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# Transitioning Northwest Urban Investment Fund

## Evergreen Fund: 2014-2020 Ex ante Assessment – 2016 Update

***European Investment Bank***

39th assignment contract

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# Contents

# *Disclaimer*

# Introduction

## *Our scope of work*

- PricewaterhouseCoopers Société Coopérative (PwC) was appointed on 18 September 2013 by the European Investment Bank (EIB) to undertake an Ex Ante assessment for two Financial Instruments (FIs) proposed by the Greater Manchester (GM) Local Enterprise Partnership (LEP) for the 2014 – 2020 European Structural Investment Fund (ESIF) period, these are:

  1. **North West Evergreen Fund** (Evergreen Fund)**:** to consider the potential allocation of funding to this existing Urban Development Fund (UDF) along with a possible broadening of its investment parameters to meet with the EU thematic objectives of the next funding period. For the purposes of this assessment and to avoid confusion in this report, the existing Evergreen Fund has been referred to as "Evergreen Fund I" and the potential future allocation is referred as "Evergreen Fund II"; and,

  2. **Low Carbon Investment Fund:** to consider the need for a new FI that will invest in 'green' infrastructure that will support GM's low carbon objectives.

- Where FIs such as these are being considered, the EU requires the completion of an Ex Ante assessment (as defined in Article 32 of the EU Regulations[1]) that evidences market failure or sub-optimal investment situations that drive the need for public investment. This report provides the ex-ante assessment as required by the Regulations.

- The focus of this assessment is two-fold:

  – **Part One: Strategic and market needs -** evidencing the strategic need for public funding to be deployed in the proposed sector(s) of the UDFs and an assessment of existing funding mechanisms; and,

  – **Part Two: Fund design -** developing the outline investment strategies for the FIs (e.g. fund size, sector focus, form of finance provided), their delivery and governance structures and potential to attract third party leverage and the identification of an indicative project pipeline and the outcomes and financial returns that it could generate.

- This report focuses on the Ex Ante assessment for Evergreen Fund II only. For the purposes of this report it should be noted that:

  – The assessment has been undertaken for a FI that will support projects in the Greater Manchester (GM) area only. Lancashire and Cheshire contributions may be considered as an update to this Ex Ante report;
  – Part One of this assessment includes an overview of how the Evergreen Fund I has utilised funding from the 2007-2013 allocation, as this forms an important step in understanding the potential transition for the next funding round; and,
  – An assessment of the North West Fund, an existing fund which may also utilise public funding for the 2014 – 2020 period, is out of the scope of this assignment.

1 Regulation (EU) No 1303/2013 - Common Provisions Regulation CPR

# Basis of our assessment

## Scope of work and information sources

- The scope of work which was agreed with EIB and that forms the basis of this report is included in Appendix A. Our work has been performed over the period from 24 September 2013 to 5 February 2014. This assessment has been prepared from:
  - Ongoing dialogue with the EIB, representatives from GM and other stakeholders. A full list of parties engaged with is included in Appendix E;
  - Review and analysis of a variety of publicly available documents such as strategy and policy documents, as well as a number of documents shared by the EIB, GM and other stakeholders engaged with.
- The development of this report has been overseen by a Steering Group co-chaired by Deborah McLaughlin of the HCA and Eamonn Boylan Chief Executive of Stockport Council, who have provided the strategic leadership for the work.
- In preparing this report we have assumed that all opinions, beliefs and views expressed in the documents reviewed and by the parties engaged with during the production of this assessment are honestly made, based on reasonable assumptions, having made the appropriate and proper enquiries and will continue to be, true, accurate, correct and not misleading in any way.

## Project pipeline analysis

- In respect of the project pipeline analysis (see Sections 6 and 8) the work undertaken has been a function of the level and quality of financial information available. As many of the key contractual arrangements for each project are yet to be fully developed/ finalised the investment timescales, quantum, return rate and expected timeframe for returns indicated in the project information available are uncertain and will be subject to change as the projects progress towards financial close. Therefore, the implications of this pipeline analysis should be read with caution.
- The indicative project pipeline has been sourced from information provided by the fund manager for Evergreen Fund I and other information provided by the GM Core Investment Team along with publicly available board papers and project information available in the public domain. This paper has not attempted to verify the existence of the pipeline rather it has looked at how the pipeline could be funded or developed with the aid of a FI.
- It should also be recognised that CBRE's role as fund manager has been to manage a pipeline of projects for investment by Evergreen I under its own specific parameters. This review does not seek to comment on their role in developing this pipeline or the potential risks associated with investing (or not investing) in particular projects.

## State aid

- References to state aid should not be considered as formal advice. State aid is a specialist area and legal advice should be sought.

# Structure of this Report

- This report is dedicated to Evergreen Fund II and is structured in two parts to correspond to the focus of this assessment:

  **Part One: Strategic and Market Needs Analysis**

  1. Background to European Structural Investment Fund
  2. Background to Evergreen Fund I
  3. Strategic priorities
  4. Complementary funding sources
  5. Key findings from existing relevant UK FEIs
  6. Market gaps and failures
  7. Strategic and market needs key findings

  **Part Two: Fund Design**

  8. Project pipeline
  9. Evergreen Fund II investment strategy
  10. Evergreen Fund II design
  11. Non-financial outcomes
  12. Conclusions and Next Steps

- A separate report has been prepared for the Ex Ante assessment for a Low Carbon Investment Fund.

## *2016 Ex Ante update*

- In response to comments received from the Department for Communities and Local Government (the Managing Authority), PwC was appointed on 10 May 2016 by the EIB to update this Ex Ante assessment which was originally completed in May 2014.
- This report comprises the original assessment together with any necessary updates to address the Managing Authority comments. For ease, any updates to the original 2014 assessment are in grey text. A completeness checklist has been included in Appendix H in accordance with the requirements of the Ex Ante Manual, General Methodology (Volume 1)[2].
- DCLG review comments had queried how the Priority Axis (PA) 4 contribution into Evergreen Fund II and the Low Carbon Investment Fund are distinct. This is due to their alignment to different Investment Priorities within PA4.
  - Evergreen Fund II is targeted at Investment priority 4b: Promoting energy efficiency and renewable energy use in enterprises; and
  - Low carbon Investment Fund is targeted at Investment priority 4e: Promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and mitigation-relevant adaptation measures.

  This is evidenced in the differential nature of projects in the pipeline of the two funds.

- The North West Fund referenced in the Section above has been superseded by the Northern Powerhouse Investment Fund (NPIF). This is targeted at SME investment only and does not invest in property / infrastructure.

[2] Source: https://www.fi-compass.eu/publication/manuals/manual-ex-ante-assessment-guidance-vol-i-general-methodology

# Transitioning Northwest Urban Investment Fund

## European Investment Bank

## Evergreen Fund: 2014-2020 Ex ante Assessment

## PART ONE: STRATEGIC AND MARKET NEEDS

# 1. Background to EU Structural Funds

## 2007 – 2013 European Structural Fund

- The Joint European Support for Sustainable Investment in City Areas (JESSICA) is a policy initiative of the European Commission (EC) supported by the European Investment Bank (EIB) to help the authorities in the Member States of the EU to maximise financial engineering instruments (FEI) to support investment in sustainable urban development.

- JESSICA does not provide new or additional money, but is a tool to utilise existing European grant funding to invest in regeneration investment vehicles, known as Urban Development Funds (UDFs), in order to accelerate investment in urban areas.

- The JESSICA initiative creates the opportunity for European Structural Funds to leverage other public finance and potentially private investment to invest through UDFs into projects, with an expectation that the public funding is returned and recycled. UDFs can invest in projects by providing loan finance, equity or guarantees, the returns from which could then be recycled into further projects in the future.

- UDFs are required to make investments into regeneration projects which are part of an Integrated Plan for Sustainable Urban Development (IPSUD) – i.e. aligned to a range of existing local plans and strategies.

- In 2009, the North West Regional Development Agency (NW RDA) responded to the opportunity to utilise this FEI through the launch of the Northwest Urban Investment Fund (further described in the Section 2) to support investments via financial intermediaries, called UDFs, in urban regeneration projects in order to facilitate sustainable and integrated urban development in the North West region of England.

- It should be noted the NW RDA established another FEI during this funding round - the North West Fund. This fund provides debt and equity finance to small and medium sized businesses in the North West of England for start-up and early stage development.

## 2014 – 2020 European Structural Investment Fund

- In the 2007-2013 funding period, the NW RDA was responsible for the establishment and oversight of FIs as part of its wider Structural Funds obligations on behalf of the Department for Communities and Local Government (DCLG). Following the abolition of the RDAs by the Coalition Government, responsibility will reside with the Local Enterprise Partnerships (LEPs) in the region for the next funding period, in conjunction with the local authorities in their area.

- LEPs have been required to develop their EU Investment Plans by 31 January 2014 for approval by Government, setting out their approach to the deployment of their European Structural and Investment Funds (ESIF) allocation in accordance with the EU thematic objectives.

- Where FIs are being considered, the EU also requires the completion of an Ex Ante assessment (as defined in Article 32 of the EU Regulations[3]) that

3 Regulation (EU) No 1303/2013 - Common Provisions Regulation CPR

evidences market failure or sub-optimal investment situations that drive the need for public investment. This report provides the ex-ante assessment as required by the Regulations.

- Greater Manchester LEP (GM LEP) in conjunction with the Greater Manchester Combined Authority (GMCA) as an authorised recipient of European Structural Investment Funds in the 2014 – 2020 period has developed its request for funding through the GM EU Investment Plan.

- The GM EU Investment Plan is described in more detail in Section 4, however, in summary it is proposing to invest £97m of ERDF through FIs. The allocation between the FIs is:

| FI | ERDF Funding |
|---|---|
| **Evergreen Fund II** | £50m |
| **Low Carbon Investment Fund** | £15m |
| **North West Fund** | £32m |
| **Total** | **£97m** |

- Within the £50m allocation to the Evergreen Fund II, £10m of the ERDF has been allocated to low carbon objectives. This report focuses on this **£50m allocation** to Evergreen Fund II (i.e. to include this low carbon component).

## *Summary of EU regulations underpinning our work*

- In undertaking this assessment, it is important to note the key regulatory requirements of the ESIF that have a bearing on both the investment strategy and design of FIs:

  – A minimum of 20% of ERDF awarded must support activities that deliver against the EU low carbon thematic objectives;
  – FIs need to be fully 'matched' (i.e. 50:50 basis) with third party financial support at Fund of Funds, UDF or project level which will be lent or invested into projects.
  – ERDF and associated 'match' funding can only be spent on 'eligible activities'. This definition includes land acquisition costs up to a specific percentage of total costs, building acquisitions, site investigation and preparation, building and construction costs and fees up to a specific percentage of total eligible costs.
  – Eligible projects are those that are in development (construction phase) or are considered to be material additions/ refurbishment to existing infrastructure.
  – FIs can be used alongside grants, however they cannot be used to pre-fund grants or pay for working capital requirements of a project. It is therefore typically necessary to have an element of third party finance within a project that is not 'match' funding that can support ineligible expenditure.
  – FIs must be committed to projects in a state aid compliant manner.
  – FIs must be established in accordance with the regulations, which can impact their design. This is considered in Section 10.

## *2016 Ex Ante update*

- The GM EU Investment Plan, which is described in Section 3, has been updated to reflect changes to the England Operational Programme. In summary GM is proposing to invest £92m of ERDF through FIs, a reduction of £5m. The allocation between the FIs is set out on the next page.

| FI | ERDF Funding | Proposed match (private[4] and public) |
|---|---|---|
| Evergreen Fund II | £45m | £45m |
| Northern Powerhouse Investment Fund (NPIF) | £32m | £32m |
| Low Carbon Investment Fund | £15m | £15m |
| **Total** | **£92m** | **£92m** |

- £30m has been allocated to Evergreen Fund II under Priority Axis 1, Investment Priority 1a, enhancing research and innovation (R&I) infrastructure and capacities to develop R&I excellence, and promoting centres of competence, in particular, those of European interest. The remainder is allocated under Priority Axis 4: Investment Priority 4b,promoting energy efficiency and renewable energy use in enterprises. The rationale for the breakdown of the ERDF by Priority Axis and Investment Priority is explored in more detail in Section 3.
- £30m of the £92m for FIs has been allocated to low carbon objectives under Priority Axis 4. This compares to £25m which was originally allocated.
- This 2016 Ex Ante update focuses on the £45m allocation to Evergreen Fund II.

[4] 'Private' includes funding from the EIB and the private sector. 'Public' refers to potential funding from the Growing Places Fund (GPF) as explained in Section 2.

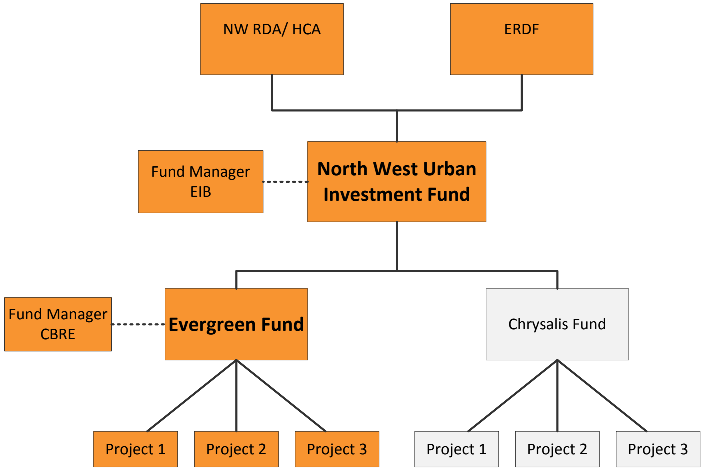
# 2. Background to Evergreen Fund I

## Introduction

- This section provides an overview of the Evergreen Fund I since its establishment in 2011 to highlight its historical objectives, investment parameters and investment to date. This context is important in understanding the proposed changes to the fund as described in Section 4, as well as linking to the market gaps and failures that it seeks to address as described in Section 6.

## Evergreen Fund I governance structure

- The diagram below sets out the governance structure pertaining to the Evergreen Fund I.




- In 2009, the North West Regional Development Agency (NWRDA), with the support of the EIB established the Northwest Urban Investment Fund (NWUIF). The NWUIF is a Holding Fund (or fund of funds) to support investments via financial intermediaries, called UDFs, in urban regeneration projects in order to facilitate sustainable and integrated urban development in the North West region of England.

- The NWRDA appointed the EIB as responsible fund manager to the NWUIF. It is accountable to its board which is made up of nine members, three of which are independents with the rest being representatives from the local authorities in the region. Following the abolishment of the NW RDA in March 2011, its responsibilities in respect of the NWUIF were novated to the Homes and Communities Agency (HCA).

- At the outset, £50m of ERDF was assigned to the NWUIF, which was 'match' funded by a combination of cash (£12m) and land assets (£38m) of the NWRDA, making a total fund size of £100m. The land could either be sold to generate cash for investment, be replaced by other 'match' funding sources or provided to the UDFs for 'in-kind' contributions to projects.

- Following a procurement process managed by the EIB, two UDFs were appointed under NWUIF:
  - **Evergreen Fund I**, which is the focus of this study, was established to provide primarily debt funding for commercial property and regeneration projects, at competitive commercial rates, for projects in Greater Manchester, Cheshire, Lancashire and Cumbria. The fund also has the ability to provide equity products and to invest in low carbon projects; and,
  - **Chrysalis Fund**, which was to provide investment into commercial property and regeneration projects throughout the Liverpool City-region. The eligible local authorities include Liverpool, Sefton, Knowsley, St Helens and Wirral.

- Evergreen Fund I was established by a number of Local Authorities in the remainder of the Northwest area. The Evergreen Board is Co-Chaired by the Chief Executive of Manchester City Council and Lancashire County Council. The local authorities and the GM Core Investment Team are responsible for supporting the development of the fund's project pipeline. The fund is managed by CB Richard Ellis (CBRE), a property advisory consultancy that provides a wide range of agency, asset management and property finance services.

- Evergreen Fund I was initially seeded with £30m by the NWUIF, representing the maximum cash 'match' funding available at the time. The NWUIF has subsequently contributed a further £11.6m, to its current size of £41.6m. No additional third party 'match' or complementary finance has been secured at the UDF level, however match and complementary funding has been secured at the project level from commercial banks and Growing Places Funding (GPF).

## *Investment parameters*

- The key investment principles underpinning how funding is allocated currently are:

| Area | Description |
|---|---|
| **Projects** | Commercial property and regeneration projects:<br>• Site clearance and remediation;<br>• Development of site-specific infrastructure and site servicing; and<br>• Construction of new buildings and/or renovation of existing ones.<br>• Excludes re-financing, housing, but can include low carbon elements. |
| **Product** | • Primarily debt instruments – senior, mezzanine and subordinated.<br>• Equity investments are permissible. |
| **Investment period** | • Commenced in 2011 with all funds committed by the end of 2014 and fully drawn by end of 2015.<br>• All outputs (see below) from the first investment round must be delivered by 2017. |
| **Payback period** | • 1-3 years (subject to board discretion) |
| **Asset allocation restriction** | • Minimum size £2m<br>• Single project loans up to a max of 20% of the total fund size<br>• Maximum of 30% of net asset value of fund to any single developer partner |
| **Geographic limits** | • Minimum investment of £9.5m in Cheshire, Cumbria and Lancashire. |
| **Regulation** | • All funding must be spent on 'eligible expenditure' as described in Section 1<br>• Funding is only available to projects that cannot access sufficient private funding to progress. |

## *Fund outcomes and selection process*

- A process has been developed for the selection and allocation of funding. Projects need to satisfy a number of eligibility criteria, namely:

  – Creating a high employment region;
  – Investing in science, research and innovation;
  – Building on the region's strengths in culture and media;
  – Supporting strong and divers town centres;
  – Promoting a wider, stronger and more sustainable industrial base; and
  – Ensuring sustainable sites are ready for development.

