



Department for Business Innovation & Skills

Building the British Business Bank: Investment Programme

Request for Proposal for Managed Investments

AUGUST 2014

This Request For Proposals has been prepared by the Department for Business Innovation and Skills for the purpose of inviting Proposals from prospective Applicants to receive funding for Managed Investments under the Investment Programme.

The British Business Bank Investment Programme is a part of the British Business Bank programme, which is currently run directly by the Department for Business, Innovation and Skills. The British Business Bank programme is not authorised or regulated by the Financial Conduct Authority or the Prudential Regulation Authority. British Business Bank plc will operate as a Government-owned financial institution once HM Government has received European Commission State aid clearance, which is expected in 2014.

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1. Introduction

1.1 The British Business Bank Investment Programme

The British Business Bank Investment Programme (the “Investment Programme” or the “Programme”), which builds on the Business Finance Partnership, was launched on 10 April 2013 by Vince Cable, Secretary of State for Business Innovation and Skills (“BIS”) as part of “Building the business bank”⁽¹⁾.

The Programme is investing £400 million² alongside private investors to address long-standing gaps in the SME finance market to promote greater choice in the supply of lending to SMEs.

Through the Programme BIS is making commercial investments, in a variety of forms, on terms and conditions that would be acceptable to a Private Sector Investor⁽³⁾. BIS may invest, alongside Private Sector Investors, in areas that include:

- Equity, equity-like and debt instruments in financial institutions;
- Debt funds or asset backed lenders that lend directly to businesses; or
- Non-bank channels, such as supply chain finance, peer-to-peer lending and other lending platforms.

Expressions of interest are invited to be made. The Programme will remain open for new applications until the funds allocated to the Programme, currently £400 million, are fully committed (see Section 2 for details on process and timetable). BIS intends to consider Proposals⁽⁴⁾ on a first come, first served basis.

1.2 Objectives

The British Business Bank programme supports economic growth by bringing together public and private sector funds to create more effective and efficient finance markets for smaller and medium-sized UK businesses. It is a key element of the government’s Industrial Strategy, and is already contributing to making the UK the best place in Europe to start, grow and finance a business.

The objectives of the British Business Bank programme are focused on addressing the inadequate access to finance available to small and medium sized enterprises in the UK.

¹ <https://www.gov.uk/government/publications/building-the-business-bank-strategy-update>.

² An additional £100 million funding was allocated to the Programme in August 2014, bringing total funding to £400 million and allowing the reopening of the Programme for new applications.

³ Third party investor, including the Applicant if relevant, but excluding other public sector bodies.

⁴ A bid submission made by an Applicant, at any stage prior or subsequent to an Award. For the avoidance of doubt, a Proposal includes an Expression of Interest and Formal Proposal. See Section 2 for further details.

The Investment Programme will support the British Business Bank's objectives by allocating funds to Applicants best able to:

- Support the development of diverse debt finance markets available to SMEs⁽⁵⁾ ("Diversification");
- Mobilise additional funding from private sector sources in order to support lending to SMEs ("Leverage");
- Channel finance to SMEs in an effective, appropriate and responsible manner ("Effective Deployment"); and
- Expand the aggregate amount and / or types of debt funding available to SMEs ("Additionality").

To meet these goals the Programme will consider allocating funds to two types of Proposal:

- **Managed Investment:** Investing alongside Private Sector Investors into managed lending funds, or other managed lending vehicles, for direct onward lending to SMEs. Managed Investments will involve a party that provides active management services or involves remuneration for the management of funds (a "Manager") committed under the Programme and by Private Sector Investors; or
- **Direct Capital Investment:** Funding, either by way of equity or debt investments, alongside Private Sector Investors into lending businesses able to use these commitments to increase their lending activity. No Manager will be directly involved in a Direct Capital Investment.

BIS welcomes Proposals from a wide range of lenders, but will only provide a maximum of 50% of the investment requirement of any Proposal, on the same terms and basis as Private Sector Investors. Proposals able to channel lending quickly to viable businesses operating in the UK, and with a consolidated annual global turnover below £100m, will be viewed favourably.

This Request for Proposals ("RFP") relates exclusively to Managed Investment Proposals. It provides potential Applicants with the necessary information to decide whether to submit a Proposal to the Programme and to ensure that any Proposals submitted are aligned to BIS's requirements.

Investments made through the Managed Investment channel will be allocated through a competitive process (see Section 2). This will enable the Programme to select Managed Investment Proposals that are considered to offer the best overall Value-for-Money in achieving the objectives of the Programme.

A separate Guidance Document, published alongside this RFP, provides guidance in relation to Direct Capital Investment Proposals. The Guidance Document can be viewed online at <https://www.gov.uk/investment-programme-to-encourage-lending-to-smes>.

