



UK GREEN INVESTMENTS

Managed Account/s for Investments in Non Domestic Energy Efficiency Infrastructure in the UK

Call for Expressions of Interest from Fund Managers

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Due Date for Expressions of Interest: 17 April 2012

Due Date for Proposals: 21 May 2012

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Process and Selection Criteria for Investment Fund Managers for Non Domestic Energy Efficiency (NDEE) Infrastructure

1. Introduction

This request for Expressions of Interest (“**EOI**”) has been prepared by the UK Green Investment (“**UKGI**”) team within the Department for Business, Innovation and Skills (“**BIS**”) for the purpose of inviting proposals from your organisation and others to receive funding from UKGI into a range of non-domestic energy efficiency (“**NDEE**”) projects through a managed account (“**Managed Account**”).

2. Background

The UK Government is seeking to promote investment in green infrastructure across the UK. In order to demonstrate the strength of its commitment, the UK Government is prepared to make certain investments, on commercial terms, in the UK’s green infrastructure.

UKGI has been created within BIS to make co-investments on a *pari passu* basis into a range of priority sectors for investment. These sectors are:

- Off shore wind
- Non-domestic energy efficiency
- Commercial and Industrial waste processing and recycling;
- Energy from waste; and
- Investment in domestic energy efficiency via the Green Deal.

This specific competition covers the non-domestic energy efficiency sector only.

3. Objectives of UKGI

The principal objective of UKGI is to “accelerate investment in the UK’s transition to a green economy”.

The key investment criteria of UKGI are:

- **Sound finances** – investment will be based on sound commercial principles including appropriate returns in relation to the risks associated with such investment. UKGI will not invest in the form of “soft loans” or grants
- **Additionality** – its investments must have a capital mobilisation impact which encourages additional sources of private capital to invest in its target markets
- **Green Impact** – its investments should meet a range of environmental requirements; and
- **UK** – it must invest in UK projects although UKGI is keen to encourage international sources of capital to invest alongside it into such projects.

4. Mandate for a Managed Account

UKGI intends to contract with one or more qualified investment fund managers (“**Fund Manager/s**”) to receive committed funding through a managed account from UKGI in order to execute agreed business plans for investment in NDEE.

As part of the business plan (the “**Business Plan**”), the identified Fund Manager/s will be responsible for:

- Identification of a pipeline of eligible projects that meet the (to be) agreed business plan including environmental goals and financial return targets
- Securing additionality of *pari passu* private sector investment, with a minimum ratio of at least 1:1 between UKGI and private sector capital. UKGI view a higher proportion of private sector capital as desirable
- Negotiation, structuring and management of investments in NDEE infrastructure projects, on both a strategic and operational basis
- Ensuring that the Managed Account delivers an appropriate balance of risk and return
- Providing institutional quality monitoring, reporting and risk control; and
- Identifying and managing appropriate exit strategies for the investments in projects.

The identified Fund Manager/s will receive capital from UKGI to deploy on behalf of the UK Government at market terms, *on a pari passu* basis with private capital, into investments in NDEE infrastructure projects across the UK. UKGI have assessed the funding market and believe that the nature of the investment required, based on the anticipated level of returns in the NDEE sector, is likely to be primarily focussed around debt funding, although UKGI will consider equity investment propositions or a mix of debt and equity investment propositions.

The commitment from UKGI for the Fund Manager/s in total and on an individual basis will depend on the number of Fund Managers selected and the quality of their business plan submissions. As a broad estimate UKGI intend to invest between £20m - £50m with each Fund Manager, with the investment injected on a project by project basis. UKGI envisages investing up to £100m through Fund Managers, depending on the quality of proposals made. UKGI may make additional funding available if there is sufficient evidence from the quality of responses from Fund Managers that such funding will accelerate investment into the NDEE market on sound commercial terms.

UKGI will seek to maintain the flexibility and the right to invest incremental amounts of debt, or limited amounts of equity with the identified Fund Manager/s (as and when such funding becomes available), where practical in the same investment structures and on substantially the same or more favourable terms as the initial investment.