- The fund has committed to delivering output targets:

| Output Targets | |
|---|---|
| Fund utilisation target | £41.6m |
| Creation of BREEAM Excellent Floor space | 78,400m² |

| | |
|---|---|
| Remediation of brownfield land | 8 hectares |
| Creation of New and Sustained Jobs | 2,920 |

## State Aid Approval

- A State Aid approval from the European Commission was obtained in 2011 for the NW UIF (SA 32835[5]) which covers Evergreen Fund I and the Chrysalis Fund.

- The duration of the approval corresponds to a 10-year lifespan of the UDFs for initial investment made up to the end of 2015, and any subsequent investments in urban projects until 2021 from the returns generated by the initial investments. The scope of investments covered by the state aid notification is restricted to the original investment parameters as originally developed in 2011.

- The state aid approval allows for sub-commercial public investments where the market would not deliver urban regeneration projects by itself. The level of public support is limited to the minimum necessary to avoid undue distortions of competition in the internal market. These projects must prove the financial viability gap by demonstrating that the project will not break-even without the sub-commercial investment.

- The state aid approval applies to senior loans, subordinated loans and equity investment. The quantum of sub-commercial investment is limited to 50% of 'eligible expenditure'.

- The state aid approval does not apply to the 2014-2020 ERDF funding allocation. The need for an extension to the existing notification or to seek a new notification for this programming period is considered in Section 8.

[5] http://ec.europa.eu/competition/state_aid/cases/240234/240234_1247477_97_2.pdf

## Current status of investments

- Based on information provided by CBRE[6], £22.5m of the £41.6m in the fund had been committed, with a further £14.5m worth of projects at review stage. If the remaining pipeline of projects is included and all reach completion, there is a funding opportunity for Evergreen Fund I of £81m compared to the current fund size of £41.6m.

- The table below sets out the details of these opportunities together with additional 'match' and complementary funding which may be sourced for each project and the contribution they may make to output targets, where known.

| | No. projects | Evergreen Facility | Complementary Funding | Floor space m² | Brownf'd Land ha | Jobs |
|---|---|---|---|---|---|---|
| **Committed transactions** | 4 | £22.5m | £41.3m | 81,215 | 13.4 | 2,432 |
| **Detailed review** | 2 | £14.5m | £19.5m | 18,760 | 1.2 | 1,255 |
| **Pipeline** | 6 | £44.0m | TBC | TBC | TBC | TBC |
| **Total potential pipeline** | **12** | **£ 81.0m** | **£60.8m +** | **99,975+** | **14.6+** | **3,687+** |
| | | | | | | |
| **Fund Target** | | **£41.6m** | **£41.6m** | **78,400** | **8** | **2,920** |

- The funding terms vary by project, but the themes from the six projects that are either invested or subject to detailed review include:
  - Debt funding has been used at both a senior and mezzanine level;

6 October 2013

– Complementary funding options have come from a variety of sources – commercial banks (e.g. Lloyds) and public sources (e.g. Growing Places Fund);
– Funding requests have been in the range of £4m - £10m per project; and
– Funding terms are considered to be at commercial rates, with the exception of one project that has relied on the state aid notification.

- This current investment status suggests that there could be surplus demand for Evergreen Fund I, which depending on the timing of these projects coming to market, could offer investment opportunities either to Evergreen Fund II and/or Evergreen Fund I recycled capital.

## *2016 Ante update*

- The activity of Evergreen Fund I has continued since 2014. Key observations include:
  - NWUIF made additional contributions of £10m and GMCA invested £1.2m, taking the fund size to £60.8m;
  - As a result of the additional investment, the output targets were increased. The revised targets are set out below:

| Output Targets | Revised target |
|---|---|
| Land reclaimed/redeveloped | 11.2 Ha |
| New/refurbished floor space | 109,760 Sq. m |

  - The investment period commenced in 2011 and all funds were drawn down by end June 2016;
  - The performance of the fund for the latest period for which information is available - Q2 2016 – is set out overleaf. A total of £70.3m had been committed by Evergreen Fund I, of which £27.8m has been repaid to date and is available for further commitments.

| | Q4 2011 (£m) | Q4 2012 (£m) | Q4 2013 (£m) | Q4 2014 (£m) | Q4 2015 (£m) | Q2 2016 (£m) |
|---|---|---|---|---|---|---|
| Fund Size | £30.0 | £30.0 | £41.0 | £55.0 | £60.8 | £60.8 |
| Committed funds | - | £10.8 | £27.0 | £55.3 | £65.3 | £70.3 |
| Available funds excluding reflows | £30.0 | £19.3 | £14.0 | -£0.3 | - | - |
| Total Reflows | - | - | - | £5.3 | £10.8 | £27.8 |
| Net available for further commit-ments | £30.0 | £19.3 | £14.0 | £5.0 | £10.8 | £27.8 |

  - Overall, Evergreen Fund I has been successful in achieving high levels of complimentary finance and has unlocked significant levels of capital from the private sector, including bank debt and property company equity. For every £1 of Evergreen Fund I funding, more than £2 of private capital has been leveraged for the region. In addition, the forecast Gross Development Value of Evergreen funded schemes is forecast to be over £1bn by the end of 2024. Evergreen Fund I has also exceeded the revised output targets assigned to it, with over 17 Ha of land reclaimed and over 160 Sq. m of new/refurbished floor space (See table on next page). Overall, its performance track record and investment capability lay a strong foundation for Evergreen Fund II.
  - The table below sets out the position for Evergreen Fund I prior to the end of its investment period. It shows that 11 projects have secured Board approval, 1 project is at detailed review and due diligence stage and there are a number of pipeline opportunities. While this shows evidence of continued demand in the market, the

Evergreen Fund I pipeline can't be directly extrapolated across to Evergreen Fund II as the latter can only invest in projects that specifically address PA1 and PA4 of the OP requirements.

| | Projects | Evergreen Facility | Comple-mentary Funding | Floor space (Sq. m) | Brownf'd Land (Ha) | Jobs |
|---|---|---|---|---|---|---|
| **Committed transactions** | 11 | £69.9m | £160.3m | 160,725 | 17.84 | 6,931 |
| **Detailed review** | 1 | £5m | £8.7m | TBC | TBC | TBC |
| **Pipeline** | 5 | £40.5m | £27m | TBC | TBC | TBC |

# 3. Strategic priorities

## *Introduction*

- The development of FIs sits within the context of European, national and local policies. This section seeks to identify the consistent themes between these policies that are potentially relevant to Evergreen Fund II to ensure it support these objectives in the 2014 – 2020 funding period.

- As outlined in the previous section, Evergreen Fund I is focused on the primarily the provision of debt funding to commercial property and regeneration projects in the North West of England. The relevant policies that will underpin targeted outcomes in the 2014 – 2020 funding period, assuming the proposed investment strategy for Evergreen Fund II remains largely similar, include:

**Local**
- Greater Manchester EU Investment Plan
- Greater Manchester Strategy 2013-2020

**National**
- Government Objectives

**European**
- Objectives and priorities for the 2014-2020 ERDF programme

## *Local Policies*

### Greater Manchester EU Investment Plan

- In October 2013, the GM LEP submitted its draft Greater Manchester EU Investment Plan (GM EU Plan) to Government. This outlined its draft request for EU funding and forms a part of the wider GM investment strategy for economic growth (as described in the following section). The final version of the GM EU Plan was submitted to Government on 31 January 2014[7].

- Future ERDF allocation is to be made on a LEP region basis, rather than the NW RDA region as in the previous round. The GM EU Plan focuses only on the allocation to the Greater Manchester LEP region (i.e. does not reflect the ERDF requests for Cheshire, Cumbria and Lancashire).

- The GM EU Plan seeks to build upon existing funding models and to move away from using European Structural Investment Funds as 'grant' to a position where 60% of ERDF funds will be 'invested' instead. This reflects the progress of GMs existing funding models such as Evergreen Fund I as well as the Growing Places and Regional Growth Funds.

- The GM EU Plan outlines its proposal for the investment of funding from European Regional and Development Fund (ERDF), European Social Fund (ESF) as well as public and private match funding across six themes:

   1. Competitive Places

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[7] GM EU Investment Plan 2014-2020– Submission 31 January 2014

2. Science, Innovation and Knowledge Economy
3. Competitive Business
4. Low Carbon
5. Skills, Employment and Inclusion
6. Supporting Reform

- The GM EU Plan[8] states that Evergreen Fund II will focus on the first four themes, with a proposed allocation of £50m from ERDF, along with match funding from private sector sources. The table below sets out the breakdown of Evergreen Fund II allocations across these themes:

| Themes (all amounts in £ms) | Evergreen Fund II | Private sector match funding | Total |
|---|---|---|---|
| **Competitive Places** | 13 | 13 | **26** |
| **Science, Innovation and Knowledge Economy** | 25 | 25 | **50** |
| **Competitive Business** | 2 | 2 | **4** |
| **Low Carbon** | 10 | 10 | **20** |
| **Total** | **50** | **50** | **100** |

- The outcomes attributable to Evergreen Fund II are estimated in the GM EU Plan to be:

| Output Targets | |
|---|---|
| Site Development | 8 hectares |
| Jobs Created | 1,455 |
| Private sector match funding (£m) | £50m |
| Research Companies supported | 30 |
| Greenhouse Gas Reduction p.a. ('000 tons) | 7.25 |

- Appendix B provides greater detail on these themes and how the Evergreen Fund will be used to deliver these.

## Greater Manchester Strategy 2013-2020

- The Greater Manchester Strategy 2013-2020[9] (GM Strategy) outlines a clear economic ambition to become a net contributor to the national economy through a plan focussed on growth and reform. It preceded the GM EU Plan and therefore focuses on the wider priorities for the region and not just the areas covered through EU funding.

- Appendix C outlines the growth and reform priorities, from which the priorities relevant to this assessment include:

  – Diversifying the economic base in response to the changing market;
  – Developing a market facing investment strategy;
  – Creating a blue-print for town centres, applying creative approaches to redevelopment of the offer;
  – Reviewing land supply to support growth in those locations most attractive to the market;
  – Attracting and retaining talent by creating places where people want to live through stimulation of the housing market and delivery of a high quality residential offer;
  – Masterplan and deliver the investment necessary in the existing and critical infrastructure required to support growth;
  – Improving Greater Manchester's connectivity locally, nationally and internationally;
  – Leveraging Greater Manchester's science and technology asset; and
  – Growing the business base by providing integrated and effective support through the business-led growth hub.

8 GM EU Investment Plan 2014-2020– Submission 31 January 2014

9 GM Manchester Strategy 2013-2010, March 2013

- The success measures for the GM Strategy to be achieved by 2020 are also provided in Appendix C, those relevant to this assessment include:

  - Increased share of total UK full time equivalent (FTE) jobs so that 4.3% are located within the GM conurbation; an aspiration that will see an additional 44,000 FTE jobs created.
  - Increased growth rate to match that of the South East of England (excluding London), exceeding the national average and delivering £3.7 billion of additional economic output over and above existing projected growth rates.
  - Build 61,000 net new homes, tripling the existing levels of new-build development, and retrofit a further 150,000 homes at a rate of 25,000 a year from 2015.
  - Doubled the rate of reduction of carbon emissions so that annual direct emissions are less than 11,000 kt of $CO_2$; 48% lower than 1990 levels.

## National Policies

- At the time of the 2010 General Election, debate raged on how best to rebalance the economy: sectorally, from an overdependence on financial services to other sectors; and spatially, away from London and the South East to other regions.

- In terms of spatial rebalancing, the European Institute for Urban Affairs, Liverpool John Moores University, emphasised in 2012 the need for a shift towards 'second tier cities'[10]. This is corroborated by Treasury's report 'Investing in Britain's Future' which highlights: "Despite significant investment in the regions, London, with around 13% of the population, produces around 21.5% of UK Gross Value Added (GVA), and has the highest GVA per head of all regions. But countries can be more successful when they are driven not just by their capitals, but by broader based growth across sectors and regions."[11]

- The Coalition Government has therefore sought to implement mechanisms to support greater decentralisation of decision making in support of local economic growth, which has included:

  - The establishment of 39 LEPs in England to succeed the RDAs to drive local economic growth and prosperity;
  - Acceptance of Lord Heseltine's proposal[12] to create a Single Local Growth Fund and European Commission Fund, pledging to delegate significant Whitehall budgets and EU Structural Funds to LEPs to allow decisions on spending to be more informed by the economic needs of a LEP area and to provide LEPs with greater flexibility on how the money is used;
  - Competitive funds such as the :

    - Regional Growth Fund (RGF) which competes £2.6 billion of funding across England from 2011 to 2016.
    - Growing Places Fund (GPF) which competes £730 m of funding across England, available to invest in local infrastructure.

## European Policies

- In 2010, the European Union and its Member States launched 'Europe 2020' a strategy for sustainable growth for the coming decade. The strategy deals both with short-term challenges linked to the crisis and the need for structural reforms through growth-enhancing measures.

- The five Europe 2020 targets for the EU[13] are:

10 Second Tier Cities in Europe: In An Age of Austerity Why Invest Beyond the Capitals?', European Institute for Urban Affairs, Liverpool John Moores University; Metropolitan Research Institute, Budapest; University of Tampere; University of Paris Est; and University College London, 2012.

11 'Investing in Britain's Future', HM Treasury, June 2013, page 57.

12 No Stone Unturned in the Pursuit of Growth', Lord Heseltine, October 2012.

13 EUROPE 2020, A strategy for smart, sustainable and inclusive growth. 3 March 2010

1. Employment: 75% of the 20-64 year-olds are to be employed
2. R&D: 3% of the EU's GDP is to be invested in R&D
3. Climate change and energy sustainability: greenhouse gas emissions 20% (or even 30%, if the conditions are right) are to be lower than 1990, 20% of energy from renewables, 20% increase in energy efficiency
4. Education: Reducing the rates of early school leaving below 10% at least 40% of 30-34–year-olds completing third level education
5. Fighting poverty and social exclusion: at least 20 m fewer people in or at risk of poverty and social exclusion

- It can be seen that the 2020 targets are interrelated and mutually reinforcing. For example, more R&D/innovation in the economy, combined with more efficient resources, will increase competitiveness and create jobs. Similarly investing in cleaner technologies combats climate change while creating new business/job opportunities.

- To maximise the impact of the European structural funds, the European Commission has defined a list of eleven thematic objectives in line with Europe 2020. Evergreen Fund II is intended to support the EU thematic objectives of TO1, TO2, TO4, TO5, TO6, TO8 and TO10. The eleven EU themes are set out in Appendix D, along with the mapping of these to the GM themes.

## Summary

- As outlined in Section 2, the primary focus of Evergreen Fund I investment strategy is on commercial property and regeneration projects. This continues to align with EU and national objectives of providing local funding to help drive regional development (i.e. to drive competitive places and businesses).

- There is also clear EU, national and local regulatory and policy drivers for an increasing focus on the low carbon agenda (cited briefly above and set out in more detail in Section 2 of the Low Carbon Fund Ex Ante Assessment) and science and innovation.

- This has resulted in the wider reach proposed for Evergreen Fund II in the GM EU Plan to cover these requirements, which correspond to the proposed allocation increase from £41.6m to £50m.

## 2016 Ex Ante update

- Since 2014 when the original Ex Ante was undertaken, England has moved to one national Operational Programme. This programme sets out the strategy for smart, sustainable and inclusive growth and the achievement of economic, social and territorial cohesion.

- The strategy is built around functional economic areas (in the form of Local Enterprise Partnerships) and reflects the main priorities for development across these. It focuses most resources on the core objectives of innovation, SME competitiveness and the low carbon economy but recognises the need for targeted interventions under other objectives where EU funding can unlock barriers that matter strategically to specific areas in England.

- One of the implications of this Operational Programme is that some of the criteria against which this Ex Ante assessment for FIs is assessed have changed. As activities that do not contribute to the Operational Programme are ineligible for ESIF support, the eligibility of the activities proposed in the 2014 Ex Ante need to be tested against these new requirements.

- Within the Operational Programme are 8 Priority Axes. The Programme sets out why public sector intervention is needed in each of these axes and identifies local and national needs and opportunities. It also sets out how ERDF aligned with national spend can address these needs and opportunities. The 8 Priority Axes are:

1. Promoting Research & Innovation
2. Enhancing access to and use of quality ICT
3. Enhancing competitiveness if SMEs
4. Supporting the shift towards a low carbon economy in all sectors
5. Promoting climate change adaptation, risk prevention and management.

