buyers remain acquisitive and are keen to gain access to successful formats with unexploited international potential and key creative talent (writing, producing or presenting), which should ensure that 2011 is another busy year for Ingenious Corporate Finance.

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NEW INGENIOUS GROUP WEBSITE

Whether you are looking for information on our products and services, our latest news or just to find out more about Ingenious, our new website will provide all that and more.

www.ingeniousmedia.co.uk is an ever growing source of information and reference for investors and advisers alike. It is being redesigned and the content arranged in a layout that will enable visitors to quickly and easily find the information they are looking for. The new website will be available in the Spring.

Following soon after, new investor portals for Asset Management and Ingenious Investments will provide information to investors in a clear and concise way, accessed from the website.

WHAT'S NEXT FOR THE UK VIDEO GAMES INDUSTRY?

Colin McRae: DiRT, courtesy of Codemasters

By Dylan Jones

£2 billion. This was the global sales figure for the UK video games industry in 2008. And yet it seems more and more UK studios are closing their doors. In the short period since this high watermark, the UK's position in the global development rankings has slipped from third to sixth. The reasons for this decline are manifold and complex and potential solutions are no less challenging.

One suggestion which has prompted feverish debate over the past year is to introduce a tax credit scheme similar to that available to the UK film industry. UK developer trade association TIGA has relentlessly campaigned for a domestic tax credit, arguing that this will redress the balance between the UK and other, more economically competitive, jurisdictions that offer such incentives. However, UKIE, the UK's other major trade body, is, at best, more circumspect on the proposal. This discord itself highlights one of the fundamental problems faced by an industry which surely requires a single voice in order to be taken seriously (as industry luminary Ian Livingstone recently pointed out in *Next Gen*, a review of the UK video games and visual effects industries published by NESTA).

The truth is that tax breaks, while valuable, will never provide the complete solution to the challenges faced by the games industry in the UK. While such initiatives might stimulate further inward investment if commercial conditions are competitive, they would not deliver sustainability, which must be the ultimate objective of all evolving creative industries. The long-term success of the industry will, in large part, depend on consistent and sustainable long-term growth driven by profitability and scale within its constituent businesses. For content creation businesses these elements are heavily dependent upon retention and control of intellectual property and the associated revenue streams. Tax credits would not deliver this on their own.

Consistent, efficient and cost-effective investment and finance would, however, play a crucial role in the development of sustainable businesses. While accessing such capital in the current market is certainly challenging, and would not be a panacea for the industry's ills, its importance should not be underestimated.

Ingenious believes that industry experts and trade associations should continue to engage with government to highlight the importance of the industry to the long term growth of the UK economy and identify strategic initiatives to help encourage sustainable investment. At the same time, industry and finance communities must engage collaboratively to better understand each other's businesses, thereby working to develop sustainable and realistic financing solutions. This requires commitment and patience from all involved while new entrants find their feet and the market acclimatises.

The video games industry is the largest entertainment industry in the world with global revenues from software sales predicted to hit $87 billion per annum by 2014. It continues to evolve and mature at a breathtaking pace. The UK has a proud tradition of innovation and success in this market and the digital age presents the UK development industry with an opportunity to position itself again at its head. This is an opportunity that we must not miss.

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CULTURAL LEADERSHIP: GLOBAL CHALLENGES

On 10th December 2010 Patrick McKenna was the keynote speaker at an international conference at the V&A museum organised by the British Council and the UK Cultural Leadership Programme.

Patrick's subject was *Leadership Challenges in Disruptive Times*. His main theme was that disruptive change, as well as being a great source of understandable anxiety, also brings with it great opportunities: "those organizations that are able to embrace change will emerge stronger and more resilient than before".

INVESTING IN TALENT:
10 YEARS OF INVESTING IN MEDIA

Ingenious Ventures is the private equity division of the Ingenious group. The division was founded in 2001 with the establishment of its first fund, Ingenious Ventures LP, a partnership between Ingenious and UBS.

