

Request for Proposals: Managed Funds Programme

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1.0 Introduction

1.1 Background to the Managed Funds Programme

In 2017 HM Treasury led an extensive consultation on Patient Capital. The term Patient Capital is used to describe long-term equity investment for fast-growing, innovative companies and is required by these businesses to enable them to scale-up and prosper. An Industry Panel, chaired by Sir Damon Buffini, provided input for this consultation which was published in the Patient Capital Review.¹

The evidence presented in the Patient Capital Review showed that a major barrier holding back the continued development of young innovative firms continues to be access to longer-term investment. The lack of such investment slows these firms' growth, dampens their ambition and means that some firms are sold to trade buyers rather than growing to maturity in the UK. Overall levels of productivity are reduced as a result as some firms do not fulfil their economic potential.

According to this evidence, the UK receives approximately half as much investment into venture capital as the US, relative to the size of their respective economies. This difference is mostly driven by the quantum of capital invested per firm rather than the total number of firms that receive investment. Venture-backed firms in the UK are less likely to receive follow-on investment than in the US and those that do, receive less. This reduces the long-term growth potential of UK firms and subsequently hinders productivity gains.

In the Autumn Budget 2017 the Chancellor announced an action plan to unlock over £20 billion of Patient Capital over the next 10 years. The £500 million Managed Funds Programme (the "**Programme**") is one of the elements of the Government's action plan.

¹ More information about the review can be found here

<https://www.gov.uk/government/publications/patient-capital-review>

1.0 Introduction

1.2 Objectives

Under the Programme, British Business Investments Ltd (“**BBI**”), a wholly owned commercial subsidiary of the British Business Bank plc, will cornerstone a small number of large scale, private sector managed funds of funds, which will in turn catalyse longer-term venture capital investment into high potential businesses. References to “our”, “us” or “we” throughout this document are to BBI.

The Programme’s overarching investment mandate is to increase access to longer-term, later-stage venture capital finance for innovative, high-growth companies so that they can achieve their full growth potential.

The three objectives of the Programme are:

- **To attract private capital and expand investor diversity for venture and growth capital in the UK.** We are looking to attract a significant amount of private capital by cornerstoning each fund of funds in which we make an investment. The ultimate goal of the Programme is to demonstrate that longer-term, later-stage venture and growth capital investments can attract sufficient private capital without the need in future for Government-funded interventions.
- **To increase the amount of later-stage venture and growth capital available to innovative, high-potential UK companies.** This will allow more companies to scale up and compete domestically and internationally. The Programme expects to target investment in companies requiring significant capital to fuel their growth ambitions.
- **To generate a market rate of return across its entire portfolio of fund of funds investments.** We are looking to build a diversified portfolio of fund of funds investments, targeting a market rate of return, derived from a diversified pool of venture and growth capital funds and underlying investee companies.

1.0 Introduction

Fulfilling these objectives will help consolidate the UK's position as a global hub for venture capital and a world-class location for entrepreneurs and innovative companies. The UK is already recognised as a global financial centre attracting best in class venture capital fund managers and as a location for innovative and high-tech start-ups. By providing additional longer-term capital, the Programme aims to build on this success to attract and retain fund management and entrepreneurial top talent that may foster high potential companies with growth prospects.

2.0 Application Process

2.1 Overview of the Process

We welcome proposals from any applicant that is able to promote the objectives and satisfy criteria for the Programme. Applications will be assessed in accordance with the process outlined below.

2.1.1 Formal Proposal

A written submission setting out the proposed investment strategy, structure and timeline. Formal Proposals should address in detail how the proposal will promote each of the three objectives set out in Section 1.2 above and how the proposal satisfies each of the ten criteria set out in Section 3. It is expected that Formal Proposals will be between 5 and 10 pages long, but annexes may be used.

We will assess Formal Proposals based on their content and reserve the right to ask for further information before finalising our assessment. If applicants are successful at this stage, they will be invited to the next stage, Management Presentation.

Formal Proposals should be submitted in writing to **managedfunds@british-business-bank.co.uk**

2.1.2 Management Presentation

Applicants whose Formal Proposals are assessed as having reasonable potential to promote the objectives and satisfy the criteria of the Programme may be invited to meet with our assessment team to discuss the proposal and the applicant's business and operations.