6. Preserving and Protecting the Environment and Promoting Resource Efficiency
7. Sustainable Transport in Cornwall and the Isles of Scilly
8. Promoting Social Inclusion, Combating Poverty and Discrimination

- In line with the Operational Plan, GM has outlined its proposal for the investment of funding from ERDF as well as public and private match funding across two of these Priority Axes:
- In line with the Operational Plan, GM has outlined its proposal for Evergreen Fund II across two of these Priority Axes:
    - PA 1 - Promoting Research and Innovation
    - PA 4 - Supporting the Shift Towards a Low Carbon Economy In All Sectors
- GM has advised that Evergreen Fund II will focus on the following Investment Priority within Priority Axis 1:
    - 1a – Enhancing research and innovation infrastructure capacities to develop research and innovation excellence and promoting centres of competence, in particular those of European interest.

  Project investments will include support to new developments and refurbishment of existing ones that meet the needs of occupiers that support research, development and innovation. For example developments akin to Citylabs which was funded via Evergreen Fund I.
- It will also focus on the following Investment Priority within Priority Axis 4:

    4b – Promoting energy efficiency and renewable energy use in enterprises

  Project investments will include energy efficient new buildings as well as deep renovations of existing buildings. The achievement of BREEAM standards (Excellent for new build and Very Good for refurbishments) remain a standard requirement across all ERDF priorities. Investments will therefore need to go beyond the relevant BREEAM standard and statutory requirements. This could include, for example, projects achieving increased EPCs or higher SBEM calculations.
- The focus for the 2014-2020 programming period is now on SMEs with some scope of support larger companies. The Managing Authority will work closely with GM to achieve a balanced portfolio of investments at Fund of Fund level into both SMEs and some non-SMEs.
- The table below sets out the breakdown of Evergreen Fund II allocations across these Priorities along with the proposed match funding. The allocations reflect the results of a strategic review by GM assessing performance of Evergreen Fund I and market intelligence, as well as more detailed analysis of the emerging pipeline for Evergreen Fund II. Match funding will be raised at the project level:

| Priority Axis | Investment Priority | Evergreen Fund II (£m) | Match funding (£m) | Total |
|---|---|---|---|---|
| 1 | 1a | 30 | 30 | 60 |
| 4 | 4b | 15 | 15 | 30 |
| Total | | 45 | 45 | 90 |

- The outcome measures attributable to Evergreen Fund II and indicative targets are set out below:

| PA | Investment Priorities | Output Indicators | Target |
|---|---|---|---|
| PA1 | IP1a - Enhancing research and innovation infrastructure and capacities to develop research and ind innovation excellence, and promoting centres of competence, in particular those of European interest. | P2 - Public or Commercial Building Built or Renovated (Sq. m) | 55,000 Sq. m |

| PA | Investment Priorities | Output Indicators | Target |
|---|---|---|---|
| PA4 | IP4b - Promoting energy efficiency and renewable energy use in enterprises. | C001 Number of Enterprises receiving support | 3 |
| | | C034 - Estimated GHG reductions | 10 tonnes |

- Note: The original section on 'European Policies' refers to the fact that Evergreen Fund II is intended to support the EU thematic objectives of TO1, TO2, TO4, TO5, TO6, TO8 and TO10. This is now superseded as it shall focus only on PA1 and PA4.

# 4. Complementary funding sources

## Introduction

- This section outlines the national, regional and European funding sources that are currently and/or in the future will be available to support project development and/or investment/grant into projects within the strategic objectives of the proposed Evergreen Fund II. By understanding other sources of funding that are available it will be possible to assess the:
  - Potential sources of 'match' funding;
  - Degree of overlap or congruence with existing sources of funding;
  - Potential sources of project level co-finance; and
  - Potential gaps in financial products offered by these funds that Evergreen Fund II may be able to support.
- Additional 'match' and complementary funding sources that may be available for low carbon investment opportunities of Evergreen Fund II are included in Section 3 of the Low Carbon Fund Ex Ante Assessment.
- Funding sources identified and subsequently discounted due to their lack of alignment with the strategic objectives of Evergreen Fund II include European Commission grant/funds (where there is limited focus on the provision of facilities for regeneration and real estate), the Business Growth Fund, Greater Manchester Loan Fund and the North West Fund.

## National Funds

### Growing Places Fund

- GPF was launched by Government to promote economic growth and provide the delivery of jobs and houses through the provision of state-aid compliant loans to businesses.
- To date, GMCA has been awarded £34.6 m of GPF and has developed its own processes to select projects, evaluating based on the commercial viability and non-financial outcomes. While there is no deadline for the commitment or drawdown of funding , the current funding status is:

| £'m | GPF |
|---|---|
| **Total budget** | **34.6** |
| **Funds approved by GMCA to be invested** | 20.5 |
| **Project pipeline** | 13.7 |
| **Remaining funding** | 0.4 |

- The current project pipeline of £13.7 m includes amounts that are due to be invested in projects co-funded by Evergreen Fund I. While there is limited potential for the remaining GPF to provide 'match' funding for the next EU funding period as this will soon be fully utilised, it is the intention of GM to use recycled GPF as 'match' when it is returned in future.

### Regional Growth Fund

- The RGF was launched by Government to support projects and programmes with significant potential for economic growth and the creation of additional, sustainable private sector employment. The key investment criteria include:
  - No. of jobs created/ safeguarded (typically with a value of £20,000 per job or less).

- Applications for grants considered for particularly transformative projects or significant projects such as those creating 200 jobs or greater and only when no other sources of funding are available.

- GM has developed its own investment models and criteria that support GM businesses with a focus on targeting areas of market failure such as start-up and high growth sectors (particularly science/spin out).

- The total national allocation is £2.6bn spread across 4 rounds and to date. GM's allocation includes £30m for Round 2 and £35 m for Round 3.

- As the table below illustrates, excluding investments approved and the current project pipeline there is nearly £29 m remaining fully unallocated.

| £'m (as at September 2013) | RGF2 | RGF3 | Total |
|---|---|---|---|
| **Total Budget** | **30.0** | **35.0** | **65.0** |
| **Funds Approved by GMCA** | 20.9 | 6.9 | **27.8** |
| **Project Pipeline** | 0.0 | 8.5 | **8.5** |
| **Remaining Funds** | 9.1 | 19.6 | **28.7** |

- RGF's focus is on developing businesses and job creation. To date, RGF funding has not been used as complementary funding for Evergreen Fund I due to challenges in meeting these criteria in commercial property or regeneration projects. For this reason, outstanding funds and any future allocations are unlikely to offer a potential source of 'match' or complementary funding for Evergreen Fund II.

- RGF funding in GM is primarily a revolving fund focussed on providing loans. However, £6m of grant funding has been provided where this has been necessary for projects to progress.

## *Commercial Banks*

- Commercial banks are typically one of the first sources of funding for real estate and regeneration projects, additional to developer equity.

- The availability of funding for real estate and regeneration projects has declined substantially as a result of the recent financial crisis. This is further described Section 6, however it has led to banks not being prepared to lend to projects or to only provide a portion of the total funding requirement.

- For example, based on the case studies included in Section 6 based on the experience of Evergreen Fund I, no commercial funding was available for the Soapworks development. In the Citylabs development example, commercial funding was only available as co-investment against the Evergreen Fund I contribution. This demonstrates how the Evergreen Fund I was able to unlock this specific project and enable it to progress.

- Banks will continue to be an important source of funding for projects however, on real estate and regeneration projects in particular, it is unlikely that commercial banks will provide the entire funding need. This current view has also been confirmed through the discussions with developers.

- Evergreen Fund I will and Evergreen Fund II could continue to provide the opportunity for leveraging commercial banks and filling the potential funding gap. However, there will need to be the flexibility for Evergreen Fund II to adapt to changes in lending and risk appetite of the commercial banks over the period from 2014-2020.

## *UK pension funds and insurance companies*

- There is an increasing interest in infrastructure investing by UK pension funds and insurance companies. For example:

- Legal and General, Prudential, Aviva, Standard Life, Friends Life and Scottish Widows have pledged to invest £25 billion into UK infrastructure[14]; and
- The Pensions Infrastructure Platform Limited[15] is seeking to invest £2 billion into UK infrastructure.

- Together with local authority pension funds that are increasingly looking for local infrastructure investment opportunities, over the 2014 – 2020 investment period, this could provide project level 'match' or complementary funding to projects, if the ambitions of these institutional investors are realised.

### *Developer Equity*

- To date, Evergreen Fund I has provided debt funding, which has ranked above the equity provided by the project developer in the capital structure. The provision of such finance by developers themselves is necessary to evidence both their commitment and belief in a project and to offer protection, in particular, to the senior debt providers.

- As outlined in Section 6 below, the primary funding market failure that Evergreen Fund II could address appears to be in the provision of debt, not equity funding. As such, it is likely that developer equity will continue to offer complementary funding to Evergreen Fund II as the bedrock capital to absorb major project risks.

## *Regional Funds*

### *Greater Manchester Property Venture Fund (GMPVF)*

- The Greater Manchester Pension Fund is the largest local authority funds in the UK, covering the to local authorities in Greater Manchester. Its main fund is over £12bn, of which nearly £11bn is externally managed and the remainder is internally managed.

- GMPVF is a fund within the Greater Manchester Pension Fund with an allocation of up to £300m for property investments. The target area is North West of England with a particular focus on Greater Manchester.

- GMPVF has twin aims of generating a commercial rate of return and supporting the local area, as well as making an environmental impact through regeneration. Investment in development may be via direct involvement acting as developer, in a joint venture vehicle, or as a lender.

- Since its establishment in 1990, the GMPVF has developed more than 1 m square feet of commercial buildings within the Greater Manchester area. However, while GMPF has had initial discussions with Evergreen Fund I on possible project opportunities, and will continue to do so, it has yet to co-invest alongside it.

- As outlined above in respect of other UK pension funds, the GMPF (either as part of GMPVF or directly) could have an increasing role in the provision of complementary finance at project level alongside Evergreen Fund II where the project is of sufficient scale and exhibits the risk and reward structure sought by GMPF.

### *Public Works Loan Board*

- PWLB is a statutory body with the function of lending money from the National Loan Fund to Local Authorities. It provides an attractive source of debt, available to Local Authorities, given the low interest rates and ease of access.

[14] http://www.ft.com/cms/s/0/1f74e176-5c41-11e3-b4f3-00144feabdc0.html#axzz2rbCPLi5a

[15] http://www.napf.co.uk/PressCentre/Press_releases/0368-Pensions-infrastructure-platform-asset-manager-update.aspx

- PWLB is not available directly to private sector sponsors. As most projects will be private sector led, it is unlikely that PWLB will be available as a source of match funding, unless a Local Authority is willing to 'on-lend'.

- Where a Local Authority is the project sponsor and/or where there is a strong business case for commercial investment that delivers strong economic outcomes, they may consider utilising their own borrowing headroom to provide project-level co-investment alongside Evergreen Fund II.

### *Local Authority Cash Reserves*

- Local Authorities may choose to access their own cash reserves to meet the funding gap if considered particularly important. Cash reserves can also be used as match funding subject to state aid restrictions. Citylabs (see Section 6) is an example of a project to have been co-financed by Evergreen Fund I and the Manchester City Council capital programme.

### *Recycled funding*

- GM may be able to utilise the interest and capital repayments from existing funds such as GPF, RGF and Evergreen Fund I for future funding need. GPF and RGF may also provide sources of project level 'match' or complementary funding for Evergreen Fund II.

- Structural and Investment Funds regulations do not permit recycled funds from Evergreen Fund I to be used as 'match' or complementary funding for subsequent Structural Funds programmes (e.g. Evergreen Fund II). It is understood however that the GM proposes to use such receipts to support similar projects going forward as is required by the regulations. The possible implications on the demand / need for the £50m allocation to Evergreen Fund II are considered in Section 8.

- While GM has suggested that recycled RGF funding will be set aside for future usage against the RGF job priorities, recycled GPF funding may offer a potential source of 'match' or complementary funding for Evergreen Fund II investment opportunities, at a project level.

- The following table estimates the amount of funding that may be available between 2014 – 2020 from RGF as possible 'match' funding for Evergreen Fund II or additional funding scale to support further projects from Evergreen Fund I.

| | Anticipated recycled funding available for reinvestment |
|---|---|
| **Growing Places** | £34.6m |
| **Evergreen Fund I** | £41.6m |
| **Total** | **£76.2m** |

Notes - assumes funding is fully invested, but recognising this is dependent on the pipeline of projects being realised and the timing of investment returns. All figures are capital only and do not adjust for interest.

- The drawback of this approach is that the recycled funds from GPF, if used as 'match' funding, will need to comply with the ERDF investment regulations that it is matched against. This will require European Structural Investment Funds Regulations (see Section 1) to be applied to the funding and therefore limit its application to that of the ERDF with which it is being 'matched'. Such restrictions will not apply to recycled Evergreen Fund I receipts.

## European Funds

### *European Investment Bank*

- The EIB plays a major role in providing finance to projects that make a significant contribution to growth, employment, economic and social cohesion and environmental sustainability.

- EIB is considering ways in which it can either commit capital to GM's growth and low carbon agendas either via a FI or as a co-investor into projects. Key criteria that they will require to be met include:
  - Strong project economics that support lending on commercial terms;
  - Evidence that 50 % of the capital cost of a project can be met from other funding sources;

  - Evidence that a project can deliver non-financial outcomes (for example, 20% energy savings in the case of low carbon projects).
- EIB does not typically invest directly into projects with a capital cost of less than £50m. For this reason, it is possible that EIB may require any lending facility to be structured as a credit line via a UK financial institution.
- This would likely require evidence of a strong and, where possible, standardised project pipeline of projects that can easily be understood and managed.
- In the case of local authority led projects, another option could include a framework loan from EIB directly to a local authority, which could negate the need for an intermediary.
- It is understood that discussions on the provision of such a facility(s) are ongoing, however this could offer a potential source of 'match' or complementary funding alongside Evergreen Fund II at a project level.

## Summary

- The most likely sources of 'match' and complementary funding for projects supported by Evergreen Fund II are:
  - **Recycled GPF:** due to its overlapping investment focus with Evergreen Fund I, and historic evidence of them co-investing, recycled GPF could be a source of 'match' funding.
  - **Commercial banks:** where Evergreen Fund II could fill the gap resulting from commercial bank restrictions (e.g. maximum loan to value ratios) as has been the case for Evergreen Fund I, commercial banks could offer complementary funding.
  - **Developer equity:** as outlined in Section 6 below, with the major funding market failure arising from the limitations of commercial lending, developer equity is likely to be unlocked by the availability of Evergreen Fund II as a lender at project-level.
  - **UK pension funds and insurance companies:** while GMPF has yet to co-invest alongside Evergreen Fund I, they continue to show interest in receiving investment proposals. There is also an increasing interest from pension funds and insurance companies more generally to invest in UK infrastructure, providing possible sources of complementary finance on large-scale projects at a project level where the risk and reward meets their requirements.
  - **EIB:** if a facility arrangement is reached for GM, EIB could offer a source of 'match' or complementary funding at a project level.
- This suggests that there is sufficient availability of potential 'match' and/or complementary funding from public and/or private sources at a project level to support projects into which Evergreen Fund II may invest. This differs from Evergreen Fund I, where the majority of 'match' funding was sourced at the NWUIF level. However, in some cases, 'match' funding investors may seek to rank above the funding offered by the FI (e.g. PWLB, EIB, private sector lenders). This suggests that Evergreen Fund II may be required to secure non-pari passu 'match' funding. This point is further considered in Section 8.
- However, it is noted that the GM EU Investment Strategy anticipates the majority of 'match' funding will come from private sector sources. GM may want to re-define this, as it is likely a proportion of 'match' funding will come from other public sector sources such as GPF.

## 2016 Ex Ante update

### *National funds, Evergreen Fund I and recycled capital*

- GMCA has loaned £39.3m of GPF into 12 projects and through this has developed its own processes to select projects, evaluating based on the commercial viability and non-financial outcomes. Almost £6.5m of capital and/or interest has been repaid so far with the remaining due by 2020. Assuming projected capital and interest repayments are made in full and on time there is roughly £5m of GPF available for investment each year to 2020.

| GPF | Q4 2012 | Q4 2013 | Q4 2014 | Q4 2015 | Q2 2016 |
|---|---|---|---|---|---|
| Fund Size | £34.6 | £34.6 | £34.6 | £34.6 | £34.6 |
| Committed/ | - | £33.1 | £30.1 | £44.2 | £37.6 |

| | | | | | |
|---|---|---|---|---|---|
| **pipeline Funds** | | | | | |
| **Available funds excluding repayments** | £34.6 | £1.5 | £4.5 | (£9.6) | (£3.0) |
| **Total Principal Repayments** | - | - | £4.1 | £11.4 | £13.0 |
| **Net available for further commitments** | £34.6 | £1.5 | £8.6 | £1.8 | £10.0 |

- To date £40.8m has been paid back under Evergreen Fund I and GPF. However, it is difficult to specify the quantum and profile of future repayments in the short to medium term due to the development stage of investments – while some projects are able to re-finance, others have sought extensions on their repayments. While this uncertainty around realisation of recycled capital contributes to the need for additional funding, it is important to note that Evergreen Fund I reflows will be targeted at generic stock; in contrast the funding for Evergreen Fund II is distinct as it is targeted at a more specialist sub-set of projects with a science and innovation, or low carbon focus that are typically more difficult to finance. This is described further in Section 6.

| Fund | Repaid to Q2 2016 |
|---|---|
| GPF | 13.0 |
| Evergreen Fund I | 27.8 |
| **Total** | **40.8** |

## *General funding market update*

- On the supply side the latest market update provided by CBRE “Development Finance: Is there capital for the cranes?” (November 2015) notes the following trends:
  - Development finance availability has increased in the last 12 months, but it is selective and is biased towards the best schemes;
  - For the most attractive opportunities, senior lenders have been prepared to reduce margins and have become more tolerant on the level of pre-letting on commercial assets or pre-sales for residential. However, they are more reluctant to increase leverage primarily as it is a risk metric but also because it increases their holding costs;
  - In order to reach the desired leverage levels, many borrowers need to secure mezzanine debt or seek whole-loan solutions from alternative funders;
  - Previously seen as “alternative lenders”, debt funds are now becoming well-established and considered “mainstream”. Mezzanine has become an accepted part of the funding stack for many borrowers in order to allow them to reach leverage of 75% to 85% loan-to-cost; and
  - For a fully functioning development market, development funding is needed from additional sources with different risk appetites.
- The CBRE report also forecasts the following future trends:
  - Banks to come under more competitive pressure compared to IRR driven debt funds; and
  - Many lenders outwardly state their intention to increase the amounts of funding they will provide. However, it remains to be seen whether their credit committees and lending criteria will match this optimism.