⁵ For the purposes of the Investment Programme small and medium sized enterprises are considered to be businesses with consolidated annual global turnover below £100m.

Guidance Note 1: Proposal Types

BIS will assess Managed Investments and Direct Capital Investments against the same Investment Criteria (see Section 3). However the process leading to an Award under each Proposal type will be different. This reflects the need for:

- Managed Investments to be assessed through an open competition so as to ensure that remuneration of Managers connected with the Proposal is competitive and reflects market terms; and
- Direct Capital Investments to be developed and assessed in a way that is appropriate with respect to the bespoke nature of Proposals under this channel, and reflects that certain considerations in making Awards to Managed Investments are not applicable to Direct Capital Investments.

The aggregate £400m funds available under the Programme are available to either type of Proposal. The allocation of funds between investment types will be determined by the quality of Proposals received.

If Applicants are uncertain as to the categorisation of their Proposal, please contact BIS at investmentprogramme.enquiries@bis.gsi.gov.uk.

2. Process for Managed Investments

2.1 Introduction

BIS will be operating an open competition and welcomes Proposals from any Applicant that is able to meet the criteria set out for the Programme in Section 3. BIS expects Proposals to conform to the 4 stage application process detailed below. Proposals may be rejected at any stage.

- **Expression of Interest:** Short submission outlining key elements of the Proposal. If Applicants are successful at this stage they will be invited to submit a Formal Proposal and attend a Management Presentation;
- **Formal Proposal and Management Presentation:** Detailed bid submission and Management Presentation covering the Investment Criteria set out in Section 3. If Applicants are successful at this stage, they will be taken forward to due diligence;
- **Due Diligence and Award:** Formal assessment stage focused on appraising an Applicant's business, its proposed investment structure and investment strategy. If Applicants are successful at this stage an Award, subject to confirmatory due diligence, finalisation of terms and completion of documentation, will be made by BIS⁽⁶⁾; and
- **Completion, Commitment and Drawdown:** Final due diligence, agreement of final terms and completion of legal documentation. If Applicants are successful at this stage, funds committed by BIS will be drawn down by Applicants according to an agreed drawdown schedule.

Guidance Note 2: Pre-Submission Engagement

Applicants are invited to direct questions in advance of submitting a Proposal to investmentprogramme.enquiries@bis.gsi.gov.uk. Questions (posted anonymously) and answers in relation to the Programme in respect of policy, objectives or investment criteria will be made available to all Applicants online at <https://www.gov.uk/investment-programme-to-encourage-lending-to-smes> to ensure that all Applicants have access to the same information about the Programme.

2.2 Expression of Interest

The Programme will remain open for new applications until the funds allocated to the Programme, currently £400 million, are fully committed.

Expressions of Interest should be no more than 5 pages in length, with up to 5 pages of supporting Annexes, and must address – at a preliminary level – each of the 9 Investment

⁶ Awards will also be subject to Ministerial approval and, in certain instances, also HM Treasury and House of Commons approval. Completion, Commitment and Drawdown of Programme funds may also be subject to additional approvals.

Criteria set out in Section 3. In addition, Applicants are also expected to complete the information schedules included in this RFP at Annex II, III and IV.

Applicants are also required to provide confirmation that they have read this RFP and accept the Terms and Conditions set out in Section 4 and warrant the information provided in the Expression of Interest.

If, in the opinion of BIS, Expressions of Interest meet the criteria set out for the Programme, Applicants will be invited to have an initial meeting with BIS's representatives to discuss their Expression of Interest.

A decision will be taken after this meeting as to whether Applicants will be invited to submit a Formal Proposal. If, in the opinion of BIS, Expressions of Interest do not meet the criteria set out for the Programme, they will be rejected. Written feedback will be provided to all Applicants, and Applicants will be able to resubmit Expressions of Interest at any point while the Programme remains open for applications.

BIS reserves the right not to invite any Applicants to submit Formal Proposals should the quality of Expressions of Interest, in the opinion of BIS, be assessed as not meeting the requirements of the Programme.

2.3 Formal Proposal and Management Presentation

Following an invitation to submit a Formal Proposal, Applicants are encouraged to submit their Formal Proposal as soon as practicable and as per the timetable agreed with the Investment Team.

Formal Proposals should be no more than 20 pages in length, excluding supporting Annexes, and must address in detail each of the 9 Investment Criteria set out in Section 3 and include the information requirements detailed in Annex I. Applicants are also expected to complete the information schedules included in this RFP at Annex II, III and IV.

Following receipt of a satisfactory Formal Proposal, BIS's representatives will expect to meet with the Applicant (including selected members of its investment team) to discuss the Formal Proposal and the Applicant's operations.