Following the Management Presentation, we will decide whether to proceed to due diligence.

2.0 Application Process

2.1.3 Due Diligence

The focus of due diligence will be the applicant's business and operations, its proposed investment strategy, the fund terms and structure. A detailed due diligence questionnaire will be given to all applicants taken through to this stage. This will cover commercial, financial and legal due diligence and will include site visits. At this stage we will also undertake background checks and referencing checks and appropriate consents will be requested as needed.

The purpose of due diligence is, among other things, to verify whether a proposal can reasonably be expected to promote the objectives and is reasonably expected to satisfy the criteria of the Programme.

If we consider that due diligence has been completed to our satisfaction, applicants will be taken to the next stage.

2.1.4 Investment Committee

If, after assessment, we believe that an application is likely to promote the objectives and satisfies the criteria of the Programme, it will submit a Recommendation to BBI's Investment Committee. The Investment Committee has absolute discretion whether or not to approve making a commitment to the proposed fund of funds.

If the Investment Committee does approve the making of a commitment, the successful applicant will be issued with a non-binding offer letter and heads of terms. The offer letter will set out any pre-conditions to our commitment, including confirmatory due diligence, satisfactory completion of fundraising by a longstop date, entry into definitive legal documentation and any further conditions which we, in our discretion, deem necessary.

2.0 Application Process

Important note: We reserve the right to reject, or decline to progress to the next stage, any application at any stage in the application process. Any application which does not, or which in our opinion based on the information provided is not likely to, promote the objectives or satisfy the criteria of the Programme may be declined at any stage.

Guidance Note: Pre-Submission Engagement

Applicants are invited to make contact with us at the earliest opportunity prior to submitting a Formal Proposal. In the first instance, please send an email to **ManagedFunds@british-business-bank.co.uk**. We will use reasonable endeavours to answer questions in relation to the Programme, its objectives and criteria. We will publish frequently asked questions and answers.

2.0 Application Process

2.2 Timetable and Availability of BBI Funding

Under the Programme, BBI has an initial funding allocation to commit up to £500 million for investment in successful proposals. The Programme will remain open for applications until all the available funds have been committed. Subject to the success of this initial phase, future funding allocations may become available to BBI.

We intend to make between three and four commitments in the initial phase of the Programme. However, we reserve the right to make fewer or more commitments. It is expected that the first commitment will be made within the first 12 months of this Programme.

We will consider proposals on a first come, first served basis. As it completes each new commitment, we will publicise the amount of remaining funding available. Interested applicants are recommended to monitor announcements on the BBB website so that they are aware of the amount of BBI funding available for commitments at any point in time.

This application process is designed to enable us to select proposals that are considered to offer the best overall value-for-money in promoting the objectives and satisfying the criteria of the Programme.

We will make reasonable endeavours to respond promptly to applications at each stage of the application process.

3.0 Programme Criteria

The Programme will support the development of later-stage venture capital for innovative and high growth companies across the UK through investing in a number of funds of funds. In addition to demonstrating how proposals will help BBI promote the three objectives for the Programme, all applications must demonstrate how they will satisfy the following ten criteria against which all proposals will be assessed. Formal Proposals must address each of these criteria. If any information is unavailable, or cannot be disclosed, applicants should make this clear in their Formal Proposal.

3.1 Investment Strategy

Formal Proposals should describe the target underlying funds along with any strategy to ensure that the Programme achieves its objective to provide longer-term venture capital investment for innovative and growth companies, particularly at later stages as they scale up. Whilst we will consider multi-jurisdictional investment strategies, preference will be given to proposals that will have maximum impact on the UK, relative to the size of BBI's commitment.

Additionally, whilst we are sector agnostic, applicants are reminded that one of the objectives of the Programme is to build a diversified portfolio.

3.0 Programme Criteria

In particular, we are looking for Formal Proposals which:

- are able to demonstrate an ability to deliver our desired levels of investment into businesses across the UK;
- demonstrate the experience and capacity of the manager to make and monitor investments across the whole of the UK and which have a demonstrable track record of having done so in the past;
- have an investment period of around 3 to 5 years and an overall fund life of around 10 to 12 years (with an ability for investors to approve extensions to each of these periods);
- explain how the applicant will ensure that the investment strategy of the fund of funds will be adhered to within the underlying funds;
- are focussed on primary investment in underlying funds, however we will consider investment strategies that include elements of secondary investment and/or co-investment; and
- access those quality management teams which are expected to raise new funds during the investment period of the fund of funds.