- Research undertaken by De Montfort University into the UK Commercial Property lending market for the year ending 2015 found:

  - Lenders' prefer large ticket lending to both development and investment projects: Only fourteen banks (30%), building societies and insurance companies were prepared to write a loan of £5m or less for commercial investment projects, compared to thirty one (67%) who would do so at above £100m;
  - Subdued lending to commercial development: Commercial development made up only 5% of aggregated outstanding debt (total: £168.4bn), and 4.5% of aggregated loan origination (total value: £53.7bn);
  - London-centric investment: The London region dominated regional distribution of lending over 2007-2015, with 43% of total debt outstanding being secured against property in the capital – the highest figure ever recorded by the research and up from 26% in 2010. In comparison, the Northern Region made up c.15% of the loan book by value for 2015; and
  - Changes to Loan to Value (LTV) ratios by proportion since end 2013: LTV less than 70% has increased from 63% to 87.5%, while LTV greater than 101% has 19% to 5%.

- On the demand side the H1 2016 market update by CBRE found evidence of steady demand in the region going forward: *"Take up during H1 2016 improved in the second quarter, due to an increased number of transactions. With large impending lettings and continued demand for smaller suites, take-up is expected to reach the 10 year average of 1 million sq ft by the end of 2016. Supply of Grade A space is dwindling and with fewer speculative starts in H2, this is likely to trigger further Grade A rental growth in the coming years.*"

- Together, current market information indicates that while banks will continue to be an important source of funding for the types of real estate projects targeted under Evergreen Fund II, it is unlikely that commercial banks will provide the entire funding need. Despite growing investor interest in the regions over the course of 2015 and the government's efforts to devolve greater powers to local areas, lenders continue to show a strong preference for central London. They also remain reluctant to lend at small ticket sizes, which means smaller regional projects find it more challenging to access the finance they need to succeed. This current view has also been confirmed through the discussions with developers.

- Although the availability of funding for real estate and regeneration projects has improved since the 2014 Ex Ante report, there is still a nervousness about lending for speculative developments. For example, commercial funding was only available as a co-investment against Evergreen Fund I for the £20m ten storey combined office and hotel development to be completed at Media City this summer. Evergreen Fund I provided £6.25m of mezzanine funding with senior lender RBS funding the hotel element. Peel Media state that "Access to structured finance from the Evergreen fund has allowed us to proceed with the delivery of a mixed use scheme [..] that would not have been funded by traditional lenders."

  Additional case studies are provided in Section 6.

- The investment record of Evergreen Fund I reflects market needs. Following the financial crisis developers were only able to achieve a LTV of c.60%, compared to the 70%-80% levels typical prior to the financial crisis. This created a significant short-fall and a large portion of projects were unable to bridge this with developer equity alone. The fund responded to this by offering appropriate financing products to unlock specific projects and enable them to progress. For projects that were able to agree pre-lets, Evergreen Fund I provided senior debt (e.g., the One Spinningfields development referenced in Section 8). For other speculative developments that are unable to do so (e.g., the XYZ building referenced in Section 6), it provided mezzanine finance. This track record suggests that flexibility to make equity investments in future projects would be helpful.

# 5. Key findings from existing relevant UK FEIs

## Introduction

- This section identifies the key findings from two existing FEIs across the UK, Chrysalis Fund (Merseyside) and Scottish Partnership for Regeneration in Urban Centres (SPRUCE), that have a similar investment focus to that proposed by Evergreen Fund II to identify themes that may be relevant to its development. Lessons learnt from the implementation of Evergreen to date have also been considered.

## Chrysalis Fund

- As explained in Section 2, Chrysalis is the other UDF launched in 2012, in addition to Evergreen, that is managed by the NWUIF. The focus of the £32 m fund is to provide investment in commercial property and regeneration projects throughout the Liverpool City-region. The eligible geographic areas for this funding include Liverpool, Sefton, Knowsley, St Helens and Wirral.

- Chrysalis is owned by Igloo Regeneration Limited, but was established by a Consortium led by Igloo comprising GVA and the Royal Bank of Canada. Despite being privately owned, the public sector is represented at both Advisory Committee and Board level and the fund has an independent chair. Chrysalis is playing an increasing role in the delivery of the wider Liverpool City Region investment programme, with alignment being achieved where possible with Growing Places and ERDF grant funding.

- The investment policy is focused on the provision of debt to projects that support employment creation in areas of particular regeneration need. To date it has invested 25% of the fund and is forecast to make further investments by the end of 2013.

- Chrysalis is understood to have experienced a relatively slow start compared to Evergreen, for a number of reasons:

  - Slightly more difficult economic conditions in Liverpool and the surrounding area;
  - A history of Structural Funds grant-giving to support project development; and,
  - Arguably less public sector led promotion by senior officials across the region.

- However subject to continued successful investment, it is anticipated that the Chrysalis Fund will continue in its current form into the next funding round.

## SPRUCE

- The £50 m SPRUCE UDF provides debt finance to regeneration and energy efficiency projects within the 13 local authority areas in the Lowlands and the Uplands of Scotland. Eligible and investible projects include the development of office and commercial space, key transport projects and investment in energy efficient projects. This latter activity includes support for innovative approaches to energy efficiency retrofit measures.

- SPRUCE was established by Scottish Government with the support of the EIB. Its funding sources include ERDF and 'match' funding from Scottish Government. It is managed by a specialist fund manager Amber Fund Management Limited (Amber).

- By way of illustration the fund has provided finance to Dundyvan LLP, a joint venture between CBC and Fusion Assets, set up to develop 45,000 sq.

ft. of small industrial space on brownfield site. Debt finance was provided via SPRUCE and equity finance via the joint venture.

## *Evergreen Fund I*

- As outlined in Section 2, Evergreen Fund I is owned by a number of Local Authorities in the Northwest. This makes the governance structure of the UDF relatively unique and has helped to ensure that Evergreen Fund I is viewed by public sector partners as a key instrument to deliver economic development priorities.

- The public sector governance structure of the UDF has also provided advantages in terms of project origination, with the majority of the projects funded by Evergreen Fund I being sourced by the GM core investment team, ensuring that projects are strategically aligned and eligible for Evergreen investment.

- Where needed public sector partners have worked with CBRE to secured 'match' and complimentary finance to support the structuring of investment proposals. This has enabled projects such as Cutacre to be jointly funded by Evergreen Fund I and GM's GPF. In addition to supporting the structuring of investment proposals, the alignment of funding resources in this manner has clear advantages to potential applicants, resulting in effectively one funding application process and one ensuing on-lending agreement.

## *Key findings*

- Both of the Chrysalis and SPRUCE funds have had a slow start in respect of making investments compared to Evergreen Fund I, although it is understood this is now improving. Based on engagement with the EIB, the possible lessons learnt from the success of Evergreen Fund I that have, and should continue to be considered as the proposition for Evergreen Fund II is developed are:
  - The work of the GM core investment team in developing and owning the project pipeline with the support of CBRE as the fund manager; and
  - The strong political support for Evergreen Fund I, up to the highest level, which has included ensuring the strategic alignment between Evergreen Fund I and new sources of funding such as GPF and RGF.

- It is understood that it is GM's intention to continue to allocate a proportion of its £1 m ERDF technical assistance grant for the 2014-2020 operational programme to support the ongoing work of the GM Core Investment Team in developing the project pipeline for Evergreen Fund II. On this basis, no further consideration has been given to the possible need for, and sources of funding to support this activity going forward.

## *2016 Ex Ante update*

- Evergreen Fund I has been recognised as a major success in the North West, which is evidenced in Section 2. As such, GM is keen to see its success continue through a follow-on fund with similar investment parameters and fund structure (see subsequent Sections of this report).

- This is also true of GMs GPF allocation, the success of which is described in the previous section.

- While in 2014 Chrysalis was struggling with low initial demand for the fund, it has seen a marked improvement in uptake and is now 93% committed. To date it has invested £32m of the fund and supported 7 projects across Merseyside. It's most recent and most significant investment is the Liverpool Life Sciences Accelerator project where Chrysalis agreed a loan of £11.5m - it's largest to date. Forming a key part of Liverpool's growing Knowledge Quarter, Liverpool Life Sciences Accelerator will be a 70,000 square foot facility providing state-of-the-art laboratory space, offices and amenities. Situated on Daulby Street, within the grounds of the Royal Liverpool University Hospital, it will provide a hub for life sciences, enabling clinicians, academics and industry to collaborate in research and innovation to develop their ideas into the life-saving treatments. Two floors will also be devoted to LSTM's Resistance mitigation portfolio, which is playing a leading role in the global fight against the growing threat of antibiotic resistance. Building on site started in December with the Life Sciences Accelerator due to open in June 2017 and it is estimated it will create 5,000 new jobs.

# 6. Market gaps and failures

## Introduction

- This section considers the potential market failures in the areas of regeneration and real estate infrastructure investing, including the additional research and innovation and low carbon elements proposed for Evergreen Fund II, to identify the role that Evergreen Fund II could play in addressing these. The following three strands are considered:

  1. **Funding supply** – based on a desktop review of publicly available reports on the supply of funding. As Evergreen Fund II is required to be additional to other available funding sources, it is important to understand the challenges, if any, in the private lending markets and therefore the potential need for Evergreen Fund II.
  2. **Market gaps and failures** –views from developers and investors on the funding market failure that exist in obtaining funding for projects meeting the strategic objectives proposed for Evergreen Fund II.
  3. **Market demand**– considering publicly available reports on the current indicators in the real estate and local markets to understand the potential need for the fund.

- In Section 8, we consider in more detail the current pipeline of projects that meet the strategic objectives of Evergreen Fund II (as set out in Section 3) and assess whether there is sufficient demand for Evergreen Fund II in addition to existing funding sources as presented in Section 4.

## Funding supply

- The substantial reduction in the availability of commercial funding and increases in the costs of funding, as a result of the global financial crisis, has been one of the key drivers for applicants accessing Evergreen Fund I.

- The decline in lending and the quantum of the future funding requirements was observed in Tim Breedon's UK focussed report "Boosting Finance Options for Business" in March 2012[16]:

  *"Lending from banks to businesses has fallen sharply since the financial crisis. To some degree, this is a natural result of widespread deleveraging and reflects a fall in demand for external finance. However, most (non-real estate) businesses were not highly leveraged prior to the recession and there is evidence that the reduction reflects some supply constraints."*

  *"There is a consensus that credit availability needs to increase as the economy recovers, but analysis suggests that bank credit may not grow to the extent required to support sustainable economic recovery. The modelled estimates suggest a potential credit funding requirement over the next five years of between £84bn and £191bn for the business sector as a whole."*

[16] Boosting Finance Options for Business, Report of industry-led working group on alternative debt markets, March 2012. Department for Business, Innovation & Skills

- Despite the passage of time since the Breedon report, there appears to be little improvement. Bank lending to SMEs has been declining continuously from 2010 to the present at a rate of approximately 4% per annum[17].

- As part of the British Chamber of Commerce 2013 Q2 results, its Chief Economist, David Kern, stated:

  *"the economy's performance is still inadequate and the recovery faces major risks….. In these difficult circumstances, it is vital that the government takes the necessary steps to switch policy priorities towards growth enhancing policies, by supporting infrastructure investment and by boosting the flow of lending to growing businesses, while continuing to cut current spending in real terms."*

- The "SME Access to Finance: An information paper for LEPs" released in August 2013, outlined a number statistics on lending and also stated:

  *"Banks are increasingly looking for security and evidence of good track record from applicants to assess borrowers' ability to repay. A market failure exists because the financial institution's decision to lend is based on collateral and track record, rather than the economic viability of the business."*

- The CBRE "UK Development Funding: Is it Available" Special Report in 2014 considered the debt and equity funding sources available to support the development industry. The reported noted: "*Banks have significantly reduced their loan book exposure to development to pre-2007 levels, but are expected to eventually stabilise at lower levels, establishing new market norms".*

- The report notes that these new market norms mean that speculative development still struggles to secure bank finance unless strong banking relationships exist and the schemes are in the most attractive locations. Another key point highlighted in the report is the constrained risk appetites of many traditional lenders. Where senior debt is available the loan to cost ratio is estimated at 50-65% depending on pre-lets (until 2007, up to c.90% loan-to-cost was regularly achievable). This creates a funding gap in many developments.

- This suggests that the funding supply market failure that was evident at the inception of Evergreen Fund I is still applicable today and whilst the traditional bank finance environment is expected to improve, the requirements of lenders could justify further public sector investment, via Structural Funds, into the real estate and regeneration markets.

## Market gaps and failures

- Engagement with developers and investors suggests that there is a market failure in the supply of senior debt into the real estate and regeneration sectors, driven by a perception that they are too risky. As noted in the CBRE report, where senior debt is available, it often comes with restrictions which can be prohibitive to developers. This is due to a number of factors, including:

  - Regeneration projects can often involve significant **upfront preparatory costs and lengthy preconstruction and construction periods**. This leads to potentially significant time lags before value can be realised for investors.
  - **Difficulties in securing pre-let commitments.** Particularly in unproven sites or areas that benefit the most from regeneration, it can be very difficult to obtain pre-let commitments prior to construction start. Commercial banks can be reluctant to lend to projects where the future revenue streams (and their exit) cannot be predicted with high certainty. For example, one lender indicated that on a new development it would require, at a minimum, binding pre-let agreements with revenues from day one equivalent to 100% of the commercial bank's interest payments.

17 Alternative Finance for SMES and Mid-Market companies, October 2013

- Urban regeneration can be associated with **high-risk development**, involving the need to address contamination, dereliction and site assembly or remediation issues that can give rise to additional costs or risks that banks may not be prepared to fund.
- Project viability may be affected if it is located in a **deprived urban area** characterised by a low-income population, high unemployment and social exclusion, which may lead to higher development costs and uncertain revenues due to an underdeveloped market.

- The Project Pipeline section provides further detail on how the market gaps and failures detailed above are manifesting in a number of planned projects in the GM area. The following case-studies provide detail on how Evergreen Fund I has addressed the market gaps and failures and invested to date. The case studies focus on the first two projects to reach investment stage and have been developed through reviews of available materials as well as discussions with CBRE, the applicants themselves (representatives from the Carlyle Group and Bruntwood) and Lloyds Banking Group as a co-funder on the Citylabs project. These provide local current evidence of ongoing senior debt funding market failures in the real estate and regeneration funding market as outlined above.

**Case study 1 – Soapworks**

Evergreen Fund I invested £6m loan in Soapworks, The Carlyle Group's 400,000 sq. ft. office development in Salford. Soapworks will have a gross development value of £70m and the Evergreen-funded element of the project will deliver 1,350 jobs, with future phases providing a further 2,500 jobs. Construction of development blocks A, B and C commence in early 2013, with completion due in 2014.

This follows the completion of the first phase of the project in October 2011 - the 20,000 sq. ft. boiler-house already fully let to engineering firm Vital Services. The final phase of the Soapworks project, Block D, will add a further 170,000 sq. ft. of office space.

The financing arrangements for the project were:

- Equity from Carlyle Group of £6.023m
- Evergreen Fund I provided £6m of senior lending at a fixed interest rate of 6.25%, plus arrangement fees at commencement
- Commercial lending was not available due to the higher perceived risks of the project, including:
    - Out of town location
    - Poor reputation of location
    - Difficulty to obtain pre-lets
    - Non-Grade A office sites being developed
    - Lack of existing amenities, therefore required to be developed as part of the site
    - Risk averse attitude of the banks to speculative developments
- The provision of the Evergreen Fund I loan appears to have therefore unlocked the project and enabled it to proceed.
- Evergreen Fund I loan is to be repaid through a refinancing or sale of the asset prior to maturity.
- Duration of loan was extended to 5 years, compared to the 3 year requirement of Evergreen Fund I. The longer duration was requested to allow a letting track-record to develop and improve the refinancing / sale position prior to the maturity date.

**Case study 2 – Citylabs**

Evergreen Fund I has committed £4.75m of investment into Manchester-based biomedical centre Citylabs with potentially up to £4m in the pipeline for phase 2.

Citylabs is a specialised space that provides laboratories and offices to the biomedical sector, and will be home to NHS spin-offs, providers to the pharmaceutical, biotechnology and medical device industries, as well as The Manchester College and The Central Manchester University Hospitals NHS Foundation Trust Charity.

Citylabs will open in spring 2014, and is expected to create 440 new jobs and add approximately £60m to Manchester's annual income (GVA).