UKGI acknowledge that the pipeline development in the NDEE sector is at a more nascent stage than in other UKGI priority sectors and that this may lead to longer lead times for investment. However, UKGI will treat favourably proposals which include “shovel ready” projects.

UKGI has a strong preference for fee structures that remunerate Fund Managers on the basis of invested capital as opposed to committed capital. UKGI will expect Fund Managers’ business plans to be appropriately resourced and funded. If Fund Managers require a fee structure to support their Business Plan which requires additional funding, beyond fees payable on invested capital, this should be clearly stated in their proposals. Fund Managers should be aware that UKGI will view such proposals less favourably than those in which fees are based purely on invested capital.

5. Business Plan, Eligible Projects and Output Targets

The identified Fund Manager/s will be expected to provide a Business Plan including a description of how the Fund Manager/s will operate a pipeline of viable investment opportunities that meet the overall financial and environmental targets of UKGI. The Business Plan should also address the management of risks relating to such investments.

The pipeline within the Business Plan should include:

- Investments comprising NDEE infrastructure projects in the UK where there is currently a gap in available funding
- Limit on scale to be agreed after discussion with Fund Manager/s on project pipeline to be invested by Q1 2015, in addition to a requirement to offer risk diversification; suggested maximum project size of £30 million
- A preference for projects in the development or construction phase, rather than projects in the completed or operating phase
- Projects addressing the NDEE capacity gap across the UK in both the public and private sectors, with a likely focus on:
 - building retro fit, including combined heat and power as one element of a package of energy efficiency measures
 - urban infrastructure, including street lighting and district heating; and/or
 - industrial energy efficiency.
- The process for securing private sector capital *pari passu* with UKGI's investment at the investee level; and
- The process for filtering and responding to the anticipated referrals from UKGI.

UKGI recognises that specific investment opportunities will address specific environmental objectives and may not necessarily contribute to all of the targets below. Potential investments should be evaluated on the basis of their particular merits, with sustainability and financial return per unit of risk being taken into account. Eligible projects' environmental targets will be developed during the competition, but potential examples could include:

- MWh energy and tonnes CO₂e emissions mitigated per £1000 invested, on both an annual basis and over the life of the project; and
- % reduction in energy consumption and CO₂e emissions per unit of output.

Prospective Fund Manager/s should be guided in developing their Investment Strategy by the following principles:

- UKGI is keen to support investment in improving the energy efficiency of UK industry. However, such investment should be made on sound financing principles with returns that reflect the underlying credit risks
- UKGI is keen to promote the development of standardised contractual approaches for the NDEE market which gain support from the full range of industry stakeholders including purchasers of NDEE infrastructure, contractors, equipment suppliers and providers of finance
- UKGI is keen to support the development of funding aggregation models that can improve the financing efficiency of NDEE transactions and attract new pools of capital into the market. An example of this could include the development of securitisation models that can attract institutional debt finance
- UKGI is keen to encourage the development of holistic approaches to NDEE investment that support the deployment of as wide a range of economically viable NDEE investment as possible
- UKGI is willing to consider investing in funds that acquire and refurbish property to significantly improve its energy efficiency performance. However, any UKGI investment in such funds would need to be structured in such a way to ensure that UKGI funding is used to finance retrofit investment and not in the acquisition of the underlying property
- UKGI is interested in supporting the development of energy efficiency investment that can be retrofitted into Private Finance Initiative (PFI) projects, working within the constraints of existing PFI contractual structures
- UKGI is seeking to invest on terms and with a financial return that would also be attractive to private investors. The proposed Business Plan should set out the Fund Manager's range of expected/target returns
- UKGI is keen to mobilise as much additional private sector capital per £ of UKGI investment into energy efficiency investments as possible; and
- There is a requirement that the fund and any required special purpose vehicle (SPV) necessary for individual investments must be a UK domiciled entity and a UK corporation tax payer.