By Patrick Bradley

Our first fund invested in a number of successful companies, including 19 Management, headed by Simon Fuller, who developed *Pop Idol* – later to be adopted in the US as *American Idol* – and introduced Simon Cowell to US audiences for the first time.

American Idol created the opportunity for other British formats to break America, from *X Factor* to *Britain's Got Talent*. The company's success in America led to its sale to US entertainment company, CKX and this single exit returned the entire capital of Ingenious' first fund.

Ingenious Ventures also invested in early stage companies in the games, live events, music publishing and TV distribution sectors and delivered exceptional returns. Our second fund, Ingenious Media Active Capital (IMAC) raised £150m in 2006 with a much wider remit than our first fund, investing in start-ups through to MBOs and take-privates and targeting 'progressive media' opportunities, driven by changes in new technology and the internet as well as changing regulation and consumer behaviour.

However, the fund had not completed its planned investment programme prior to the global financial crisis and was therefore able to cease new investment activity and make an initial return of £50m of cash to investors in May 2010. We continue to actively manage the diverse portfolio of IMAC companies we invested in prior to the economic downturn and which we intend to exit over the coming years when circumstances are appropriate.

Indeed, we completed our first exit in July 2010 with the sale to BMG Rights of Stage 3 Music, the successful independent music publishing company, which we created from a start-up. The company owns the music publishing rights to artists and rock bands such as Gerry Rafferty, David Essex, Aerosmith and ZZ Top and has also built up a valuable roster of writers.

Following two years of recession, we are now seeing a general improvement in the sector:

• There is growing economic relevancy to new technologies, including pay to play audio visual streaming (for example through connected TV devices supporting video on demand services such as Love Film and Netflix).

• Deregulation, such as the relaxation of product placement restrictions, is set to encourage more activity in the TV sector, which will also be enhanced as the new generation of 3D televisions is rolled out.

• The shift of gaming to on-line is providing opportunities for monetisation through subscription income, advertising and sponsorship as well as sale of add-ons incremental to gamers' experience. At the same time, social networks continue to grow their footprint.

• The mobile content sector is at last accelerating, driven by the iPad and new generation touch screen tablets such as Blackberry's Playbook. Google's entry into mobile, supported by their Android operating system, is increasing competition for content and consumer applications for mobile devices.

• Even traditional book publishing is being revolutionised by the mass uptake of e-readers, such as the Amazon Kindle. Additionally, magazines and newspapers are completing their migration on to these new devices, experimenting with pay-walls and new 'e-only' titles.

The timing is therefore right for us to launch our third fund, which we will do later in the year. Our focus will be on successful British companies operating across media, sport, fashion and leisure. Our investment will take the form of debt and/or equity. The present environment gives us an opportunity to provide capital where the banks are failing to lend.

Our primary focus will be on revenue generating small to medium sized companies with proven business models. However, we will retain a flexible approach in order to capture technological innovation or areas that have proven robust despite the recession (for example live events).

CAN THE HIGHER EDUCATION SYSTEM CONTRIBUTE TO UK COMPETITIVE SUCCESS IN THE GLOBAL CREATIVE ECONOMY?

By Patrick McKenna

Creative people do not understand business – a bold statement that can often be heard from those not in the industry themselves. Having been involved in the creative industries for many years, I am happy to state the exact opposite is true - to suggest anything else is to propagate a lingering, damaging myth that should be dispelled forthwith.

Taking a step back, the problem, by far, is that very few people in the worlds of business and finance understand the creative process. This is, not least, a challenge for the Higher Education system in the twenty first century.

To compete successfully in the global creative economy of the future we need to pursue four related policy goals. Education lies at the heart of each of them.

First, we need to reinvigorate the entrepreneurial tradition. Whether entrepreneurs are born or made, we can do much more through the education system to inculcate an understanding of the basic precepts of entrepreneurship, and to inspire budding entrepreneurs.

Second, more of our business schools should develop an understanding of the creative universe. While it is, of course, helpful, even necessary, for creative folk to understand the basics of accounting, the objective should be to find ways of supporting them in doing what they do best, being creative, not to try to turn them into businessmen and women to the detriment of everything else.