The financing arrangements for the project were:

- Evergreen Fund I provided £4.75m of senior lending at an interest rate of 4.5% plus LIBOR, plus arrangement fee.
- Private sector funding was provided by Lloyds Banking Group at equal (pari-passu) terms as Evergreen Fund I.
- Equity was provided by the developer, Bruntwood.
- Evergreen Fund I provided the gap between the amount that could be obtained commercially and the equity available from Bruntwood. The gap in funding was due to:
    - Uncertainty in pre-letting of the completed site
    - Technology/ innovation associated with the site
    - Risk averse attitude of the banks to real estate developments (e.g. caps on the loan to value that can be lent)

- Similar to Soapworks, the provision of the Evergreen Fund I loan appears to have been crucial in completing the funding package and enabling the project to proceed.
- Duration of loan was 3 years.
- Evergreen and Lloyds loans are to be repaid through the refinancing of the asset shortly after practical completion.

- These market failures appears to be further exaggerated when property development expands into the innovation and research and low carbon sectors as proposed for Evergreen Fund II:
  - **Innovation:** Additional perceived risks include:
    - Typically start-up organisations are smaller scale organisations than traditional office tenants. This can mean to smaller individual letting contracts rather than a single large pre-let. It can also give rise to a perception of a weaker financial robustness for innovation tenants compared to the larger traditional tenants.
    - Specific design requirements may be factored in to attract innovation organisations (e.g. laboratories or testing centres). This can make the design too specific to attract replacement tenants.
    - Tenancy contracts may be shorter-term to give the users more flexibility to adapt to their future expansion needs.
  - **Low Carbon:** Additional perceived risks include[18]:
    - Uncertainty of the longer-term financial benefits associated with the additional up-front investment. For on-site energy supply infrastructure this can include a lack of robust energy offtake agreements due to, inter alia, uncertainty over energy need of future site occupiers and/or tenants where pre-lets with long-term tenancies have not been secured..
    - No direct mechanism for the developer to benefit from the additional investment. For example, benefits of demand-side energy efficiency measures may be realised by future tenants, therefore if the developer plans to exit its investment within three years it will have no access to these benefits (unless this is priced into the sale/ tenancy value). This can therefore increase the repayment risk of the initial commercial investment or prevent such investment occurring in the first place.
    - Challenges in securing sufficient funding for the development itself, without the additional requirements for the low carbon development.

## Market demand

- The real estate sector was one of the areas substantially affected by the financial crisis however recent surveys and publications portray an image of positive recovery both in terms of optimism and the ability to launch projects. The Lloyds Bank Commercial Banking Regional Purchasing Managers' Index® survey for August 2013 indicated positive growth in the North West stating: *"Combined business activity of the English regions increased at the strongest rate since 2001."*

  *"Of all the English regions, the North West saw the strongest rate of expansion last month."*

  *"…a wide range of factors that had boosted recent business activity, including higher consumer demand and greater investment spending amongst both public and private sector clients."*

- On 10 October 2013, the Savills - Commercial Development Activity report for September 2013, stated: *"September's reading indicated that total commercial projects continued to expand sharply, with panellists commenting on improved confidence and easier access to borrowing funds."*

[18] See Section 5 of the Low Carbon Fund Ex Ante Assessment for a detailed analysis of market failures in the low carbon sector.

*"Private commercial work rose at the quickest pace since March 2007."*

*"Strong optimism was signalled by commercial developers in the UK."*

*"Anecdotal evidence suggested that commercial activity is anticipated to rise over the next three months as improved client confidence is forecast to lead to stronger demand."*

- The Deloitte UK Cities Crane Survey 2013, published in October 2013, also illustrates positive news, with particular focus for Manchester: *"an increase of 80 per cent in the number of new schemes starting construction over the last 12 months compared to last year.*

  *"our regional research now illustrates a rise in development activity, matching the recent improvement in the UK economy. We have recorded construction increases in office space and student accommodation as demand for both continues to rise. Similarly city centre residential is beginning to appear back on the agenda with a number of schemes breaking ground."*

  *"Manchester has seen a surge in development activity confirming it is the most active city in the survey. The city recorded 19 new construction starts including eight residential schemes set to deliver nearly 1,000 city centre units."*

  *"This increase in construction is unlikely to be a one-off. With an improving residential demand, supply shortages appearing in a number of the commercial property sectors and signs of increasing activity from investors in regional commercial real estate. It looks like we will see more development activity over the next 12 months."*

- This suggests that there is a growing demand for regeneration and real estate-led investing, which could be supported by Evergreen Fund II. However, as noted in the CBRE "UK Development Funding: Is it Available" report, the more restrictive loan to cost ratios adopted by traditional lenders, still means that even with greater demand, funding gaps can remain. In CBRE's view, it is likely that Evergreen Fund II will need to play an increasing role in providing more structured finance solutions, to provide the gap financing needed between bank finance and developer equity. The potential project pipeline for Evergreen Fund II is considered in Section 8.

## Summary

- The various reports described above highlight a situation of continuing challenges in raising the necessary private sector debt funding in the regeneration and real estate sectors in particular. Where debt is available it is often on terms that can prove overly restrictive for developers. This appears to contrast with the emerging optimism in the market and increase in developments in the sector, suggesting there may be a role for Evergreen Fund II in unlocking commercial investment and/or project development, by providing more structured financing solutions.

- Desktop research and stakeholder engagement suggest that Evergreen Fund II could support developments that present perceived commercial risks to lenders such as sufficiency and robustness of pre-lets, developments in deprived areas and lengthy construction periods through the provision of short term senior, subordinated and mezzanine debt products. Such products would also potentially help to address the funding gaps created by more restrictive loan to cost ratios.

- However, recognising the changing demand and funding supply for regeneration and real estate development in the past five years, it is recommended that the investment parameters for Evergreen Fund II remain flexible. The proposed FI will have an investment period of up to seven years to the end of 2020, during which time, the market failures in the supply of finance to these sectors may change. Together with robust governance over the FI, this will help ensure that it has the agility to address the possible changing needs of the sector over time.

- In all potential investment scenarios, we understand that the approach of Evergreen Fund I has been to ensure that it is the funder of last resort, so as to crowd in and not to displace private sector investment. It is recommended that such an approach is adopted for Evergreen Fund II.

- In Section 8 we consider the validity of this proposition in the context of GM and its current Evergreen Fund II pipeline.

## *2016 Ex Ante update*

- While market conditions have improved since 2014, there continue to be market failures in terms of lending activity across three key dimensions:

    1. **SMEs targeted office developments:** The experience of Evergreen Fund I has demonstrated that there continues to be strong demand for a debt fund due to a broader market failure in the development finance market. As referenced in Section 4, LTV ratios remain low compared to pre-financial crisis levels. Combined with an equity shortage on the part of developers, this creates a market need for creative solutions, particularly relating to developments aimed at SMEs who are seen as riskier, lower value tenants for property developers;

    2. **Specialist facilities:** Within the broader market failure outlined above, there is a more acute need for financing targeted at research and innovation and low carbon projects specifically. Commercial investors are more likely to invest in Grade A office space in a central location than the more specialist facilities targeted under IP1a and IP4b. This means there is a need for additional funding targeted at this market gap; this is distinct from Evergreen Fund I reflows which would be targeted at more generic stock; and

    3. **Ticket size:** Section 4 outlines research by De Montford University which finds low lender interest for smaller ticket sizes compared to larger (£100m+) ones. Section 8 sets out that pipeline projects for Evergreen Fund II have an average ticket size of c. £7m-£8m, an area of unmet need in the current market as evidenced by market research.

- The following case-studies provide more recent evidence of the general market gaps and failures (point 1 above) that remain in respect of real estate investing in GM based on further Evergreen Fund I experience since 2014. They focus on the most recent projects to reach investment stage and have been developed through desktop research and information received from EIB and GM.

**Case study 3 – The MSP Hub**
Evergreen Fund I invested £4.5m loan in the Manchester Science Park Hub building, a 55,000 sq feet grade A new build to provide quality business accommodation and on space. Of the total development cost of £9.4m, the GPF has invested £2.3m and the private sector has invested £2.5m.

The premium building has attracted interest from an international company looking to locate their European Headquarters there, securing direct jobs against international competition. Additional speculative space will provide opportunities to grow for larger occupiers and high growth companies.

It will:

- bring brownfield land back to productive use
- deliver 4,695 m2 of office space and 553 m2 of retail space; and
- create c.180 new jobs in 2015 and a further 128 new jobs in 2016.

**Case study 4 – BBC Oxford Road**
Evergreen Fund I has invested a £5m senior loan in the former BBC site within the high growth potential area of Corridor Manchester. An additional £5m has been committed by the private sector. This combined package of £10m will cover expenditure up to end 2016, and be part of a total works package of £21m.

The Evergreen investment relates to the critical infrastructure needed to support the development of 111,500m2 of office space, particularly for knowledge-based businesses. About £150m of private sector investment is expected across the park once this infrastructure is in place. The fully developed and occupied site will have an employment impact of 11,000 gross permanent jobs. There will also be retail space of 9,290 m2. The masterplan includes a commitment to the highest BREEAM standards.

**Case study 5 – XYZ Building**
This is a speculative development financed through a £15m loan from Evergreen I and Growing Places. It has a total development costs of £40m, with mezzanine funding provided by Pramerica. The project also received match funding of £10m from Private Sector Investment.

The scheme will deliver 13,660 sq/m of BREEAM Excellent commercial floorspace and 22,000 sq ft of existing brownfield land will be re-used. It will also deliver c.910 jobs.

"*The availability of Evergreen finance has enabled us to bring forward our vision for the Building in a market where development funding for speculative schemes is still challenging to secure.*" - Freddie Graham-Watson, Group FD, Allied London

**Case study 6 – Logistics North (Cutacre), Bolton**
This Harworth Estates development is part of a Manufacturing & Distribution scheme occupying c.100ha of the site. It received a £7m senior loan from Evergreen I, with match funding of £3m from GPF. The investment has funded front infrastructure in order to unlock the value of the scheme and to make the whole site immediately available.

The overall scheme can deliver up to 400,000sqm of employment floor space in large format buildings and has the potential to deliver over 7,000 new jobs and £335m in GVA to Greater Manchester. This includes Aldi, who are building a 600,000 sq ft distribution centre on-site that that will act as the company's North West HQ and distribution hub. MBDA is on-site building a 100,000 sq ft facility following receipt of planning permission (complete end of 2015 ready for occupation 2016).

"*Evergreen funding will be instrumental in enabling us to deliver what will be the premier logistics location servicing the North West. The loan we have received will fund the construction of roads, ground works, power, drainage and utilities and we will begin works in the summer. Having local authorities and funds such as the North West Evergreen Fund championing key regeneration projects in the North West of England is crucial to the continuing growth of the region.*"- Phil Wilson, Executive Director at Harworth Estates

- The pipeline development work undertaken by MCC has shown that within the broader demand for financing from the property sector, there are sufficient projects that meet the specific criteria for PA1 and PA4. Section 8 sets out the current pipeline for Evergreen Fund II, which comprises 4 projects aimed at PA1 and 5 projects aimed at PA4.

# 7. Strategic & market needs: Key findings and value added

- **Strategic priorities:** GM has outlined its EU funding ambitions through the EU Investment Plan, which aligns both with the GM Strategy 2014-2020 as well as the national and European structural fund priorities. The EU Investment Plan outlines the proposed allocation of £50m of ERDF for Evergreen Fund II which are to address the following strategic objectives: competitive places, science, innovation and knowledge economy, competitive business and low carbon.

- **Leverage, 'Match' and Complementary Funding:** Evergreen Fund I has shown a track-record of levering other funding sources and unlocking project level complementary funding from developers (typically equity) and senior commercial lenders (e.g. Lloyds) alongside securing public sector 'match' funding from for example the GPF. The leverage secured and forecast by Evergreen Fund I is considerable. According to CBRE's records, the combined committed and forecast Evergreen Fund I leverage from the first round of investment is £24m of public sector funding and £91m of private sector funding. These projections are significant given the difficult market conditions in which Evergreen Fund I has operated and the constrained public sector funding environment.

- With GM's ability to recycle GPF returns this should enable project level 'match' funding to be secured. Evergreen Fund I recycled returns cannot be used as 'match' or complementary funding into projects co-financed by Evergreen Fund II (EU Regulations do not permit this). However, in addition there is evidence to suggest that Evergreen Fund II should be able to unlock project level complementary funding from developers and commercial lenders. There is also a new and growing interest from institutional investors (e.g. UK pension funds and insurers) to make direct investments into UK infrastructure, which may offer additional complementary funding for large-scale projects where they match investors risk and return requirements.

- This suggests that there is sufficient availability of potential 'match' and/or complementary funding from public and/or private sources at a project level to support projects into which Evergreen Fund II may invest. This differs from Evergreen Fund I, where the majority of 'match' funding was sourced at the NWUIF level.

- However despite the funding supply available to the real estate sector generally, the availability of pari passu 'match' funding for senior, subordinated / mezzanine debt is less clear. The possible implications of this are considered in Section 8.

- It is noted that the GM EU Investment Strategy anticipates the majority of 'match' funding will come from private sector sources. GM may want to re-define this, as it is likely a proportion of 'match' funding will come from other public sector sources such as GPF.

- **Revolving nature**: Evergreen Fund I has to date invested in projects by way of senior and mezzanine debt, with typical repayment periods of three years. This provides a significant advantage over other public funding streams, which typically operate on a grant basis. The principal repayments generated by Evergreen Fund I's investments are available to be recycled by the Fund and invested into a further round of projects, generating a further series of outputs/outcomes and securing further public and private sector leverage.

- **Building on success:** of the three FEI instruments in existence in the UK with a similar investment mandate to that proposed for Evergreen Fund II, Evergreen Fund I appears to have developed the strongest track record. This has been attributed to strong public sector support at the highest level coupled with the GM Investment Team focused on project development in conjunction with CBRE, their fund manager. This approach appears to have provided value added over more traditional public sector funding approaches, enabling an effective public/private management team to be established, which draws on the relative strengths and expertise of the respective teams. This suggests Evergreen Fund II may equally benefit from similar structure and governance arrangements.

- **Market demand**: Evergreen Fund I has demonstrated a history of real estate and regeneration lending in the North West. At a fund size of £41.6 m, it has a project pipeline of over £80m including four projects (£22.5 m) that are committed for investment, two projects (£14.5 m) under detailed review and a further pipeline of 6 projects (£44 m) under development. This suggests that there could be surplus demand for Evergreen Fund I, which depending on the timing of these projects coming to market, could offer investment opportunities either to Evergreen Fund II and/or Evergreen Fund I recycled capital.

- **Addressing Market gaps and failures:** Desktop research and stakeholder engagement suggest that Evergreen Fund II could support developments that present perceived commercial risks to lenders such as sufficiency and robustness of pre-lets, developments in deprived areas and lengthy construction periods through the provision of short term senior, subordinated and mezzanine debt products.

- The case studies outlined in Section 6, highlight the role that Evergreen Fund I has played in addressing the market gap to unlock projects that would otherwise appeared to have struggled to proceed. The flexible nature of Evergreen Fund I's approach to date (and which would be expected to continue with Evergreen Fund II), together with the expertise of the private sector fund manager, has enabled the Fund to respond quickly to relatively dynamic market conditions, providing a variety of funding approaches to address project funding needs.

- However, recognising the changing demand and funding supply for regeneration and real estate development in the past five years, it is recommended that the investment parameters for Evergreen Fund II continue to remain flexible. The proposed FI will have an investment period of up to seven years to the end of 2020, during which time, the market failures in the supply of finance to these sectors may change. Together with robust governance over the FI, this will help ensure that it has the agility to address the possible changing needs of the sector over time.

## *2016 Ex Ante update*

- Section 6 has outlined that while market conditions have improved since the financial crisis, there continue to be market failures in terms of lending activity across three key dimensions: 1) SME targeted office developments, 2) specialist facilities, and 3) smaller ticket sizes. Evergreen Fund II investments will be targeted at these specific market failures. The case studies in Section 6 provide evidence of the role Evergreen Fund I has played in unlocking projects, and Evergreen Fund II will build on this strong track record and investment capability.

# Transitioning Northwest Urban Investment Fund

## European Investment Bank

## Evergreen Fund: 2014-2020 Ex ante Evaluation

### PART TWO: FUND DESIGN

# 8. Project Pipeline

## Introduction

- This section considers:
  - The  project pipeline for the GM area to better understand the current estimated funding required and timescale thereof;
  - Potential funding products suitable for the project pipeline;
  - State aid implications of the proposed funding products;
  - The forecast profile of available Evergreen I, RGF and the current profile request for Evergreen II funding; and
  - The sources of 'match' and complementary funding available.
- This review is intended to:
  - Test whether the financial products proposed for Evergreen Fund II could address the perceived funding market failures in this sector;
  - Test whether the proposed allocation to Evergreen Fund II in the GM EU Investment Strategy could reasonably be deployed during the 2014-2020 investment period, the possible timetable thereof and highlight possible recycling opportunities; and
  - Highlight possible state aid implications of the proposed public sector financial interventions.
- This is important to ensure that the proposed Evergreen II Fund is:
  - 'Additional' to existing sources of finance;
  - There is a sufficient pipeline of projects to justify its creation; and
  - That it is sized appropriately to minimise the risk that Structural Funds are not defrayed on eligible expenditure by the end of 2020.
- Consideration of the possible leverage impact and non-financial outcomes that Evergreen Fund II may generate is considered below and in Section 11 respectively.