6. Award Criteria

UKGI will award the Managed Account/s to the selected Fund Manager/s based on the following criteria:

i. Proven and Capable Management Team:

- The Fund Manager/s and its principal members and its partners are highly regarded by participants within and from outside their sector / focus
- Strong evidence that Fund Manager/s have the experience, performance and access to relevant projects / deal flow in the NDEE infrastructure sector
- Fund Manager/s must have the appropriate level of analytical reporting and compliance support in-house and the capability to report environmental and financial metrics alongside wider economic metrics. Whilst economic data will not affect the investment decision, it is required as part of the ongoing monitoring of UKGI's investments; and
- Fund Manager/s are authorised by the Financial Services Authority ("FSA"), and will have the necessary authorisations to operate in the UK. Consortium bids to achieve this position are deemed acceptable.

ii. Track Record:

- Evidence of Fund Manager/s' track record in the NDEE infrastructure sector (either UK or overseas) or in similar investment management sectors
- Fund Manager/s should be able to provide:
 - A description of funds managed
 - A history and timeline of such funds
 - The amount of funds raised for investment
 - The investor types from whom funds have been raised
 - Number of investments in the UK and overseas and amount invested in GBP
 - Realised and unrealised values / returns including a description of realised exits
 - Detailed performance data; and
 - Case studies for the above where applicable
- Strong evidence of Fund Manager/s having met underwriting and projected return expectations over an extended period (previous investment memoranda for investment opportunities and performance versus such underwritten targets shall be requested); and
- Fund Manager/s should have experience in operating managed / separate accounts.

iii. Investment Strategy and Business Plan:

- Strong investment pipeline, including “Shovel ready” investment opportunities, focused on UK based NDEE infrastructure projects with a clear indication of NDEE sub-sectors in which investment opportunities are likely to arise, covering the period to Q1 2015
- Development of a portfolio with a balance of geographical, project and counterparty diversification
- Financial projections until 2022 (in an excel-compatible format), including relevant sensitivity analysis
- Fund financial model and underlying assumptions including target returns
- Environmental impact, based on the metrics identified above
- A variety of realistic exit strategies and specific proposals as to the financial structures envisaged to ensure suitable recycling of UKGI; and
- Term of up to 10 years (including the initial three years for investment); any existing fund arrangements with existing investors should be compatible with this term.

iv. Access to capital

- Strong evidence of Fund Manager/s’ availability of finance, or a detailed and robust plan, with evidence of track record, of the Fund Manager/s’ ability to raise funding to support its investment pipeline alongside finance provided by UKGI.

v. Governance and legal structure:

- Dedicated management team, with both NDEE infrastructure sector and investment experience
- Detailed overview of decision making process and responsibilities, including proposals for providing appropriate comfort to or involvement of UKGI in relation to individual investment decisions
- Best practice institutional-quality governance, reporting, performance monitoring, legal and tax structure and management framework
- Remuneration policy of management, directors and senior employees
- Processes to manage any possible conflicts of interest;
- Winding up / termination provisions; and
- The investment by UKGI shall be structured to ensure that there is no consolidation of any asset in which an investment is made or liability of the Secretary of State in relation thereto and otherwise on terms acceptable to UKGI.

vi. Competitive terms:

- Appropriate terms to be agreed within the framework of the following principles:
 - Preference for management fees to be paid only on invested capital
 - Detail of fees payable where these are external to the management fee
 - Fee structure to reflect appropriate alignment of interests between the UKGI and the Fund Manager/s; and
 - Such other standard provisions as are appropriate.

7. Process and Timing

The selection of the Fund Manager/s will be by an open competition and follow a three-stage process expected to last approximately 16 weeks.

Phase I – Call for Eols

Interested potential Fund Manager/s should submit an Eol by no later than 12.00 noon on 17 April 2012 which details the potential Fund Manager/s' ability to meet the Award Criteria described in Section 6 (above) with particular regard to sub-sections I, II, Appendix 1 and a high level outline of key components of the proposed Business Plan, particularly referencing its existing pipeline of investment opportunities and its outline fund raising strategy. The submission procedure is explained in Section 8 below.