Applicants are also required to provide confirmation that they have read this RFP and accept the Terms and Conditions in Section 4 and warrant the information included in the Formal Proposal.

All Formal Proposals will be assessed by BIS. Assessments will be informed by the content of Formal Proposals and any further information requested from Applicants. All those involved in the process will be bound by appropriate confidentiality provisions.

Subject to BIS's assessment of whether Formal Proposals meet the overall objectives of the Programme, Applicants will be invited to proceed to due diligence.

Where Formal Proposals are assessed by BIS as not meeting the criteria set out for the Programme, they will be rejected. Written feedback will be provided to all Applicants, and

Applicants will be able to resubmit Formal Proposals at any point while the Programme remains open for applications.

Formal Proposals will be considered on a first come, first served basis. Prior to responding, BIS may contact Applicants in order to request further information or clarification of information provided in the Formal Proposal.

BIS reserves the right not to invite any Applicant to proceed to due diligence should the quality of Formal Proposals, in the opinion of BIS, be assessed as not meeting the requirements of the Programme.

2.4 Due Diligence and Award

Applicants invited to proceed to commercial, financial and legal due diligence may be required to provide additional documentary evidence that validates the information provided in the Formal Proposal. As part of the due diligence process, this additional information will be reviewed, together with all information submitted as part of the Formal Proposal, and referencing and background checks will be undertaken.

By submitting a Formal Proposal, Applicants will be agreeing to BIS undertaking certain background checks and referencing as it deems reasonable. This could include referencing with: prospective, existing and past investors; companies in which the Applicant has previously lent to or invested in; or relevant third parties. BIS will request written consent from Applicants before any such background checks are undertaken.

Following satisfactory conclusion of the due diligence process, BIS will issue notice of its intention to make an in principle allocation of Programme funds (an “Award”) to the Applicant. All Awards will be subject to final due diligence, agreement of final terms and completion of legal documentation including, where applicable, the satisfaction of any conditions precedent. In certain instances Awards may also be subject to receipt of additional approvals⁽⁷⁾.

BIS reserves the right not to make any Awards should the quality of Formal Proposals and results of the due diligence process, in the opinion of BIS, be assessed as not meeting the requirements of the Programme.

2.5 Completion, Commitment and Drawdown

Awards will be subject to final due diligence, agreement of final terms and completion of legal documentation including, where applicable, satisfaction of any conditions precedent or approvals. They will be valid for a period of 3 months following notification. If Completion has not taken place within 3 months of the Applicant receiving notification of an Award, the Award will be withdrawn. BIS reserves the right to change the 3 month time

⁷ Awards will also be subject to Ministerial approval and, in certain instances, also HM Treasury and House of Commons approval. Commitment and Drawdown of Programme funds may also be subject to additional approvals.

period that the Award is valid for without prior notice, or to negotiate different availability periods for specific Proposals on a case-by-case basis.

Funds will be drawn down by Applicants according to an agreed drawdown schedule. This drawdown schedule will be assessed and agreed during the due diligence process.

2.6 Timetable

The Managed Investment element of the Programme was launched on the 10th April 2013.

The Programme will remain open for new applications until the funds allocated to the Programme, currently £400 million, are fully committed. BIS will make reasonable endeavours to respond promptly to Applicants at each stage of the application process.

Expressions of Interest and Formal Proposals will be assessed by BIS on a first come, first served basis. Awards will be made once Proposals are deemed to satisfactorily meet the criteria set out for the Programme in Section 3, subject to necessary approvals. Completion, Commitment and Drawdown will take place only once due diligence, terms and documentation have been completed, once necessary approvals have been received and after any conditions precedent have been satisfied.

BIS reserves the right to change this timetable at any point and without prior notice.

2.7 Delivery of Expressions of Interest and Formal Proposals

Expressions of Interest or Formal Proposals should be submitted by email and in portable document format ("PDF") to managed.investments@bis.gsi.gov.uk. Any accompanying spreadsheets should be compatible with Microsoft Excel.

3. Investment Criteria

The Investment Programme will support the development of diverse debt finance markets for SMEs, promoting competition and increased supply through new finance providers or products, and will increase the provision of finance to viable but underserved businesses. It will achieve these objectives through ensuring funds are allocated to lending channels able to deliver Diversification, Leverage, Effective Deployment and Additionality.

The 9 Investment Criteria below detail the criteria against which Proposals will be assessed. Proposals should seek to address each of these Investment Criteria. If any information is unavailable, or cannot be disclosed, Applicants should make this clear in their Proposal.

In addition to seeking to address each of the Investment Criteria outlined below, Annex I presents a comprehensive checklist of the information required by BIS that should be provided by Applicants in their Formal Proposal. Where any requested information is unavailable, or can not be disclosed, Applicants should make this clear in their Formal Proposal.