## Pipeline overview

### Surplus Evergreen Fund I pipeline

- Based on the status of the Evergreen Fund I project pipeline as outlined in Section 2, only one of the six pipeline projects (funding requirement of £4.6m) is required to reach financial close by December 2015 for its £41.6m allocation to be fully utilised. This assumes that the projects under detailed review progress successfully.
- While the pipeline is constantly evolving, and the timing of projects coming to market is uncertain, this implies that up to £40m of the potentially 'surplus' Evergreen Fund I pipeline could create investment opportunities for Evergreen Fund II. It is understood that all of these projects currently have financing gaps. The specific project opportunities are set out in the table below:

| Project | Summary | Evergreen Fund I investment opportunity |
|---|---|---:|
| **Manchester Airport** | Logistics facility at Manchester airport | £8m |
| **Port Salford** | Warehousing / distribution centre in Salford | £10m |
| **Grand Central** | Office space, car spaces and hotel development in Stockport | £8m |
| **Soapworks 2** | Next phase of Soapworks office/ regeneration development in Salford | £6m |

| Project | Summary | Evergreen Fund I investment opportunity |
|---|---|---|
| **Citylabs 2** | Next phase of Citylabs development at the Manchester Science Park | £4m |
| **Confidential** | Initial development of a site in Lancashire | £8m |
| **Total** | | **£44m** |

- The funding structure of these projects is still under development in line with the investment principles of Evergreen Fund I (i.e. senior or mezzanine debt with short-term tenors). The next round of Soapworks and Citylabs projects are anticipated to follow a similar capital structure to that set out in the case studies in Section 6, with possible adaptation to reflect market changes. Without significant pre-lets (which are not currently foreseen) it is likely that both projects will face similar market failure issues to those experienced with Evergreen Fund I.

- These opportunities, subject to the caveats above, could provide immediate investment opportunities for Evergreen Fund II. However, for clarity, the £44m represents the potential investment required across the six projects from Evergreen Fund I. As such, these amounts may include up to 50% 'match' funding at the project level, which Evergreen Fund I already has at a fund level. The opportunity this may present to Evergreen Fund II may therefore be less than this, on the basis that 'match' funding is more likely to be sourced at a project level rather than at fund level.

- In addition to the projects shown in Section 2 and described above, further projects are being developed by CBRE for potential Evergreen investment. This includes the emerging Quay House Grade A office development in the Spinningfields area of central Manchester. The funding structure is still underdevelopment but the Evergreen Fund may provide the mezzanine funding portion to fill the gap between the senior debt obtained from commercial lenders and the private sector equity. The potential funding requirement may be in the region of £15m from 2015 onwards, thus demonstrating another potential, substantial demand for investment. This project has been included as a case study in the next section of the report.

## *Greater Manchester strategic sites*

- As part of GMs strategic review processes, it has sought to identify a number of strategic sites that are anticipated to contribute to economic development in its widest sense. The sites have been chosen as they are expected to encourage growth and seek to deliver maximum opportunities in the areas of most need.

- These strategic sites are described in detail in Appendix G. The data sources are referenced in Appendix G and include GM as well as public available information. The strategic sites are presented at a high-level in the table below to indicate the potential development type, location, timing and cost:

| Strategic site | Development type | Location | Date | Potential cost |
|---|---|---|---|---|
| 1. Regional Centre | Multiple | Manchester / Salford | 2013-2023 | £180-£270m |
| 2. Airport City | Multiple | Manchester | 2013-2028 | £800m |
| 3. Port Salford | Warehousing | Salford | 2013-2028 | £130m |
| 4. Cutacre | Warehouse, factory, offices, hotel | Bolton | 2013-2023 | £150m |
| 5. Kingsway | Offices | Rochdale | 2014-2024 | £315m |
| 6. Horwich Loco | Residential, offices | Bolton | 2014-2026 | £30m |
| 7. Carrington | Residential, employment, education, | Trafford | 2013-2020 | Unknown |

| Strategic site | Development type | Location | Date | Potential cost |
|---|---|---|---|---|
| | highway infrastructure | | | |
| 8. Hollinwood | Offices, warehouse, hotel, leisure | Oldham | TBC | Unknown |
| 9. Trafford Park | Warehousing | Trafford | TBC | Unknown |

- Whilst many of the strategic sites are still at early planning stage, the breadth of the opportunity for commercial buildings in the medium to long term is extensive. Information provided by GM suggests there is a minimum of 1,224 hectares of office space primed for development and a further 187 hectares of warehousing space.

- Based on these preliminary figures and the sources described in Appendix G, the potential capital expenditure requirement for the sites is expected to exceed £1.4 billion. Applying a simple pro-rating of these costs against the date assumptions shown above, this is equivalent to approximately £900m in total over the 2014-2020 period.

- It is recognised that funding for these sites will be obtained from a variety of sources depending on the market conditions, the nature/ identify of developer and the associated project risks. However, by their nature as strategic sites that are viewed to contribute to economic development in their widest sense but have not already been developed commercially, there are likely to be to challenges in raising conventional funding for the entirety. Sources, such as Evergreen Fund II, may help unlock these projects by filling project funding gaps and to improve project viability. The flexibility to fund at sub-commercial rates through utilising the state aid notification will further help improve project viability and may accelerate development.

- Therefore Evergreen Fund II may only be suitable (or eligible) for a small proportion of the total investment requirement of c. £800m in the circumstances where other funding sources is not appropriate.

- By way of example, the Evergreen Fund I pipeline above includes £6m for investment in the Port Salford opportunity. The Port Salford opportunity is large strategic project, bringing together shipping, rail and road transport in Salford. Part funding is being sourced from the European Investment Bank, and investment from Salford Council in infrastructure is already underway. The current Evergreen Fund I investment demand is to invest in a ring fenced logistics accommodation scheme by the dock. At the current position, this shows an investment of approximately 5% of the total size.

- The following case-studies provide detail on the Cutacre site and One Spinningfields development that may benefit from funding support from the Evergreen Fund II.

**Cutacre**

Cutacre is an opportunity for the development of 100 hectares of land across three GM local authorities providing up to 3.5m sq. ft of office, manufacturing and warehousing space plus a hotel on the site of a former opencast coal mine in Bolton. The proposed scheme is at the planning stage and will be phased plot by plot development over 10 years.

Once fully developed and occupied, Cutacre is expected to deliver approximately 7,750 gross permanent jobs and support 118 construction jobs on site each year over a ten year period. It is estimated it will take 10 years to fully develop the site at a cost of over £150m. A plot has already been sold to Aldi for their new regional headquarters and distribution centre.

Potential opportunities for Evergreen Fund II investment may arise to support the development of office/ manufacturing space or potential low carbon initiatives, such as a combined heat power plant for the site. This will be especially important where commercial funding is challenging to obtain due to uncertainty in the pre-let commitments and where developing outside of the existing core business areas.

**One Spinningfields**

One Spinningfields is another example of a project that may require support from Evergreen Fund II. The loan is currently undergoing stage 1 due diligence by CBRE for a potential mezzanine loan. The borrower (Allied London) had tested the market extensively amongst lenders. It had managed to secure terms for senior debt to c. 60% loan-to-costs and had support from a private sector funder for preferred equity for c. 80% loan to cost upwards, but could not source funding for the element of funding, at the mezzanine-level. CBRE had been in discussions with the Borrower since late 2013 and had remained clear that Evergreen would only consider funding if all other reasonable options failed. Allied London then spent considerable time to attempt to assemble funding, but did encounter market difficulties in funding the entire development cost. Senior lenders were only willing to lend a restricted portion of the debt required and that was contingent on a pre-let. Accordingly, Allied London have gone on record with CBRE to confirm that Evergreen's participation will be critical to a successful funding package that would otherwise be incomplete.

### *Other opportunities*

- In addition to the Citylabs 2 project included in the Evergreen Fund I pipeline and the strategic sites described above, discussions with the developer have highlighted the future development opportunities at the Manchester Science Park. Bruntwood is currently developing a wider masterplan for the site, with potential investment needs in the region of £50m in the next 5-10 years.

- It should also be recognised that other suitable projects, additional to the areas listed above, may be identified as a result of changing demands. For example, Section 6 indicates growing confidence in property development in the region and therefore a potential increase in demand for funding instruments such as Evergreen Fund II.

## *Potential role of Structural Funds*

- The market demand analysis and recent Evergreen Fund I projects indicate the current funding demand and market gap be in providing short-term senior, mezzanine and subordinated funding, where the risks and funding requirements of the development projects sit outside of the parameters and appetites of traditional lenders. However, the long-term timeline for developing the strategic sites potentially up to 2028 coupled with the investment timetable for Evergreen Fund II up to 2020, indicates a need for funding flexibility to allow the fund to react to future changes in funding markets (e.g. allowing equity investment, as well as debt funding).

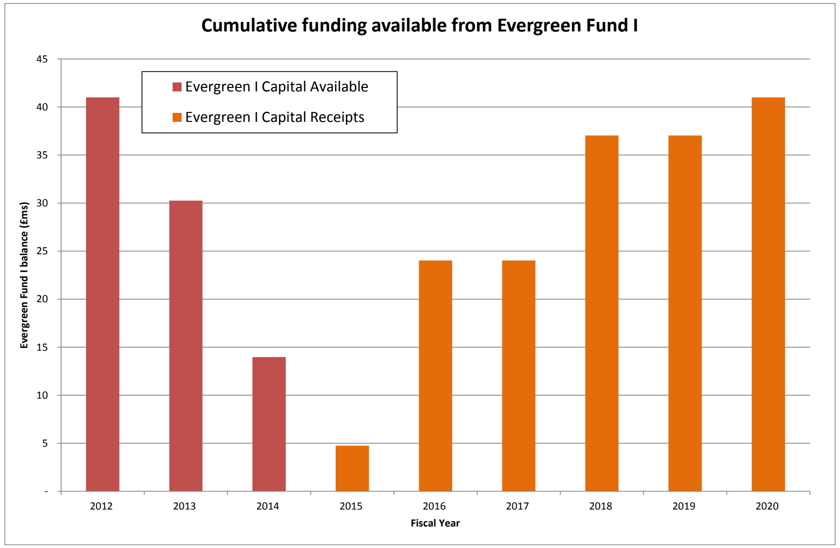
- This need for flexibility is also reinforced by the desire to achieve outcomes in low carbon and connecting with research organisations. As described in Section 6, these outcomes are seen negative by commercial lenders and potentially private developers, so by offering the range of products and potentially at sub-commercial rates this may help unlock and achieve these projects.

- Where there are abnormal costs associated with development, for example brownfield land remediation or heritage associated costs there may be a need to combine Evergreen Fund II investment with grant funding. It is understood that a notional allocation has been made within the GM EU Investment Plan, to provide an element of grant support to projects alongside Evergreen Fund II, where those projects would not proceed on the basis of repayable investment. Such an allocation would provide additional flexibility to support the implementation of Evergreen Fund II.

## *Proposed funding allocation*

### *Evergreen Fund I*

- The chart below shows, on a cumulative annual basis the availability of Evergreen Fund I capital (excluding any interest earned).




- This show the anticipated drawdown of the £41.6m of initial fund capital by the end of 2015[19]. The repayment profile indicates capital repayment begins in 2015, with full capital repayment by 2020[20]. This assumes that there are zero debt write-offs or repayment delays across all investments that could affect the capital return profile.

- However, it should be noted that of the £41.6m it is understood that around £10m of the capital receipts may be ring-fenced for future investment opportunities in Cheshire, Cumbria and Lancashire. The total recycled capital amounts from the Evergreen I Fund that may be available for GM are therefore anticipated to be £30.1m.

- This highlights a potential shortage of funding from 2014 – 2018, with the net fund balance below £20m throughout this period (i.e. less than half the total fund size). As little as half may be available for GM, which may be further impacted if repayment is delayed. This suggests an immediate role for Evergreen Fund II, to fill this potential funding gap.

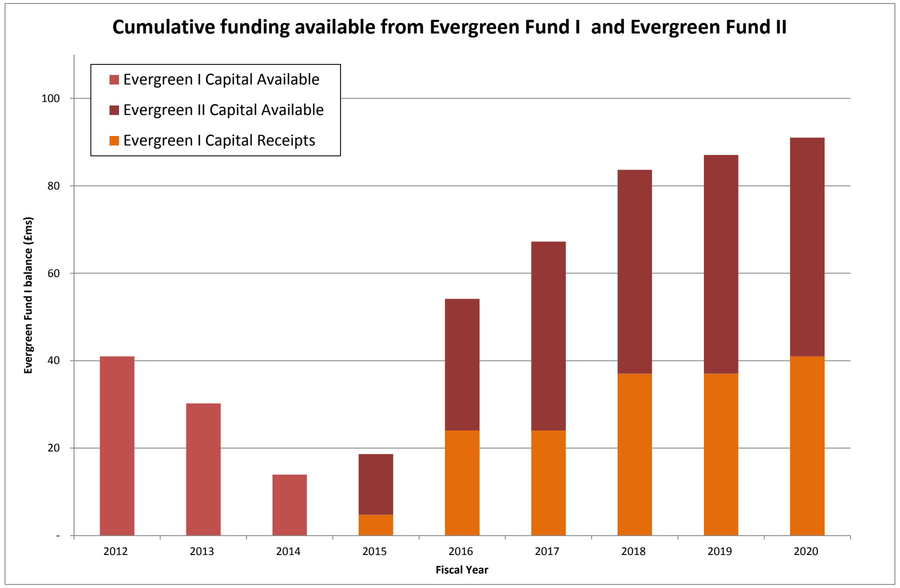
## *Evergreen Fund II*

- The chart below shows the impact on available capital if the anticipated £50m drawdown profile for Evergreen Fund II[21] is overlaid on the chart above. This shows the drawdown profile for Evergreen Fund I to 2014 and the capital available year on year from Evergreen Fund I capital receipts and Evergreen Fund II from 2014 to 2020.

[19] This applies the current drawdown profile equivalent to the 6 projects either committed or under detailed review, plus the assumption that the current balance of £4m is utilised by one or more of the projects in the pipeline before the end of 2015.

[20]Source: CBRE

[21] Source: GM EU Investment Plan 31 January 2014




- The chart highlights that there will be over £90m of funding available from Evergreen Funds I and II during the 2014 – 2020 investment period for Evergreen Fund II. Of this, around £80m is anticipated to be available to support projects in GM.

- It is worth reiterating that Evergreen Fund I receipts cannot be used as 'match' or complementary funding in projects into which Evergreen Fund II invests. However, neither does it require to be 'matched' as Structural Funds regulations will no longer apply to such receipts.

## Conclusion

- In summary, the pipeline indicates potentially £40m of surplus Evergreen Fund I demand for funding, plus potential capital investment in the GM region of over £900m during 2014-2020 (although recognising that this capital investment will likely be obtained from a variety of sources and the Evergreen Fund II will only be suitable for a small proportion of the total funding requirement), as well as other projects that are sourced during this period.

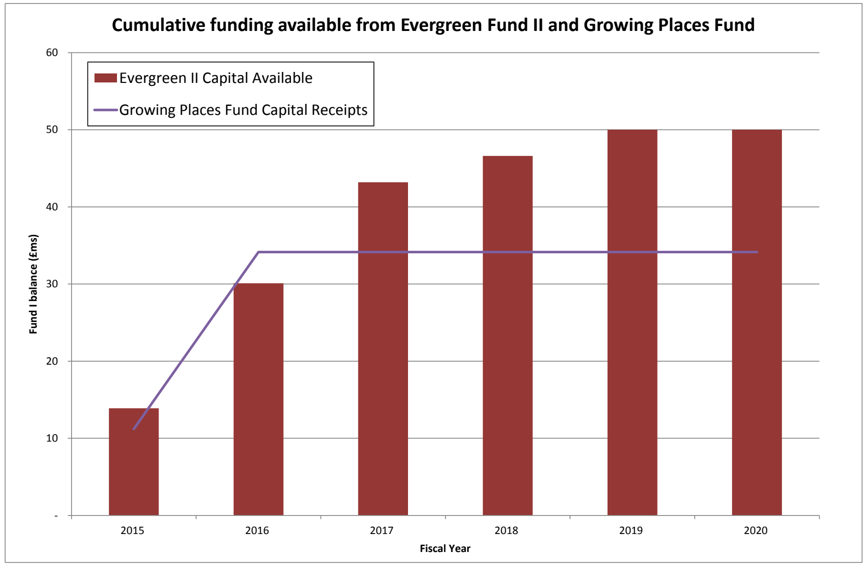
- This compares to the combined balance of £90m of funding from Evergreen Fund I and II. For example, if the surplus Evergreen Fund I demand materialises, the remaining £50m will be equivalent to 5-10% of the potential capital investment from the identified strategic sites, therefore indicating the potential for the combined amount to be fully invested during the 2014-2020 period.

## Sources of match-funding

- Commercial banks will continue to be a source of funding for development projects, most likely taking the 'senior' position compared to the developer equity and the Evergreen funding. The Evergreen Funding will therefore be used to unlock and leverage the commercial funding sources.

- However, increasingly GPF has been used in recent projects as 'match' for Evergreen Fund I. As highlighted in Section 2, potentially over £30m of recycled GPF is anticipated to be received during 2014-2020 that GM has confirmed may be made available to provide as 'match' funding.