Please note that because the Patient Capital investment mandate is a growth-oriented mandate, proposals specialised in management buyouts or similar replacement capital strategies will not generally be considered by us. Additionally, we will generally expect the investment strategy of the fund of funds to exclude investment into funds which benefit from any form of public subsidy.

3.0 Programme Criteria

3.2 Management Team

Applicants must demonstrate they have an experienced, competent and stable management team. We are looking for teams that are able to demonstrate having worked together effectively and the capacity to execute the investment strategy for the full life of the fund of funds.

Teams comprised of individuals from diverse backgrounds will be viewed favourably. In addition to the track record and background information requested, we will also place high reliance on satisfactory face-to-face and other dealings with management teams throughout the application process.

3.3 Track Record

We will assess the overall returns generated for investors in any funds currently or previously managed by the applicant. The applicant's return expectations for the fund must be credible given this track record.

Applicants must complete and return the "Track Record Pro-forma" published in conjunction with this Request for Proposals as part of any Formal Proposal. A copy of the Track Record Pro-forma is available for download on the BBB website or alternatively is available upon request to [**ManagedFunds@british-business-bank.co.uk**](mailto:ManagedFunds@british-business-bank.co.uk).

3.0 Programme Criteria

3.4 Fundraising Capabilities

BBI is looking for significant private sector investment alongside its own commitments. Formal Proposals demonstrating a higher level of private sector participation will generally be preferred.

Formal Proposals should indicate the expected timing of first close, together with the target size and minimum viable size of the fund of funds at first close. Applicants should note that failure to raise the expected amount of funding by the expected first close date could result in BBI withdrawing any non-binding offer of funding. Therefore, applicants will need to be confident they can deliver their proposed fundraise.

Formal Proposals should also give an indication of the target size of the fund of funds at subsequent closing(s) and a maximum size at final closing. Final closing is expected to take place no more than 12 months after first close.

In assessing whether applicants can deliver the level and diversity of private sector funding the Programme is looking to unlock, we will consider:

- the mechanisms in place to raise funding from private sector investors with an appetite for the Patient Capital investment mandate;
- the sources and amount of funding secured for previous funds and how this compared with original targets;
- the timetable for previous fundraisings; and
- the availability of funding from the applicant's existing institutional and HNW investor base.

3.0 Programme Criteria

We will favour applications that provide comfort that the funding targets will be met.

Applications that contain indicative letters of commitment or other letters of support will be an advantage. We expect to be able to contact prospective investors, either at Formal Proposal stage or later, and the names and contact details of potential investors should be provided upon request.

3.5 Returns Profile

Applicants must provide evidence that they will generate a market rate of return. Formal Proposals must include an indication of the expected returns and how these will be achieved.

3.6 Manager Remuneration and Costs

Details of proposed fees and costs should be included in Formal Proposals. Whilst lower fees and costs will be preferred, we recognise that applications with the lowest level of fees or costs will not always represent the best value-for-money.

We recognise that carried interest and other similar performance related compensation will align the interests of the management team with investors. Formal Proposals should include details of any proposed carried interest or similar incentive schemes. Note that we will not accept “deal by deal” or “fund by fund” carried interest, and a hurdle rate will be required.

Please note that our overall assessment of Criteria 3.5 (Returns Profile) and 3.6 (Manager remuneration and costs) will balance expected returns with fees, costs and incentives and no one parameter will necessarily determine the suitability of a proposal. We uses external benchmarks as part of our assessment of gross and net returns.

3.0 Programme Criteria

3.7 Match Funding

BBI must invest on at least as favourable terms as private sector investors, including in respect of returns, fees, costs and incentives.

Whilst other public sector investors investing on a commercial basis are not excluded from participating in any fund of funds, any commitment from public sector investors will usually be excluded from our assessment of the Match Funding criterion and will not generally provide a benchmark for establishing commercial terms for BBI.

Proposals that source investment that benefits from any form of public sector subsidy (including, for example, grant funded, tax-advantaged schemes and State aided schemes) will not generally be permitted.

3.8 Monitoring and Governance

BBI will make a substantial commitment to each fund of funds and will therefore need to ensure its investment will, and will continue to be, properly monitored and managed.