3.1 Target Market

Proposals should be focused on lending to viable businesses, operating in the UK, with consolidated annual global turnover of up to £100m. Proposals able to demonstrate a focus on lending to businesses with a consolidated annual global turnover of less than £25m will be viewed favourably.

Businesses operating in the UK are to be defined as those with undertakings that make a material contribution to economic activity in the UK, including UK incorporated companies and branches of foreign incorporated parents with a genuine business in the UK.

Where investment strategies include lending to businesses with consolidated annual global turnover in excess of £100m, Applicants should demonstrate that they expect that an amount equal to twice the Programme's investment will be made available for lending to businesses with a consolidated annual global turnover of £100m or below. In exceptional circumstances, BIS will consider Proposals which make available an amount less than twice the Programme's investment for lending to businesses with turnover of £100m or below if Applicants are able to strongly evidence a Proposal's ability to meet all other Investment Criteria and the objectives of the Programme.

Proposals should also detail the extent to which portfolio risk will be diversified by sector, geography and size of loans to businesses.

3.2 Investment Strategy

Applicants' investment strategies must be based on the provision of debt finance⁽⁸⁾. This may include hybrid or equity-like instruments however it would be expected that the majority of the return should be debt-based.

Evidence should be provided, where possible, of Applicants' ability to provide a new or additional supply of finance to SMEs, and also the extent to which they will not displace or substitute existing sources of finance available to these types of businesses. Proposals will be viewed favourably if they can demonstrate an ability to stimulate additional lending to businesses, including in relation to:

- Working capital, long term, investment or growth capital;
- Stimulating provision of finance to underserved SMEs;
- Providing a product type that the Applicant does not currently offer;
- Expanding activities into market segments that are new to the Applicant; or
- Increasing lending through alternative or non-traditional financing channels.

Proposals with investment strategies focused on the acquisition of secondary loan assets (on a portfolio or single asset basis) will be considered provided that additional lending to SMEs is made available by at least an amount equal to twice the Programme's investment. In exceptional circumstances, BIS will consider Proposals which make available an amount less than twice the Programme's investment for additional lending to SMEs if Applicants are able to strongly evidence a Proposal's ability to meet all other Investment Criteria and the objectives of the Programme.

3.3 Investment Size and Tenor

Proposals for Programme funds (excluding Private Sector Investor funding) should be for an amount between £10m and £100m. BIS has a preference for Proposals seeking amounts between £30m and £50m.

Applicants considering submitting a Proposal for Programme funds in excess of £100m must be able to demonstrate how the investment will deliver the objectives of the Programme more effectively relative to an investment size limited to £100m.

In exceptional circumstances, BIS will consider Proposals seeking Programme funds of less than £10m. Applicants must strongly evidence a Proposal's ability to meet all other Investment Criteria and the objectives of the Programme (and in particular how it will achieve higher Leverage) more effectively relative to an investment size limited to £10m.

Proposals must also be able to demonstrate that BIS will be repaid its investment, together with any return thereon, within ten years of a first drawdown.

⁸ For the avoidance of doubt, debt finance includes receivables financing, supply chain financing, trade finance and asset finance.

If an Award or Commitment is made, Applicants must put in place a mechanism to ensure that Private Sector Investors are made aware that BIS's involvement with the Applicant, and the Award or Commitment made under the Programme, do not provide a warranty (either express or implied) about the activities of the Applicant.

3.4 Deployment of Funds

Applicants must evidence their ability to on-lend funds to SMEs within 3 years following Completion and Commitment. Proposals will be viewed favourably if they can demonstrate:

- A deployment period of less than 3 years; and
- An ability to start deploying funds and commence on-lending quickly following any potential commitment.

In addition, Proposals should provide details of loan origination strategies including, but not limited to:

- Structure and location of the management, origination and portfolio management team;
- Track-record of ability to originate loans;
- Expected drawdown profile of any Award made under the Programme;
- Pipeline of near-term lending opportunities; and
- Approach to portfolio diversification and risk management.

Proposals must also evidence robust and tested systems and processes are in place for making and managing loans (e.g. documentation, back-office systems, monitoring and governance arrangements, management information reporting).

3.5 Commercial Returns

Applicants must provide evidence that Proposals will generate a commercial return. In addition, BIS will expect to invest on terms and with a return and level of risk that would be attractive to Private Sector Investors in the absence of BIS's involvement. Targeted returns should be consistent with Applicants' investment strategies and product types and purposes, and should be sufficient to stimulate long-term and sustainable participation of Private Sector Investors in these markets.

Investments that lower the cost of borrowing for SMEs, compared to alternative financing products, and / or demonstrate lower risk of loss will be viewed positively.