- The following chart shows the cumulative funding available from Evergreen Fund II, along with the anticipated balance of GPF available each year.




- This indicates that GPF (unless utilised to meet other funding demands) may be available to 'match' fund at least 65% of the available capital from Evergreen Fund II.

- Evergreen Fund I was largely 'match' funded at the NW UIF level and/or received 'match' from the GPF. However based on the pipeline review in Section 6 and earlier in this section, it is possible that due to the risk profile of individual projects third parties, in particular the EIB and other commercial lenders, will not lend on pari passu terms alongside Evergreen Fund II. In such circumstances Evergreen Fund II may be required to offer non-pari passu 'match' funding whereby a preferential return is earned by the third party investor. Where such approaches are taken, Evergreen Fund II will need to ensure that it is compliant with ESIF and State Aid Regulations.

## *State Aid*

- As described in Section 3, Evergreen Fund I is party to a State Aid Notification that allows it to make sub-commercial project investments where certain conditions are met. This notification can apply to any investments it makes up to 2015, and any subsequent investments it makes from recycled funds up to 2021.

- State aid compliance for Evergreen Fund I to date has been achieved through comparison to the other funding rates and also applying the Market Economy Investor Principles. The only exception has been the Chester Cordis project where the state aid notification has been utilised.

- As Evergreen I has an existing State Aid Notification, there is the short-term potential to use this for any projects that may require a sub-commercial investment product to the end of 2015, and the possibility that its investment returns could be used thereafter and up to 2021.

- On the assumption that projects similar to Chester Cordis continue to be supported, GM should consider the process and timetable to develop a new state aid notification for Evergreen Fund II. This should be considered in parallel to the requirements of the proposed Low Carbon Investment Fund.

- Alternatively, as the new General Block Exemption Regulation (GBER), which is due to be made later this year is expected to provide a framework for sub-commercial investments, GM may consider these provide sufficient flexibility for Evergreen Fund II. However, GBER only applies to assisted areas and while the recipient of the 'aid' can be small, medium and large sized enterprises, the smaller the enterprise the higher the percentage of aid that is permissible.

# 2016 Ex Ante update

## *Evergreen Fund II pipeline*

- The two tables below set out the latest information received in relation to the potential pipeline for Evergreen Fund II, by Priority Axis. Together the 9 projects have a combined cost of £151m, of which £62m could be drawn as loans from Evergreen Fund II[22]. As the funding packages for these early stage projects are currently in development, estimates regarding the potential size of an Evergreen Fund II loan are only available for 4 of the 9 projects. For the remaining 5 projects GM have broadly used an estimate of c. £6m loan size per project[23] based on the average loan size under Evergreen Fund I and current market intelligence.

- The pipeline of research and innovation projects targeted at PA1 comprises 4 projects with a total development cost of c. £56m, of which c. £26.5m could be loans from Evergreen II. Of the total projects values, 9% is at High readiness, 64% is at Medium readiness and 27% at Low readiness. This includes (1) Citylabs 2 and 3, which builds on the successful redevelopment of the Former Royal Eye Hospital into Citylabs. The development is a joint venture between Manchester Science Park and Central Manchester University Hospitals NHS Foundation Trust (CMFT), which will provide 205,000 sq ft of office, laboratory and collaboration space across Citylabs 2.0 and 3.0. Planning is due to start on site in Q1 2017 and it is classified as Medium readiness; and (2) Manchester Medipark, a 30,000 sq ft building linked to the existing UHSM Education and Research Centre in Manchester's Airport enterprise zone. MediPark will combine research and development with integrated health and social care to create a world-class supported living community that will be enabled by cutting edge technology and innovation. The intention is to create around 3,000 jobs in the next 10 years based on technology to support integrated care and promote independence. This is classified as Medium readiness.

- The pipeline of projects to promote energy efficiency and renewable energy targeted at PA4 comprises 5 projects with a total development cost of c. £95.2m, of which c. £35.5m could be loans from Evergreen II. Of the total projects values, 62% is at High readiness and 38% is at Medium readiness. This includes (1) St John's bonded warehouse, an Allied London refurbishment of an obsolete bonded warehouse into 81,400 sq ft of predominantly office space. This is part of the place-making St John's development. Planning is due to start on the site in Q4 2016 and it is classified as High readiness; and (2) Soapworks 2, a Carlyle refurbishment of an obsolete Colgate factory into 210,000 sq ft of predominantly office space. This is part of the place-making Soapworks development, Phase 1 of which is now well let. Planning is to start on site in Q1 2017 and it is classified as Medium readiness.

- The readiness analysis suggests there is greater certainty around the pipeline for projects aligned to PA4 based on information available at this time.

- As set out in Section 3, Evergreen Fund II has an allocation of £30m against PA1 and £15m against PA4. The current pipeline indicates demand for £26.5m against PA1 and £35.5m against PA4. This indicates that there is broadly sufficient demand for PA1 (c. 90%) and surplus demand for PA4. This is further supported by market intelligence based on ongoing interactions and the performance of Evergreen Fund I, which has invested c. £70m to date in more generic office stock.

[22] Additional match funding would come in at the project (rather than Fund) level.

[23] The exception to this approach is Cutacre C4 which has a project value of £5m. A loan size of £2.5m has been assumed for this project.

## *Evergreen Fund II pipeline relating to Priority Axis 1*

| Strategic site | | Description | Project cost | Loan size[24] |
|---|---|---|---|---|
| 1. | Cutacre C4 | SME units (incl. manufacturing activities) | £5m | £2.5m* |
| 2. | Citylabs 2 | Office, laboratory and collaboration space | £30m | £15m |
| 3. | MAG Enterprise Zone | World logistics hub, mediapark, employment space | £6m | £3m |
| 4. | Manchester Corridor | Expansion phase of Innovation district | £10m-£20m per scheme [25] | £6m* |
| | **Total** | | **£56m** | **£26.5m** |

## *Evergreen Fund II pipeline relating to Priority Axis 4*

| Strategic site | | Description | Project cost | Loan size[26] |
|---|---|---|---|---|
| 1. | St Johns Bonded Warehouse | Refurbish into office space | £26.2m | £9.5m |
| 2. | St Johns South Village | Mixed use new build - eligible office only | £13m | £6m* |
| 3. | AMC / Gt Northern Warehouse | New build office | £20m | £6m* |
| 4. | 125 Deansgate | New build office | £20m | £6m* |
| 5. | Soapworks 2 | Refurbish into office space | £16m | £8m |
| | Total | | £95.2m+ | £35.5m |

- The Evergreen Fund II pipeline above addresses the specific market failures identified in Section 6 by providing small ticket size investment into specialist innovation and low carbon buildings, often targeted at SME tenants. In order to avoid duplication with existing funding sources, its approval process will need to include an assessment of whether projects align with the IPs and whether they are able to access finance elsewhere.

- GM has decided not to seek a State Aid notification for Evergreen II as it will make investments in accordance with either the Market Economy Investor Principles (which may include use of the reference rate methodology in the event there are no comparable transactions in the market against which to benchmark), or the General Block Exemption Regulation (GBER)[27]. Advice received from the GM internal legal team states that:

  – In the majority of cases funds will be invested alongside private sector match and such investments will be on similar terms of investment as a commercially driven comparator, therefore no advantage will accrue to the beneficiary. It is GM's intention that the majority (if not all) loans will be made to end recipients at commercial rates of interest based on the European Reference Rates, therefore no unfair benefit will accrue to the beneficiaries; and

24 * denotes GM estimate due to unavailability of data.

25 Taken mid-point of £15m in calculating total.

26 * denotes GM estimate due to unavailability of data.

27 http://ec.europa.eu/competition/state_aid/legislation/practical_guide_gber_en.pdf

– Where investments are made to end recipients which may be capable of conferring a benefit to the end recipient, such investments will be made within the framework of a block exemption, in particular, the GBER, in particular, section 1 (Regional Aid), section 2 (Aid to SMEs), section 3 (Aid for access to finance for SMEs), section 4 (Aid for Research, Development and Innovation), section 7 (Aid for Environmental Protection), section 8 (Aid to make good the damage caused by certain natural disasters) and section 13 (Aid for Local Infrastructure) of Regulation 651/2014.

# 9. Evergreen Fund II Investment Strategy

- If GM decides to proceed with the establishment of an Evergreen Fund II, based on the assessment undertaken in Section 8, the investment selection criteria should include the following factors. This will be subject to any subsequent Ex Ante Assessment updates which will be informed by the prospective project pipeline at that point.

## Strategic alignment

- Investments should align with national and regional strategic priorities. For example, investments should be consistent with the:
  - The themes of the draft GM EU Investment Plan - Competitive Places, Science, Innovation & Knowledge Economy, Competitive Business and Low Carbon; and/or
  - GM Strategy Growth and Reform Strategy Priorities.

## Permitted investments

- Based on the work undertaken in this assessment, this may include:
  - **Sector focus:**
    - Commercial property and regeneration projects including site clearance and remediation, development of site-specific infrastructure and site servicing and construction of new buildings and/or renovation of existing ones.
    - Investment into low carbon projects linked to new development or regeneration that support the delivery of GM's greenhouse gas emissions target and/or demonstrate energy efficiency improvements.
- **Investment recipients**: predominantly private sector organisations.
- **Investment Products:**
  - Predominantly senior, mezzanine and subordinated debt with a tenor of up to five years. While Evergreen Fund I offers tenors of up to three years, the additional two years is to allow greater flexibility for repayment/ refinancing of assets, particularly in more speculative areas where it may take longer to develop sustainable revenues.
  - Equity investments will be permissible subject to investment committee approval.

## Geography

- For the purposes of this assessment, it is assumed that the geographic focus will be Greater Manchester only. However, it is understood that GM is in discussions with Cheshire and Lancashire in particular, in respect of their possible involvement in Evergreen Fund II. Therefore, the geographic focus may broaden to include these, and other Local Enterprise Partnership areas with a similar regeneration agenda in the future.

## Investment returns

- It is intended that debt funding will be provided at commercial terms, on a function of:
  - The credit strength of the borrower;
  - The risks associated with the repayment (e.g. the certainty of future revenues);
  - The debt tenor;

- The overall funding package proposed by the borrower (for example, the proportions, relative security, costs of borrowing and seniority of the different funding components).

## Non-financial returns

- Each investment will be required to contribute to some or all of the non-financial outcome measures included in the GM EU Investment Strategy. See Section 11 for a review of the outcome measures proposed and areas for further consideration.

## Other considerations

- In addition to these sector specific parameters, based on experience from other UK FEIs including Evergreen Fund I, the investment strategy will also need to include the following:

### Regulatory compliance

- Investment of FIs into projects will be required to be undertaken in a state aid compliant manner.
- Structural Funds regulations require that investment adhere to EU Rules, which includes, for example, ensuring each project has 'eligible expenditure' that is greater than, or equal to, the FI project commitment plus associated 'match' funding.

### Investment exclusions

- Exclusions that GM may wish to adopt within the investment strategy may include:
  - Activities which are wholly a statutory duty on public bodies;
  - Specific technologies and/or counterparties that are not permitted by 'match' and/or complementary funding providers;
  - Investment commitments of less than £2m, reflecting that below this value transactions costs may become prohibitive or erode investment returns to GM;
  - Projects where the site is not within the permitted area covered by the GM EU Investment Plan;
  - Funding of the creation and development of financial instruments such as venture capital, loan and guarantee funds. FIs must finance the development, construction and/or operation of assets;
  - Concentration limits in respect of individual investment scale and/or investment into the same counterparty, consistent with Evergreen Fund I, such as:
    - Single project loans up to a max of 20% of the FI commitments;
    - Maximum of 30% of net asset value of fund to any single developer partner. This will help reduce the Fund's exposure to a particular developer;
    - Maximum of £10m of commitments to low carbon projects.

## 2016 Ex Ante update

- The proposed amendments to the investment strategy presented above, based on the 2016 analysis are as follows:
  - **Strategic alignment:** Investments should align with national and regional strategic priorities. Investments should therefore be consistent with the Operational Programme – Growth and the achievement of economic, social and territorial cohesion. Priority Axes 1a -Promoting Research and Innovation; and 4b-Supporting The Shift Towards A Low Carbon Economy in All Sectors.
  - **Permitted Investments:** Based on the work undertaken in 2016 this should include:
    - Sector focus:

    - > Investment into projects supporting research, development and innovation, to include new and refurbished buildings;
    - > Investment into low carbon projects linked to new development or regeneration that support the delivery of GM's greenhouse gas emissions target and/or demonstrate energy efficiency improvements.

  - **Investment Exclusions:** Infrastructure and land remediation projects are not eligible in the 2014-2020 programme and should therefore only be funded using Evergreen Fund I re-flows;

  - **Geography:** it has been confirmed that GM will be the sole focus of Evergreen Fund II. However GM's ambition for Cheshire and Lancashire to invest in funds in the future using ESIF funding remains as before.

- The investment products outlined above include flexibility to make equity investments. Market research and interactions referenced in Section 4 and 6 suggest that financing specialist projects aligned to PA1 and PA4 is likely to be more challenging than financing the more generic office stock targeted by Evergreen Fund I. While it is envisaged that Evergreen Fund II will predominantly be a debt fund, the ability to make equity investments to unlock select projects aligned to the Investment Priorities would be helpful.

# 10. Evergreen Fund II design

## Introduction

- The aim of this section is to provide an initial recommendation of the possible structure of Evergreen Fund II, based on:
  - The proposed investment strategy as outlined above;
  - The range of options available and the preferences expressed of GM; and,
  - Permissible structural options in respect of the set-up and operation of an UDF, or alternative vehicles capable of undertaking the role of an UDF, as defined by Article 33 of the Common Provisions Regulations (CPR).
- In addition to these points it is necessary to consider the existing Evergreen Fund I (see Section 2) and proposed Low Carbon Investment Fund[28] structure and governance arrangements to ensure, as far as possible, alignment and complementarity going forward. In respect of:
  - Evergreen Fund II, this will consider the possible role of CBRE, or another advisor, and its geographic focus, which we understand may be extended to include Cheshire and Lancashire.
  - Low Carbon Investment Fund, this will inform whether there is a need for one or more FIs for the 2014 – 2020 funding period to address the investment strategies proposed for the Evergreen Fund II and Low Carbon Investment Funds.
- This recommendation is subject to possible changes resulting from:
  - Any legal advice taken to test regulatory compliance; and/or
  - Testing the proposal with the Department of Communities and Local Government (CLG) for acceptability; and/or
  - The ongoing development of the project pipeline for both funds, project funding needs and the implications this may have on the possible structure and/or alignment of the funds going forward.
- As agreed with EIB and the Steering Group, this section excludes consideration of the potential need for a Holding Fund (or fund of funds structure) that may oversee the Evergreen II fund and also the Low Carbon Investment Fund. This will be addressed in an Addendum to this assessment.

## FI structure options and GM preferences

- The three high level structure options identified for Evergreen Fund II are:

| # | Option | Description |
|---|---|---|
| 1 | GM investment decision making and management | GM authority-led staffing and expertise to consider and process applications for funding, make investment decisions and undertake ongoing reporting and monitoring. |
| 2 | GM investment decision making with external | GM authority-led investment decision making, but could include external support from advisors, a financial institution (which may also act as a potential investor) and/or private sector fund managers, in respect of the investment decision |

[28] Refer to parallel report Transitioning Northwest Urban Investment Fund Low Carbon Fund: 2014-2020 Ex ante Assessment, December 2013

| # | Option | Description |
|---|---|---|
| | management support | making process and/or ongoing reporting and monitoring. |
| 3 | External investment decision making and management | FI would be fully outsourced to a third party (e.g. a financial institution or private sector fund manager), with no public sector oversight of the activities of the FI beyond that typically afforded to any investor in a fund (e.g. in an English Limited Partnership structure this may include periodic reporting and possibly a seat on the Advisory Board). |

- At the Steering Group on 10 December 2013 the following criteria were agreed as the basis upon which to assess possible fund structures:

  – Deliverability of the currently proposed investment strategy, as outlined in Section 9;
  – Ability for GM to make the ultimate investment decisions;
  – Fund and associated cost minimisation (e.g. fund establishment, project due diligence, investment decision making, reporting and monitoring costs);
  – Speed of implementation; and
  – Ability to attract private sector 'match' / complementary funding.

- Based on these criteria, Option 3 has been discounted as:

  – It offers no control over investment decision making to GM authorities;
  – A fully outsource fund manager would require a competitive procurement process which could be both time consuming and costly;
  – It is potentially more expensive[29]; and,
  – As outlined in Section 8, there are a range of sources of match funding available (albeit at the project level) and Option 3's ability to attract funding is less of a priority.

## *Recommended fund structure option*

- To aid the decision making on whether Option 1 or Option 2 could offer GM the best structure for the Evergreen II FI, a qualitative analysis was undertaken. Appendix F sets out this analysis where each option was assessed against the evaluation criteria above.