Third, more business studies graduates, and especially postgraduates, should be helped towards a deeper understanding of the dynamics of creative business development. To compress what is a complex subject this means, among other things:

• understanding the crucial importance of intellectual property and rights management;
• understanding the unique risk and scale profiles of the creative sector; and
• understanding that success in creative business is not, as is often misrepresented, a completely random process.

This final point is crucial. In the broadest sense, managers should be educated to understand that business success is achieved by managing risk rationally and strategically. This means understanding the creative process, understanding creative people and being able to speak their language.

For much the same reasons we also need to train more of our lawyers and accountants to understand creativity. Creativity is not, as some prejudiced minds would have it, a black art that serious professionals are best encouraged to steer clear of.

To achieve these goals we will need to proceed on a number of fronts simultaneously. Options should include the development of more interdisciplinary courses at undergraduate level and, possibly, the creation of specialist business schools for postgraduates.

We need to tackle these issues now!


Drama students at the £6 million purpose-built Lincoln Performing Arts Centre.

INGENIOUS INVESTMENTS

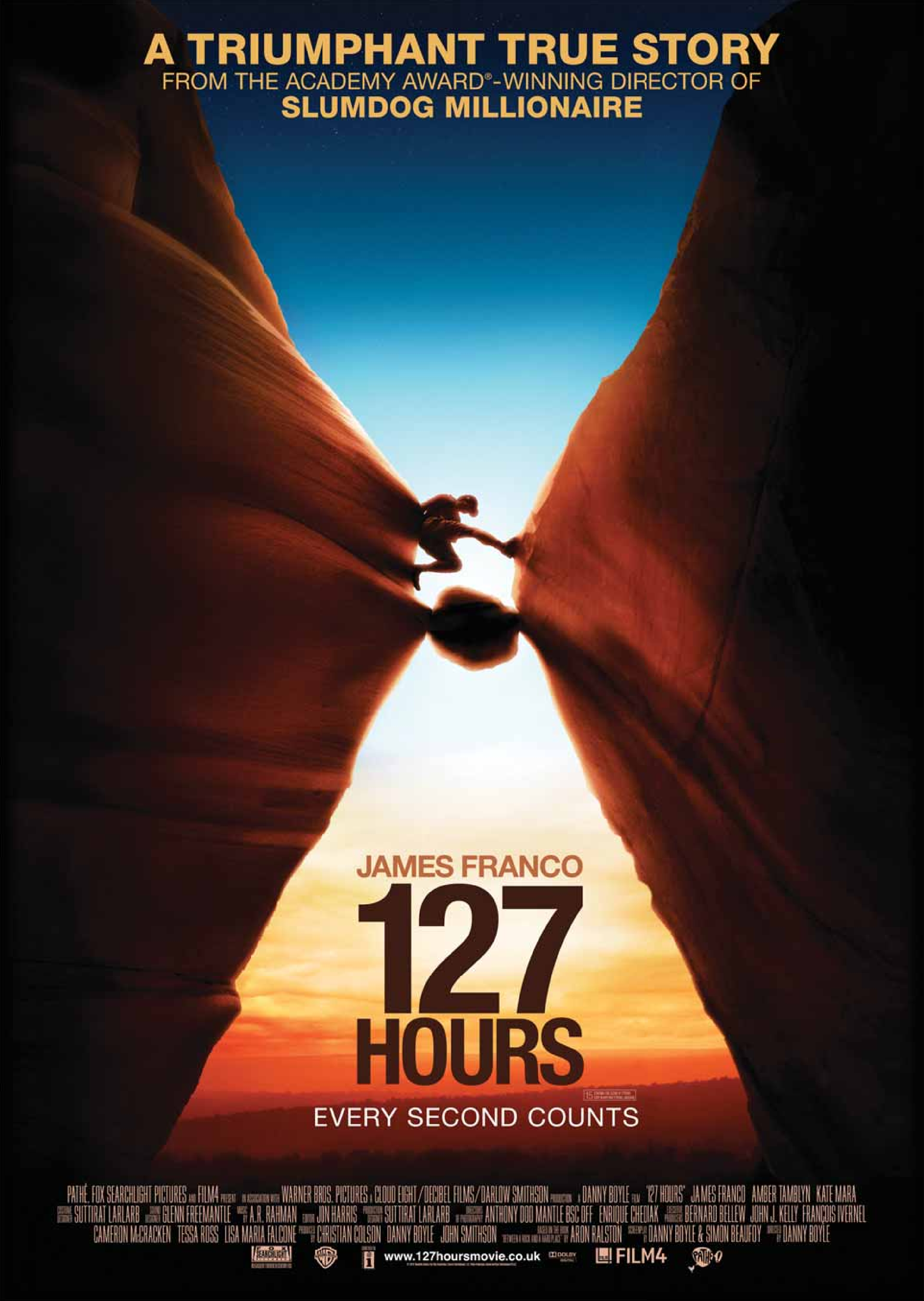
NEW INGENIOUS/FOX SEARCHLIGHT UK FILM INITIATIVE

Building on our long-standing relationship with Twentieth Century Fox, we have recently launched a new venture with Fox Searchlight, our partners on the acclaimed *127 Hours* and *Never Let Me Go*, to produce and distribute up to three British films a year.

We have been keen supporters of British independent film since 2003 when our first Inside Track fund backed *Girl With A Pearl Earring*, starring BAFTA winner Colin Firth. Subsequent productions have included *Vera Drake, Hotel Rwanda, Enduring Love, Bride and Prejudice, Brick Lane, Happy Go Lucky, Streetdance 3D* and this year's *Bel Ami* starring Robert Pattinson.