3.6 Match Funding

BIS will be interested in investing no more than 50% of Applicants' total investment requirements (excluding any funds committed by other public sector bodies). Proposals that raise an amount greater than the request for Programme funds from Private Sector Investors will be viewed positively.

Information should also be provided on Applicants' fundraising experience and strategy, including:

- Mechanisms in place to raise funds from Private Sector Investors;
- Details of Private Sector Investor funds secured in previous fundraisings, including how this, and the fundraising timetable, compared to original targets; and
- Information on, and letters of commitment from, identified co-investors.

Expressions of Interest and Formal Proposals able to evidence that Private Sector Investors have already expressed a willingness to invest will be viewed positively.

Applicants will be expected to be in receipt of a commitment from Private Sector Investors of an amount equal to the Programme's investment prior to any Award being made under the Programme.

There is no restriction on the source of Private Sector Investor funds however non-bank sources of match funding will be viewed positively.

Applicants will be expected to carry out all necessary "know your client", money laundering and other checks on Private Sector Investors.

3.7 Pari Passu Investment Terms

Applicants must be able to provide evidence that Programme funds will be invested on pari passu terms with Private Sector Investors. This means that the terms and conditions, and the net return achieved from, and risks taken in relation to those investments, must be no worse than those enjoyed by Private Sector Investors co-investing alongside BIS.

Costs and fees related to the Proposal must also be competitive and no worse than those incurred by other Private Sector Investors co-investing alongside BIS. Applicants should also be able to demonstrate that any such charges provide Value-for-Money and that they are in line with market rates.

Information should also be provided on:

- Costs and fees charged by the Applicant on recent investments of a similar nature and evidence that the proposed fees are commensurate with market rates; and
- How the fee structures clearly and appropriately align the interests of the Applicant with investors (BIS and Private Sector Investors).

Additional benefits (e.g. tax reliefs, returns on other investments with the Applicant or uplift in value of any investment in the Applicant) received by Private Sector Investors will also be considered in the assessment of Proposals. If an Applicant is unable to demonstrate

that Private Sector Investors would invest in the Proposal without these additional benefits this may lead to a Proposal failing to meet BIS's pari passu requirements.

3.8 Management Team and Track Record

Applicants must be able to demonstrate that they have a competent team, with sufficient expertise to execute the Proposal's investment strategy. Applicants should provide:

- Information on the Applicant's management team and key personnel;
- Recent and relevant experience of, and successful track record in, the proposed activities of the investment; and
- Evidence of the management and investment teams having worked together effectively, and their ability to execute the mandate for the full life of the investment.

In the opinion of BIS, Applicants must have suitable standards of reputation and integrity, including appropriate ethical standards in all areas of its proposed operations.

Where the Proposal relates to a start-up operation, BIS will expect the Applicant to clearly demonstrate access to sufficient resources, skills and competencies required to execute the Proposal's investment strategy.

If an Applicant identifies any shortfalls in the levels of resources, skills and competencies required to deliver the Proposal's investment strategy, they will be required to demonstrate how they would expect to address these.

3.9 Legal Structure, Regulation and Tax Domicile

Applicants must be able to demonstrate transparent and appropriate investment, regulatory and tax structures. Proposals should also reflect appropriate ethical standards in relation to the proposed lending activity, operations, selection of Private Sector Investors and general business activities.

Applicants must also confirm that, where applicable, they have necessary authorisations and permissions to conduct investment activities in line with their investment strategy.

4. Terms and Conditions

BIS reserves the right at any time not to make an investment and / or cancel or withdraw from the process at any stage. Any costs or expenses incurred by an Applicant will not be reimbursed and BIS will not be liable in any way to an Applicant for costs, expenses or losses incurred as a result of this process.

BIS reserves the right to amend the timetable and / or the process until such time as binding arrangements are concluded with Applicants.

BIS reserves the right to reject any and all Proposals with or without cause.

BIS reserves the right to request clarification of information submitted and to request additional information regarding any or all Proposals, including the right to request face to face meetings. Refusal to provide such information upon request may cause the Proposal to be rejected. Where no reply to a request for information or for clarification is received within ten business days, BIS may consider that the Proposal has been withdrawn.

Any Award made by BIS as a result of this process will be subject to the prompt and satisfactory agreement of legal terms. Applicants will also be expected to provide a timetable for meeting any other obligations, such as the raising of further investment, and the Award and continuation through to Completion, Commitment and Drawdown will be conditional on meeting that timetable.

All information provided by Applicants will be treated as commercially confidential. Save to the extent set out in the paragraph below regarding the Freedom of Information Act 2000 ("FOIA") or where required by law or where the consent of the Applicant has been obtained, such information will not be disclosed to third parties other than those involved in assessing the bids or advising BIS. BIS will retain Proposals after an Award has been made, for example to support any evaluation of the Programme.

