

Midlands Engine Investment Fund



**MIDLANDS
ENGINE**
Investment Fund



Delivered by British Business Bank

Financing growth for Midlands businesses

Procurement for Fund
Management Services

Ref: 2016/S 195-351365

17th/20th October 2016

Derby and Birmingham

Welcome and Introductions

- **Ken Cooper**
Managing Director, Venture Capital Solutions

- **Grant Peggie**
Director, European Funding

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Objectives of the day:

- Midlands Engine Investment Fund Objectives
- Present OJEU ITT Proposal for Procurement of Fund Managers
- Present the Proposed Fee Structure
- Details of Targets/Geographic Coverage
- MEIF Timetable
- Questions and Answers

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Key points:

- A Midlands Engine Investment Fund of over £250m bringing ERDF, EIB, BBB and Legacy funding into a single Fund of Funds structure
- Underlying funds being procured to provide equity, debt, small business loans and proof of concept and early stage funds
- The Bank has worked with LEPs, HMT, DCLG, BEIS and EIB to implement an Investment and Procurement strategy which is consistent with ex-ante market assessments and value for money



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Key Objectives:

- Create sustainable economic activity through supporting new and growing businesses
- Build a substantial legacy from a successful investment and lending programme
- Have a demonstrable presence across the Midlands Engine area linking up the finance community to increase reach and create an impact beyond the MEIF funds
- Along the way we must:
 - Repay providers of debt
 - Meet ESIF KPIs and reporting requirements
 - Comply with State Aid and other regulatory requirements

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Procurement of a Framework of Fund Managers:

- Open procurement process follows the guidelines set out in the Public Contract Regulations 2015 for establishing a framework of fund managers
- Competition to get onto the framework is a one stage process, but does include some minimum criteria that tenderers must meet to be taken forward for a full evaluation
- Full specification details and terms and conditions are included in the Procurement pack which can be found at:
<http://ted.europa.eu/udl?uri=TED:NOTICE:351365-2016:TEXT:EN:HTML>
- All communications, questions and tender submissions must be channelled through the Delta e-sourcing portal

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Procurement of a Framework of Fund Managers:

- Create a Framework panel as follows:
 - Lot 1 - 4 Fund Managers
 - Lot 2 - 5 Fund Managers
 - Lot 3 - 5 Fund Managers
 - Lot 4 - 3 Fund Managers
- At Mini Competition all bidders in the relevant Lot will be invited to bid for each allocation of work
- At Mini Competition stage we will confirm actual allocations per lot, output targets and geography

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Indicative initial aggregate allocations across each lot:

Lot 1 Equity - We assume that *in aggregate* there will be an initial allocation of c. £80m to this lot, and across this lot at least 20% by value of investments will be in amounts of under £250,000 and at least 70% will be in amounts of under £750,000

Lot 2 Debt - We assume that *in aggregate* there will be an initial allocation of c. £120m to this lot and across this lot at least 25% by value of investments will be in loans of principal amounts of under £200,000 and at least 70% of investments will be in loans of principal amounts of under £500,000

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Indicative initial aggregate allocations across each lot:

Lot 3 Small Business Loans - We assume that *in aggregate* there will be an initial allocation of c. £30m to this lot, and across this lot at least 25% by value of investments will be in loans of principal amounts of under £50,000 and at least 70% by value of investments will be in loans of principal amounts of under £75,000

Lot 4 Proof of concept and early stage funds - We assume that *in aggregate* there will be an initial allocation of c. £20m to this lot and across this lot at least 50% by value of investments will be in amounts of under £250,000

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Proposed Fee Structure: When submitting fee bids, tenderers may assume a Fund size of:

- £30million to £50million for Lot 1 (Equity) and Lot 2 (Debt);
 - £10million to £30million for Lot 3 (Small Business Loans)
 - £10million to £20million for Lot 4 (Proof of Concept and Early Stage funds)
- Tenderers are required to provide the following information for each Lot that they are tendering
 - A - General Partner's Share (GPS) % applied to Undrawn Commitments during the Investment Period for Lot 2 – Debt and Lot 3 – Small Business Loans and for the first 24 months of the Investment Period for Lot 1 - Equity and Lot 4 – Proof of Concept and Early Stage
 - B - GPS % applied to Undrawn Commitments during the period after the first 24 months of the Investment Period for Lot 1 – Equity and Lot 4 – Proof of Concept and Early Stage. Note that Rate B is required for Lot 1 – Equity and Lot 4 – Proof of Concept and Early Stage only

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Proposed Fee Structure Continued:

C – GPS percentage applied to Drawdown Commitments during the Investment Period

D = The percentage step down that will be deducted from each of rates A, B and C to form new rates that will be the relevant GPS % applied to Undrawn Commitments or Drawdown Commitments for the relevant periods for the amounts allocated to the Fund in excess of £50million (i.e. on the marginal amount) for Lot 1 – Equity and Lot 2 – Debt or £20million (i.e. on the marginal amount) for Lot 3 – Small Business Loans and for Lot 4 - Proof of concept and early stage funds

➤E - Percentage step down applied each year to calculate GPS during the Realisation Period

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Targets: ERDF Key Priority Output Targets

Indicative targets are supplied in the ITT and allocations per lot will be clarified during Mini Competition stage

- SME Assist (C1)
- Number of enterprises receiving financial support (C3)
- Non-financial support (12 hours) (C4)
- Number of new enterprises supported (C5)
- Private Investment matching support to enterprises (C7)
- Employment Increases in supported enterprises (C8)
- Number of enterprises supported to introduce new to the market products (C28)
- Number of enterprises supported to introduce new to the firm products (C29)

In addition targets will be established relating to (a) achievement by fund managers of the investment levels by value below the investment threshold requirements identified for each fund and (b) contribution towards the overall achievement of the objectives of MEIF as a whole and to be determined at mini-competition

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Targets:

GPS Retention

“The applicable GPS Retention Rate will be specified at Mini Competition stage. When a Target is achieved the applicable GPS Retention Rate will be reduced by the % of GPS Retention Reduction specified for that Target in the IOGs. The General Partner will receive the amount (without interest) of additional GPS to which the General Partner would have been entitled if that % of GPS Retention Reduction had applied with effect from the date of this Agreement.”

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Geographic coverage:

- An important procurement objective is to create a Framework of Fund Managers who are able to cover the whole, or substantially the whole, of the MEIF Area
- The procurement is designed to encourage Tenderers which currently operate across a smaller geographical area to commit to expanding their geographical reach
- Specific geographies will be allocated at mini-competition stage

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Indicative Timetable:

OJEU Notice issued	5 th October 2016
Launch Events	17 th & 20 th October 2016
Last date for Clarification Q's	2 nd November 2016
Tender Closing Date	13.00 14 th November 2016
Potential Clarification Interviews	w/c 21 st November 2016
Results Notification	8 th December 2016
Standstill Period	8 th to 20 th December 2016
Framework Award	4 th January 2017
Initial Mini Comps	23 rd January 2017
Expected date funds will be made available	February/March 2017

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Q&A

- Questions today will be noted and shared along with their answers
- During the process all questions (which must be submitted to the Delta e-sourcing portal) will be logged with their answers and shared with all bidders registered on Delta
- A final copy of all Q&A's will be distributed shortly after the last date for clarification questions

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<http://ted.europa.eu/udl?uri=TED:NOTICE:351365-2016:TEXT:EN:HTML>

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