In addition to providing details on formal reporting, applicants will be expected to set out how they will additionally engage with us to provide information, intelligence and assurance on the allocation, monitoring and on-going management and performance of the portfolio of funds. This might include, for example, arranging for us to observe due diligence or allocation meetings, and investor meetings of portfolio funds. In any event we will expect regular, i.e. at a minimum bi-annual, relationship meetings with key persons and senior team members involved in managing its investment in the fund of funds.

3.0 Programme Criteria

In recognition of its significant investment BBI will expect to be represented on the Limited Partnership Advisory Committee (or similar investor forum).

Additional or alternative proposals from applicants would be welcomed provided they are compatible with maintaining BBI's limited liability as an investor.

3.9 Fund Structure and Regulatory

BBI expects to invest through an English law closed-ended limited partnership structure or a similar structure in other jurisdictions. For these purposes, all EEA jurisdictions will generally be considered acceptable.

Other jurisdictions will be considered on a case-by-case basis. The same principles apply to the underlying funds.

In view of BBI's status as a Government owned entity, proposed fund structures and investment strategies (including at the level of the underlying funds) must be consistent with the requirements of British Business Bank plc's group-wide tax policy, a copy of which is available on the British Business Bank website:

<https://british-business-bank.co.uk/transparency/>

3.0 Programme Criteria

Applicants will need to demonstrate, to our satisfaction, that they:

- have all appropriate permissions, registrations and authorisations to raise and operate the fund;
- will have the capacity to carry out client due diligence and anti- money laundering checks on other investors to applicable legal and regulatory standards;
- have systems, controls and procedures in place for identifying, making and managing fund investments and controlling associated risks which are robust and appropriately documented; and
- have industry-standard back and middle office systems capable of generating reports and other information regarding investments that we are likely to require from time to time.

Proposals should also reflect appropriate ethical standards in relation to the proposed investment activity, operations, fundraising and general business activities so as not to cause embarrassment to BBI in view of its status as a Government owned entity.

3.10 Fund of Funds Terms and Conditions

Consistent with the Returns Profile and Match Funding criteria, BBI expects to invest on market standard terms and conditions. BBI will seek to negotiate the best available terms commensurate with the size of its commitment and its significance as a cornerstone or key institutional investor.

4.0 Programme Terms and Conditions

We reserve 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 we will not be liable in any way to an applicant for costs, expenses or losses incurred as a result of this process.

We reserve the right to amend the timetable and / or the process until such time as binding arrangements are concluded with applicants.

We reserve the right to reject any and all applications at any stage, with or without cause.

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

No representation, express or implied, is made by BBI as to the completeness or accuracy of any facts or opinions contained in this Request for Proposals. Recipients of this document should seek their own independent legal, financial, tax, accounting or regulatory advice before making any application under the Programme.

Please note that BBI is acting as an investor for the purposes of this Programme and therefore this Request for Proposals does not require approval under financial promotion legislation or corresponding rules.

Applicants should be aware that we are not authorised to carry out regulated activity. We will thus be unable to consider responses where receipt or processing would require any form of regulatory authorisation or permission.

4.0 Programme Terms and Conditions

Any offer to invest in a fund made by BBI 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 private sector investment, and successful completion of an application will be conditional on meeting that timetable.

Respondents should note that information received by us or any other member of the British Business Bank plc group as part of this process, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act and GDPR (Data Laws) and the Environmental Information Regulations 2004. In view of this, should respondents consider that any information should be treated as confidential and/or commercially sensitive, it would be helpful if respondents could set out why they consider this to be the case in each instance. Automatic confidentiality disclaimers generated by IT systems will not, in themselves, be regarded as binding. If BBI or any member of the British Business Bank plc group receives a request for disclosure of information provided, full account will be taken of any explanation, but no assurance can be given that confidentiality will be maintained in all circumstances. Decisions on disclosure remain the responsibility of BBI or the relevant member of the British Business Bank group and ultimately the Information Commissioner and courts. Personal data will be processed in accordance with the Data Laws: in the majority of circumstances this will mean that personal data will not be disclosed.

By submitting a Formal Response, applicants accept the terms and conditions set out in this Section 4. Except for this Section 4, which is intended to be legally binding, this Request for Proposals is not a legally binding document and should be treated as indicative only.



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