The FOIA applies to BIS. Applicants should be aware of BIS's obligations and responsibilities under FOIA which may, unless an exemption applies, require BIS to disclose, on written request, recorded information held by them.

This RFP is not a legally binding document and should be treated as indicative only.

Annex I: Information Requirement Checklist

As set out in Section 2, Applicants are required to ensure that they provide BIS with the information detailed in this Annex in their Formal Proposal. BIS reserves the right to request further information, in addition to what is requested in this Annex.

Where information requested is unavailable, or cannot be disclosed, Applicants should make this clear.

A.1 The Applicant

- | | |
|---|--------------------------|
| Name of legal entity, and type of organisation (e.g. partnership, limited company). | <input type="checkbox"/> |
| Administrative details (e.g. registration number, registered address, location, date of formation). | <input type="checkbox"/> |
| Legal organisational chart, including domicile of Applicant and any subsidiary or parent entities. | <input type="checkbox"/> |
| Details of ownership (e.g. names and contact details of significant owners, and a schedule of any changes in ownership or ownership structure over the past 10 years). | <input type="checkbox"/> |
| Latest available financial accounts. | <input type="checkbox"/> |
| Details of insurance policies in place or required, including professional indemnity cover, and whether any claims have been made on such policies within the last 5 years. | <input type="checkbox"/> |
| Details of any material litigation, disputes, regulatory actions or investigations (both pending and within last 5 years). | <input type="checkbox"/> |
| Details of professional advisers. | <input type="checkbox"/> |
| Details of relevant regulatory authorisations and permissions, and confirmation that the Applicant is able to carry out the activities detailed in the Proposal. | <input type="checkbox"/> |
| Details of remuneration, governance and risk management policies and arrangements of the business and the entities to be involved in executing the Proposal. | <input type="checkbox"/> |
| Details of how the Applicant envisages engaging with BIS during the application process and the life of BIS's investment. | <input type="checkbox"/> |

A.2 The Applicant's Track Record

- | | |
|--|--------------------------|
| Details of the Applicant's current and previous activities, including the investment policy / mandate, assets under management, number of loans or investments, and performance. | <input type="checkbox"/> |
| Full analysis (e.g. loan size, defaults, returns, portfolio value, borrower costs) of all loans or investments made by the management team, and where relevant for individuals, including the basis for any valuation(s). Analysis should cover 3 years historic and current year to date. | <input type="checkbox"/> |

A.3. The Investment Vehicle

Details of legal structure, location and tax domicile, payment flows, custody and administration processes (including reporting). Applies to the Applicant and all management / related entities. ☐

Details of arrangements for distributing funds during the term of, and at the maturity of, the investment, and details of provisions for termination / dissolution of the fund or lending vehicle. ☐

Details of the expected UK tax treatment of cash flows, including withholding tax on loan interest and taxation of profits, gains, distributions and fees. ☐

Details of: enforcement policies, including transferability of interests; provisions / restrictions on transfers / trading of loans; provisions / restrictions on borrowing; and use of derivatives. ☐

A Placement Memorandum, Information Memorandum or summary Term Sheet for investors in respect of the fund or lending activity and related agreements. ☐

A.4. Target Market

Details of the Proposal's target market, including expected size of borrower (by consolidated annual global turnover), number and size of loans, location of borrower and industry of borrower. ☐

Details of the expected number of borrowers by consolidated annual global turnover (e.g. <£25m, £25m to £75m; £75m to £100m; and >£100m). ☐

A.5. Investment Strategy

Confirmation that the strategy for the Proposal is based on the provision of debt finance to businesses. ☐

Details of the Applicant's product, including the level of the capital structure at which the Applicant will lend and the anticipated use of funds by borrowers. ☐

Evidence, where applicable, that the Applicant will be providing a new or additional supply of finance to SMEs and that this supply will not displace or substitute existing sources of finance. ☐

Evidence, where applicable, that the Proposal will be complementary to other Government investment programmes and does not duplicate or compete with them. ☐

Description of how an Award by BIS will impact the Applicant's investment strategy compared to the Applicant's investment strategy in the event no Award is made. ☐

Details of any work undertaken by the Applicant to verify that there will be sufficient demand for the Applicant's product. ☐

Details of the Applicant's objectives, together with an explanation of how these will be met, and how they are aligned with BIS's own objectives. ☐

Details of the risks associated with the Proposal that have been identified by the Applicant, ignoring general market risks, and a description of how the Applicant proposes to manage these. ☐

Details of the elements of the strategy that will be written into legal agreements. In assessing Proposals BIS will only pay regard to those elements that can be written into legal agreements. ☐