UKGI will answer questions from applicants that are received by it prior to 12.00 noon on 4 April 2012 to *UKGI_competition_NDEE@bis.gsi.gov.uk*. Answers that are relevant to all applicants will be made available to all of them.

Please read the instructions on the tendering procedures carefully. Failure to comply with them or to return any of the required documents or information may invalidate your tender which should be returned by the date and time outlined above.

Phase II – Selection of Short List of Potential Fund Managers

Upon receipt and evaluation of all Eols, UKGI will identify, by 27 April 2012, a shortlist of potential Fund Manager/s to provide to UKGI a Proposal including the Business Plan, primarily addressing sub-sections III, IV, and V of Section 4 above. UKGI will notify Fund Managers that have not been shortlisted but will not provide feedback on unsuccessful Eols.

Proposals from short-listed Fund Manager/s are to be received by UKGI by no later than 12.00 noon on 21 May 2012.

UKGI will answer questions from shortlisted potential Fund Manager/s received prior to 12.00 noon on 9 May 2012 to *UKGI_competition_NDEE@bis.gsi.gov.uk*. Answers that are relevant to bidders will be circulated to the shortlisted potential Fund Manager/s.

Phase III – Final Selection, Due Diligence, Negotiation and Conclusion of Agreements

The selection of the Preferred Fund Manager/s will occur by 11 June 2012.

A period of 5 weeks of formal due diligence will follow on Preferred Fund Manager/s. This will include due diligence led by UKGI but also involving external professional advisers to UKGI where appropriate.

Detailed negotiation and refinement of terms, business plan and strategy between UKGI and the identified Fund Manager/s will follow, culminating in the conclusion of binding agreement/s between the parties.

The indicative timetable is described in Table 1.

UKGI reserves the right to amend the timetable and/or process until such time as binding arrangement(s) are concluded with Preferred Fund Manager/s.

Table 1 – Indicative Timetable Activity	Timing
UKGI issues Call for Eols	27 March 2012
Deadline for receipt of questions about Eol	4 April 2012
Deadline for submission of Phase I Eol	17 April 2012
Notification to applicants of outcome of Phase I Eol and commencement of Phase II	27 April 2012
Deadline for receipt of questions about Phase II Proposals Deadline for submission of Phase II Proposals including the Business Plan	9 May 2012 21 May 2012
Notification of Preferred Fund Manager/s	11 June 2012
Phase III Commencement of formal due diligence / start of negotiations of binding agreement/s	11 June 2012
Closing	w/c 16 July 2012

8. Delivery of EoI and Phase II Proposal

Four hard copies of each submission are required by UKGI, along with an electronic version; spreadsheets should be Excel compatible. It is expected that submissions will be between 5 and 10 pages long but appendices may be used if necessary.

All Expression of Interest submissions should be delivered by midday on 17 April 2012 and Phase II Proposals should be delivered by midday on 21 May 2012 to:

- Hard copies:

UKGI
David Harradine
cc. Charles Abel Smith
Department for Business, Innovation & Skills
1 Victoria Street
London SW1H 0ET

- Electronic copies:

UKGI_competition_NDEE@bis.gsi.gov.uk.