As seen from the stunning success of *The King's Speech*, we have a tremendous talent pool in this country capable of creating wonderful films with true international potential. But, despite the ability to punch above its weight, the film production sector still remains a cottage industry, sub-scale and under-capitalized. These structural weaknesses have been exacerbated by the economic downturn and demise of the UK Film Council. Yet despite the challenges faced by UK producers, we remain optimistic and are pleased to be renewing our commitment to British film.

And we couldn't be doing it with better partners. With films such as *Slumdog Millionaire* and *Black Swan*, Fox Searchlight has repeatedly combined critical appeal with commercial success. We are delighted that they are joining us in this new endeavour: a natural extension of our existing business together, it also signifies a timely vote of confidence in British film.


A TRIUMPHANT TRUE STORY
FROM THE ACADEMY AWARD®-WINNING DIRECTOR OF
SLUMDOG MILLIONAIRE
JAMES FRANCO
127
HOURS
EVERY SECOND COUNTS
PATHÉ, FOX SEARCHLIGHT PICTURES AND FILM4 PRESENT IN ASSOCIATION WITH WARNER BROS. PICTURES A CLOUD EIGHT/DECIBEL FILMS/DARLOW SMITHSON PRODUCTION A DANNY BOYLE FILM '127 HOURS' JAMES FRANCO AMBER TAMBLYN KATE MARA
COSTUME DESIGNER SUTTIRAT LARLARB CASTING DESIGNER GLENN FREEMANTLE MUSIC BY A.R. RAHMAN EDITOR JON HARRIS PRODUCTION DESIGNER SUTTIRAT LARLARB DIRECTORS OF PHOTOGRAPHY ANTHONY DOD MANTLE BSC DFF ENRIQUE CHEDIAK EXECUTIVE PRODUCERS BERNARD BELLEW JOHN J. KELLY FRANÇOIS IVERNEL
CAMERON McCRACKEN TESSA ROSS LISA MARIA FALCONE PRODUCED BY CHRISTIAN COLSON DANNY BOYLE JOHN SMITHSON BASED ON THE BOOK "BETWEEN A ROCK AND A HARD PLACE" BY ARON RALSTON SCREENPLAY BY DANNY BOYLE & SIMON BEAUFOY DIRECTED BY DANNY BOYLE
www.127hoursmovie.co.uk
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