A.6. Investment Size and Tenor

Details of the amount of capital to be invested by Private Sector Investors under the Proposal. ☐

Details of the length of the envisaged investment period under the Proposal. ☐

Confirmation that the Applicant will put in place a mechanism to ensure that any investment from BIS does not provide a warranty (either express or implied) about the activities of the Applicant. ☐

A.7. Deployment of Funds

Confirmation that the Applicant will on-lend all committed funds within 3 years of Completion and Commitment, noting how quickly lending activity will commence. ☐

Date of expected first drawdown, and date at which the Applicant expects to be fully invested by. A schedule detailing the drawdown profile of the life of the Proposal should also be provided. ☐

- To incorporate: (i) financial projections; (ii) gross and net returns to investors; (iii) key assumptions; and (iv) sensitivity analysis on key terms and assumptions. ☐

Details of the origination strategy, including: (i) structure / location of the management, origination and portfolio teams; (ii) marketing activities; (iii) target borrowers; (iv) a lending prospectus. ☐

Details of the Applicant's lending pipeline, including information on prospective borrowers. ☐

Details of the Applicant's track-record of originating new loans (see Annex II) ☐

Details of arrangements in place for identifying and managing conflicts of interest, and in relation to the allocation of lending opportunities. ☐

Evidence that the Applicant has the requisite systems and processes in place for making and managing loans. ☐

- Description of assessment process, including: due diligence process; credit and risk / return analysis; advisers; and credit / investment committee (including its membership). ☐
- Description of monitoring regime, including in relation to interest payments, repayments of loan principal and borrowers' performance. ☐
- Description of valuation methodologies, write-down policies, default / delinquency procedures and recovery processes. ☐
- Details of drawdown arrangements with respect to BIS and Private Sector Investors' commitments to meet the Applicant's on-lending activities. ☐

Details of the Applicant's lending guidelines and restrictions, including maximum / minimum loan sizes, exposure to individual SMEs and exposure to individual industries. ☐

A.8. Commercial Returns

Details of contemplated principal lending terms, including: maturity; costs, fees and interest rate (itemised and expressed as an APR or yield); and security and covenants.

☐

A copy of standard facility documentation.

☐

Details of drawdown arrangements (including notice periods that will apply to borrowers), measures to be put in place to ensure that commitments are met and default provisions.

☐

Details of forecast default rates on each target borrower segment, and the assumptions underpinning such forecasts.

☐

Details of expected gross and net returns to all investors (see Annex III). Where this information is not applicable, Applicants should make this clear and explain why it is not applicable.

☐

Details of management fees and other remuneration to be paid by investors (either directly or indirectly), including scale, basis, structure and timing of these.

☐

- Details of any carried interest, including the basis of the calculation, hurdle return for investors, a detailed vesting schedule and any clawback arrangements.
- Details of whether management fees and other remuneration will accrue to the fund, investors or the Applicant.
- Details of any other fees paid to be paid in relation to the Proposal (e.g. adviser fees, provisions for third party costs related to lending activity origination).

☐
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Details of fees and costs charged by the Applicant (or Manager if different) in relation to recent investments of a similar nature, and evidence that the proposed fees are commensurate with market rates.

☐

Details of how the Proposal will support the development of a sustainable and long-term investor base in this market, including returns considered to be required to do this.

☐

A.9. Match Funding

Estimated leverage effect of BIS's investment (stated in terms of multiples of BIS's investment), including at first drawdown and over the life of the Proposal.

☐

Confirmation that matched funding will be available to be drawn down in order that on-lending by the Applicant can commence.

☐

Details on the Applicant's proposed fundraising strategy (e.g. target investor details, source of funds, detailed timetable), and information on any commitments of the Applicant's own-funds.

☐

Details of the Applicant's historical fundraising record, including a comparison of actual funds raised and actual timetables with planned fundraising and planned timetables.

☐

Details of Private Sector Investors, with contact names and telephone numbers and, where available, indications of their commitment (e.g. letters of commitment or other letters of support).

☐

- Where more than one closing is anticipated, a description of mechanisms in place to give comfort that the targeted level of funding will be raised should be provided.

☐

Confirmation that necessary “know your client”, money laundering and other checks will be undertaken by the Applicant on Private Sector Investors.

☐

Written / signed consent for BIS to contact both existing and prospective investors.

☐

A.10. Pari Passu Investment Terms

Confirmation that BIS will be investing on terms no worse than Private Sector Investors, including terms and conditions, risks, returns achieved and fees and costs incurred.

☐

- Where Private Sector Investors receive additional benefits (e.g. tax reliefs, returns on other investments with the Applicant or uplift in value of any investment in the Applicant), further information of these must be provided.