9. Terms and Conditions

- i. UKGI reserves the right at any time not to award a mandate and/or to cancel or withdraw from the process at any stage. Any costs or expenses incurred by a bidder will not be reimbursed by UKGI or BIS and neither UKGI, BIS nor any of their representatives or advisers will be liable in any way to a bidder for costs, expenses or losses incurred by the bidder in connection with this process.
- ii. UKGI reserves the right to reject any and all proposals.
- iii. UKGI reserves the right to request clarification of information submitted and to request additional information regarding any or all proposals. 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 5 working days, UKGI will consider that the Proposal has been withdrawn.
- iv. The legal agreement resulting from acceptance of a Proposal shall be in a form supplied or approved by UKGI and shall reflect the specifications in this request for Proposals.
- v. All information provided by Fund Managers to UKGI will be treated as commercially confidential. Save to the extent set out in paragraph 6 and 7 below or where required by law or where the consent of the Fund Manager has been obtained, such information will not be disclosed to third parties other than those involved in assessing or advising on UKGI Managed Account/s or in other aspects of the management or evaluation of UKGI Managed Account/s. UKGI will retain the submissions after a mandate has been awarded, for example to support any evaluation of the UKGI Managed Account/s selection process. This may involve passing certain details to carefully selected external researchers, who would be bound by confidentiality provisions.
- vi. The Freedom of Information Act 2000 ("FOIA") and the Environmental Information Regulations 2004 ("EIR") apply to UKGI. Fund Managers should be aware of UKGI's obligations and responsibilities under FOIA or EIR to disclose, on written request, recorded information held by UKGI. Information provided by Fund Managers in connection with this process, or with any contract that may be awarded as a result of this exercise, may therefore have to be disclosed by UKGI in response to such a request, unless UKGI decides that one of the statutory exemptions under the FOIA or the exceptions in the EIR applies. If Fund Managers wish to designate information supplied as part of this response as confidential, or if Fund Managers believe that its disclosure would be prejudicial to any person's commercial interests, Fund Managers should provide clear and specific detail as to the precise information involved. UKGI will have regard to such representations when responding to an information request but such designation is not a guarantee

against disclosure if in UKGI's reasonable opinion publication is necessary under FOIA or EIR or disclosure is ordered by the Information Commissioner or the First-tier Tribunal (Information Rights), or otherwise required by law or court of competent jurisdiction.

vii. Additionally, the Government's transparency agenda requires that tender documents are published on a designated, publicly searchable web site which is called "Contracts Finder". The same applies to other tender documents issued by BIS (including the original advertisement). By submitting a tender you agree that your participation in this competition may be made public. The answers you give in this response will not be published on the transparency web site (but may fall to be disclosed under FOIA or EIR (see above)). Where tender documents issued by BIS or contracts with its suppliers fall to be disclosed BIS will redact them as it thinks necessary, having regard (inter alia) to the exemptions/exceptions in the FOIA or EIR.

viii. Offering an inducement of any kind in relation to obtaining this or any other contract with UKGI will disqualify a Fund Manager's EoI or Proposal from being considered and may constitute a criminal offence.

ix. Fund Managers must not:

- tell anyone else what the quoted terms are or will be, before the time limit for delivery of final Proposals
- try to obtain any information about anyone else's EoI or Proposal before the time limit for delivery of those documents
- make any arrangements with another organisation about whether or not they should submit an EoI or a Proposal, or about their or the Fund Manager's offer; or
- Failure to comply with any of these conditions may disqualify a Fund Manager's EoI or Proposals.

x. The information contained in this document and in any related written or oral communication is believed to be correct at the time of issue but UKGI will not accept any liability for its accuracy, adequacy or completeness and no warranty is given as such. This exclusion does not extend to any fraudulent misrepresentation made by or on behalf of UKGI.

xi. UKGI reserves the right to change any aspect of, or cease, the selection process at any time.

Appendix 1 – Additional Information Required from Fund Managers

This section sets out specific additional information which will be required by UKGI from Fund Managers as part of Expression of Interest submissions.

Please include the following information:

- Name of the legal entity and type of organisation (e.g. partnership, limited company)
- Administrative details (Company / Partnership registration number, registered address, etc)
- Date of formation
- Ownership details including names and contact details for significant owners and a schedule of any changes in ownership or ownership structure over the past 10 years
- Names and addresses of directors
- Organisation chart detailing responsibilities of executives
- Latest available accounts
- Details of Employers Liability Cover
- Details of Public Liability Insurance Cover
- Details of Professional Indemnity Insurance
- Documentation as to litigation involving any executive officers or Directors (bankruptcy, crimes, securities, taxation)
- Documentation regarding any material litigation or disputes (pending and within last 5 years)
- Details of professional advisers
- All relevant permissions from relevant regulatory bodies
- A high level business plan outlining the strategic aims of the business and other products / funds under consideration.



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