☐

Confirmation that BIS’s investment will not account for more than 50% of the applicable lending activity of the Applicant, including in relation to any individual loan.

☐

A.11. Management Team and Track Record

Information on the Applicant’s senior management team and key personnel, including individuals whose experience should be taken into account by BIS (e.g. reporting, accounting and compliance).

☐

- Basic information (e.g. name, address, contact details, relevant personal authorisation(s) held, time with Applicant, time working with other management and key personnel).
- Full curriculum vitae, to include details of lending or investment experience (and any other areas individuals may be engaged in during the lifetime of the Proposal).
- Details of proposed roles, responsibilities and terms of employment, including how much time will be devoted to the Proposal.
- Details of existing commitments, including other assets under management. Where such commitments will be transferred to others, arrangements for this transition should be described.
- Details of any directorships held currently or within the past 7 years.
- Details of whether they are an undischarged bankrupt, have ever been declared bankrupt or are currently the subject of bankruptcy proceedings⁽⁹⁾.
- Details of any unspent criminal convictions (other than for minor traffic offences) or whether they are or have ever been subject to litigation proceedings (e.g. securities, taxation)⁽⁸⁾.
- Details of any cases of non-compliance identified by regulatory authorities or their agents during the course of an audit or other review of compliance procedures⁽⁸⁾.
- Name and full contact details of at least 2 referees.

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⁹ If the answer to any of these is “yes”, this will not necessarily lead to individuals being excluded from acting in relation to the Proposal. However, full details should be provided. Proposals will be dismissed if BIS’s due diligence reveals that information has been withheld.

Written / signed consent for background checks, including checks of bankruptcy, financial or criminal records, to be undertaken. ☐

Organisational chart, including names and responsibilities of management and key personnel, and other relevant executives, and details of any investment positions which remain to be filled. ☐

Details of arrangements to ensure key personnel are retained for the life of the Proposal, including remuneration and incentivisation, employment contracts and any severance agreements. ☐

Details of any proposed Advisory Board, including summary details of Advisory Board members. ☐

Identification of key personnel, and any other personnel, who will be written into the legal agreements as providing time to the lending activity. ☐

A.12. Legal Structure, Regulation and Tax Domicile

Demonstration of transparent investment, regulatory and tax structures, and high ethical standards in lending, in the selection of Private Sector Investors and in general business activities. ☐

Annex II: SME Loan Book

	<u>2011A</u>	<u>2012A</u>	<u>2013A</u>	<u>2014F</u>	<u>2015F</u>	<u>2016F</u>
Opening SME Loan Book (£m) [A]	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
New SME Lending Originated in the Period (£m) [B]	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
New SME Lending Originated in the Period (# loans)	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
SME Loan Repayments (£m) [C]	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Bad Debts, Provisions and Other Adjustments (£m) [D]	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Closing SME Loan Book (£m) [E] = [A] + [B] + [C] + [D]	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Bad Debts / Provisions at Year End (£m)	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Value of Other New Lending Originated (£m)	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Annex III: Investor Returns

BIS Investment Amount	<u>£</u> <u>m</u>
Default Amount	<u>£</u> <u>m</u>
Default Rate	<u>%</u>
Expected Gross Return <i>(after defaults, but before fees and charges)</i>	<u>£</u> <u>m</u>
Expected Gross IRR <i>(after defaults, but before fees and charges)</i>	<u>%</u>
Expected Return <i>(after defaults, fees and charges)</i> [A]	<u>£</u> <u>m</u>
Expected IRR <i>(after defaults, fees and charges)</i> [B]	<u>%</u>
Base Management Fee [C]	<u>£</u> <u>m</u>
Catch Up and Carried Interest <i>(when all funds are invested)</i> [D]	<u>£</u> <u>m</u>
Expected Net Return [E] = [A] – [C] – [D]	<u>£</u> <u>m</u>
Expected Net IRR [F] = [B] Adjusted for [C] and [D]	<u>%</u>
Expected volatility of the investment (standard deviation of expected returns)	<u></u>

Note: If any items are not applicable to a Proposal, the Applicant is requested to state so.

Annex IV: Basic Information

Name of Applicant

Background

Investment Size

- *of which BIS*
- *of which Private Sector Investors (excl. Applicant's Own Funds)*
- *of which Applicant's Own Funds*

Date of First Drawdown

Drawdown Profile

Deployment Period (on-lending to SMEs)

Investment Tenor (term of investment)

Current Fundraising Status

Source of Private Sector Investment

Target Borrowers

SME Borrowing Purpose (e.g. working capital, long term finance etc)

Target Cost of Borrowing for SMEs

Note: If any items are not applicable to a Proposal, the Applicant is requested to state so.

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