- From this analysis, Option 2 (GM investment decision making with external management support) appears to deliver best against the key priorities for the Evergreen Fund II. The key reasons for the selection of this option over Option 1 are:

  – **Deliverability** - largely the same as the current successful model used for Evergreen Fund I;
  – **Fund and associated cost minimisation** – the external manager role will be competitively tendered and potentially compensated on the successful delivery of projects via an arrangement fee (charged to the project rather than the fund).
  – **Speed of implementation** – GM will be familiar with the process of selecting and appointing a fund manager so will be able to build from previous experiences to make this an efficient process;
  – **Track record** – Evergreen Fund I is known to be effective and has shown its ability to deliver to both CLG and the EC;

[29] The fund management cost of Option 2 is estimated to be up to 50% of Option3, this ratio has been determined by comparing the current running cost for Evergreen Fund I. with the maximum allowable within the CPR of up to 3% of fund size per annum during the investment period. The running cost of Evergreen Fund I is understood to be approximately £600,000 per annum and covers the GM project development costs, the costs of the independent fund manager as well as legal and audit costs.

- **Market credibility** - with private sector applicants and commercial investors; and
- **Independence** – benefits from the independent rigor of an external manager, but with the benefit of GM retaining ultimate decision making powers and project pipeline development responsibilities.

- Section 6 outlined the strengths of the Evergreen Fund I compared to the other FEIs. These strengths included a fund design which is owned and overseen by Local Authorities that provide a strong political support to the fund. This has helped drive the project identification, sourcing of 'match' funding and coordination with the wider project portfolio. These strengths will continue to be available to Option 2, but less with Option 1 and 3.

- This recommendation was approved at the Steering Group on 10 December 2013.

## *Permissible regulatory options*

- Permissible regulatory compliant structures for Evergreen Fund II are:

  a) A separate legal entity (either new or existing), including those financed from other ESIFs, subject to support being limited to the amount necessary to support investments aligned to strategic objectives as required by the Regulation[30]; or
  b) A block of finance within a body governed by public or private law[31].

- This is based on the preferred fund structure Option 2 set out above and funding products proposed in Section 9 (which includes equity).

- Regulatory Option B, whereby the allocation to an Evergreen Fund II is made via a block of finance within a body governed by public law appears to be the most optimal insofar as it will permit the use of a tried and tested structure that should minimise the time and cost of establishing the fund.

Option A is unlikely to be applicable as ESIF is understood to be received via CLG as contingent loan, rather than as equity. To confirm this proposal, GM will need to:

- Test regulatory compliance with BIS/ CLG, including whether there is a need for a competitive procurement process to be undertaken for the re-appointment of the existing fund (legal owner); and,
- Satisfy itself of the procurement requirements in respect of its incumbent fund manager (CBRE) for their potential role in the management of Evergreen Fund II. However, irrespective of regulatory requirements, re-tendering their mandate could drive best value, if wider fund manager advisory support is sought across the range of funding products GM is responsible for.

## *Interface with other funding products*

- To ensure ongoing complementarity with other investment products managed by GM and that have an overlapping investment strategy, during the implementation stage for Evergreen Fund II, GM should consider, inter alia:

  - Taking legal advice on how to establish a parallel fund within, or alongside the existing Evergreen Fund I structure, recognising the potential complexities of overlapping investment periods (2014-2015) and geographic coverage; and
  - The need to develop a policy to manage conflicts of interest including the co-investment rights (or otherwise) of different funding streams including the Low Carbon Investment Fund, RGF, GPF and recycled Evergreen Fund I monies.

- In respect of the Low Carbon Investment Fund in particular, its proposed investment strategy includes:

[30] CPR, Article 38, 4 (a)

[31] CPR, Article 38, 4 (b)(iii)

- **Sector focus:** projects involving demand and supply side energy measures that contribute to greenhouse gas reduction and energy efficiency improvements;
- **Investment products:** primarily senior debt, but mezzanine and subordinated debt with a tenor of up to 5 years. Equity products may be permissible subject investment committee approval.
- **Investment recipients:** predominately public sector organisations in the short-term with private sector sponsored projects in the medium-long term (where they are not linked to new development sites, to ensure complementarity with Evergreen Fund II).

- Where private sector led low carbon projects exist that are part of a wider regeneration or real estate development they may be able to source finance from Evergreen Fund II. On this basis, the low carbon attributes of Evergreen Fund II appear complementary to the Low Carbon Investment Fund. However, it will be necessary for GM to review this position regularly as the low carbon pipelines evolve to ensure the funds remain fit-for-purpose and complementary.

## *2016 Ex Ante update*

- The fund design proposal set out above continues to be broadly valid, with the only change relating to the passage of time. Key dates in the updated timetable for implementation are as below:

  - Contracting period: November 2016;
  - Procurement period for Fund Manager: Start in November 2016, with a duration of 3-6 months; and
  - Fund commencement: February – April 2017.

# 11. Non-financial outcomes

- The overarching theme of the GM EU Investment Plan is its 'ambitious plan focused on both Growth and Reform'. As outlined in Section 3, and below for ease the non-financial outcomes sought from Evergreen Fund II are:

| Output Targets | |
|---|---|
| Site Development | 8 hectares |
| Jobs Created | 1,455 |
| Research Companies supported | 30 |
| Greenhouse Gas Reduction p.a. ('000 tons) | 7.25 |

- Using the data from the project pipeline for Evergreen Fund I, it is possible to benchmark the first two non-financial outcomes against the six projects that are either committed or under currently under detailed review. This comparison and concluding comments are set out in the table below.

| Outcome | Comparable to Evergreen Fund I | | | |
|---|---|---|---|---|
| **Jobs** | Current target is to deliver 1,455 jobs which is equivalent to 29 jobs per £1m from the Evergreen Fund II. Comparing this to the Evergreen Fund I: | | | |
| | Original target | Average from the current 6 projects | High from the current 6 projects | Low from the current 6 projects |
| | 70 jobs per £1m | 100 jobs per £1m | 213 jobs per £1m | 43 jobs per £1m |
| | **Conclusion:** Evergreen Fund II job target of 1,455 appear to be conservative, but achievable, at approximately 29% of that anticipated to be achievable from the six Evergreen Fund I projects. | | | |

| Outcome | Comparable to Evergreen Fund I | | | |
|---|---|---|---|---|
| **Site Development** | Current target is to develop 8ha, this is equivalent to 0.16 ha per £m from the Evergreen Fund II. Comparing this to the Evergreen Fund I: | | | |
| | Original target | Average from the current 6 projects | High from the current 6 projects | Low from the current 6 projects |
| | 0.2 ha per £1m | 0.4 ha per £1m | 1.75ha per £1m | 0.006 per £1m |
| | **Conclusion:** Evergreen Fund I set a target for brownfield site development of 0.2 ha per £1m of fund. This target is currently anticipated to be exceeded to achieve 0.4 ha per £1m. This is comparable to the Evergreen Fund II target of 0.16 ha per £1m of fund. | | | |

- The ambition of the Science, Innovation and Knowledge Economy theme to cooperate with 30 research organisations may be difficult to define and achieve from an Evergreen Fund II perspective. The range of potential organisations deemed as 'research' will need to be clearly defined to ensure that applicants understand how they will be measured. In addition, although developers may tailor their design and tenant selection to attract research organisations they should not be penalised if different tenants become available as this will be in conflict to their first priority to obtain revenues and be able to repay the Evergreen Fund II loan.
- The ambition of the Low Carbon theme to achieve greenhouse gas reductions of 7,250 tonnes may also be difficult to define and measure. For example, the development of new infrastructure that did not previously exist will increase the greenhouse gas emissions or converting a currently

vacant site into a more efficient (but still vacant) will not help achieve this target.

- It is noted that the Evergreen Fund I set a requirement to achieve a minimum of 78,400m² of BREEAM 'Excellent' floor space. This requirement is not required as part of the GM EU Investment Plan. There are positive benefits of setting this target as it can drive higher quality buildings than would otherwise be delivered through meeting the compulsory building regulations.

- It is recommended that as far as possible, outcome targets are as clearly defined and as flexible as possible to ensure Evergreen Fund II is outcome driven, while continuing to offer an attractive investment proposition. To support this, the delivery of outcomes should be sought on a portfolio, rather than project level (or theme) basis. In the event that some outcomes cannot be met, the FI should be encouraged to evidence wider 'value add' in other ways.

## *2016 Ante update*

- The non-financial outcome measures for Evergreen Fund II have been included in the update at the end of Section 3 and an extract is shown overleaf. Investment under IP 1a shall have one indicator – P2, which measures the Public or commercial buildings built or renovated in square metres. Investment under IP 4b shall have two indicators: C001, linked to the number of Enterprises receiving support and C034, linked to the estimated GHG reductions.
- The last column of the table presents a summary of the current pipeline against these three indicators:
  - PA1 pipeline: This currently comprises of 4 projects, which add up to 38,276 Sq.m. This is c.70% of the P2 output target;
  - PA4 pipeline: This currently comprises of 5 projects, which exceeds the C001 output target. However, information on the energy performance ratings of these projects is not available, which means it is not possible to provide an estimate of their likely GHG reduction at this time.

| PA | IP | Output Indicator | Target | Current Pipeline |
|---|---|---|---|---|
| PA1 | IP1a | P2 - Public or Commercial Building Built or Renovated (Sq. m) | 55,000 Sq. m | 38,276 Sq. m (4 projects) |
| PA4 | IP4b | C001 Number of Enterprises receiving support | 3 | 5 |
| | | C034 - Estimated GHG reductions | 10 tonnes | Not available |

- Further analysis has been undertaken to assess the reasonableness of the output targets:
  - P2: Under Evergreen I c. £60m of investment resulted in 162, 725 Sq.m of floor space being built/renovated at a per unit cost of £0.003. A direct extrapolation would suggest that an investment of £30m from Evergreen II could result in c. 80,000 Sq.m of new or renovated floor space, i.e. higher than the target of 55,000 Sq.m. However, Evergreen I was targeted at more generic projects while Evergreen II will only invest in more specialist innovation and low carbon projects which may have a smaller site footprint. This is reflected in the current pipeline information, where an investment of c. £30m results in 70% of the target being achieved. This would suggest that the target is set at a reasonably high but achievable level;
  - C001: The current pipeline information suggests that there may be potential to somewhat increase the target; and
  - C034: No information is available to comment on this reasonableness of the target.

- Based on the experience of Evergreen Fund I, which leveraged more than £2 of private capital for every £1 as outlined in Section 2, GM estimate that Evergreen Fund II could leverage c. £100m of private sector investment.

- Correction: Reference to an Addendum on Holding Fund structure is deleted.

# 12. Fund design: key findings

- **Pipeline**: The analysis in Section 8 indicates a pipeline of projects from a number of sources:
  - Potentially £40m of surplus Evergreen Fund I demand for funding;
  - Strategic sites in the GM region indicate a capital investment of circa £900m in 2014-2020, however it is recognised that this capital investment will likely be obtained from a variety of sources and the Evergreen Fund II will only be suitable for a small proportion of the total funding requirement;
  - Additional sites with potential capital investment of circa £50m. Similarly to the strategic sites, Evergreen Fund II may only be suitable for a small proportion of the total funding requirement; and
  - Plus other opportunities that may emerge through the active marketing and pipeline development in future years.
- **Funding Allocation:** The current request in the GM EU Investment Plan is £50m for Evergreen Fund II. In addition, Evergreen Fund I is anticipated to recycle its full balance of £40.6m from 2015 onwards.
- **Investment Strategy:** Based on the high-level pipeline analysis and the experience and track-record of Evergreen Fund I, the key features of its investment strategy should include:
  - **Sector focus:** Commercial property and regeneration projects and low carbon projects linked to new regeneration or development sites.
  - **Investment products:** senior, mezzanine and subordinated debt with a tenor of up to 5 years. Equity investment is permissible subject to investment committee approval.
  - **Investment recipients:** predominately private sector organisations.
-
- **State aid:** Based on the experience of Evergreen Fund I, it may be possible to lend at commercial terms and not require a state-aid notification. However, Evergreen Fund I was largely 'match' funded at the NW UIF level and/or received 'match' from the GPF. Based on the pipeline review it is possible that due to the risk profile of individual projects third parties, in particular the EIB and other commercial lenders, will not lend on pari passu terms alongside Evergreen Fund II.
- In such circumstances Evergreen Fund II may be required to offer non-pari passu 'match' funding whereby a preferential return is earned by the third party investor. The flexibility for projects to be funded at sub-commercial terms may help improve project viability and accelerate development. Where such approaches are taken, Evergreen Fund I will need to ensure that it is compliant with ESIF and State Aid Regulations. Given the time lag often experienced in securing such a notification, GM may wish to consider an application for its 2014 – 2020 FIs, including Evergreen Fund II.
- **Fund Design:** As agreed by the Steering Group on 10 December 2013, it is proposed to establish Evergreen Fund II in similar basis Evergreen Fund I, by appointing external management support but retaining overall GM investment decision making and pipeline development. It is recommended that GM:
  - Test this proposition with CLG for acceptability, in particular in respect of the need to re-procure the existing Local Authority led Evergreen Fund I (considered unlikely) and/or the external manager advisory role currently undertaken by CBRE (considered likely and advisable to ensure best value is achieved);
  - Seek legal advice on the ability to utilise the existing Evergreen Fund I structure and brand to incorporate a separate 'parallel' fund for Evergreen Fund II under the same umbrella recognising the

geographic remit, investment period and strategies are slightly different.

- **Non-Financial Outcomes:** The GM EU Investment Plan outlines outcomes associated with job, land development, greenhouse gas emissions and cooperate with 'research organisations'. The metrics on greenhouse gas reduction and cooperation with research organisations may require further consideration to ensure that they will not negatively affect applicants and/or be unachievable. GM may also wish to consider the delivery of outcomes at a portfolio level to help provide the flexibility for investment.

- **Fund complementarity:** Given the low carbon aspects proposed for Evergreen Fund II and the Low Carbon Investment Fund, and the overlapping investment strategies of Evergreen Funds I and II (including recycled capital) and the GPF, GM should consider:

  – Developing a conflicts of interest policy that clearly sets out the parameters under which each source can be used and co-investment rights into projects;
  – In the development of its thinking on a fund of fund structure, the possible benefits such a structure could offer by way of oversight, flexibility and greater control over these and other funding streams under the ultimate responsibility of AGMA and/or GMCA.

- **Future updates to the Ex Ante Assessment:** As the Evergreen Fund II is based on an existing successful fund it is not expected to be necessary to update the Ex Ante assessment prior to establishing the fund. Further updates may be considered if the fund wishes to further develop its activities, to reflect a change in market conditions for example, in the future.

- Additionally, it is understood that both Lancashire and Cheshire LEPs may be considering committing WSIF resource to Evergreen Fund II. It this is the case, this Ex Ante should be updated to reflect the demand and market failure in these areas and any implications for the design and governance of the fund.

## *2016 Ex Ante update*

- **Pipeline:** Updated pipeline information in Section 8 sets out 9 projects with total demand of £62m. Of this, 4 projects with a loan requirement of £26.5m align to Priority Axis 1 (IP1a) and 5 projects with a loan requirement of £35.5m align with Priority Axis 4 (IP4b).

- **Funding allocation:** Updated information in Section 3 sets out that a requirement for £45m of additional funding for Evergreen Fund II to focus on specialist developments. Of this, £30m is allocated to IP1a and £15m is allocated to IP4b. Updated information in Section 4 clarifies that Evergreen Fund I has recycled £27.8m to Q2 2016 but these and future reflows are distinct from the allocation above as it is targeted towards more generic developments.

- **Investment strategy:** Updated information in Section 9 sets out a change in sector focus to align to the two investment priorities relating to research and innovation, and low carbon.

- **State aid:** Updated information in Section 8 sets out that GM has decided not to seek a State Aid notification for Evergreen Fund II as it will make investments in accordance with the Market Economy Investor Principles, or the GBER.

- **Non-financial outcomes:** Updated information in Section 11 sets out targets for the three output measures aligned to the two investment priorities identified above, and states that Evergreen Fund II is likely to leverage c.£100m of private sector investment based on the performance of Evergreen Fund I.

# Appendices

# Appendix A: Terms of Reference

## Stage one – Strategic and market need

Research should be undertaken to demonstrate the strategic and market case for the two funds. This will include identifying market failure, links to strategic policy. Specific deliverables will include:

- An assessment of national, sub-regional, city policy links to the strategic case for the two proposed funds;
- An assessment of scope for the proposed funds to address policy and market failure that is identified;
- Review of relevant findings/recommendations from previous studies and existing financial instruments which are pertinent to the continuation of Evergreen and the design and structure of a new Low Carbon fund;
- Analysis of market need for the proposed funding models, assessing market performance of key sectors; and
- Assessment of both the complementarity of different programme funding streams/investments (including returns generated from 2007-2013 programmes and Growing Places funding, any relevant agglomeration effects and the proposed value added of the two funds.

## Stage two – Fund design

This stage should establish the delivery mechanisms and investment strategies of the two funds. It will also identify and assess the initial project pipeline and consider the implications and options for financing, governance and management. Specific deliverables will include:

- Establishing the objectives of the proposed funds, building on the approach developed to date in the case of Evergreen;
- Establishing the scale, focus and outline investment strategies for the funds (again building on the focus and strategy already established for Evergreen);
- Assessing and establishing the management, governance and delivery options for the funds, including the role of a fund of fund, the role of fund manager(s) and their remuneration requirements;
- Considering the extent to which the existing governance structures and processes currently established to manage and review the performance of Evergreen may require adapting and the financial and legal implications of establishing the proposed new Low Carbon Fund;
- An analysis on indicative outputs, outcomes and project returns (based upon representative sample of projects);
- Identification of an indicative pipeline of projects from both public and private partners;
- Assessment of the forms and levels of financing needed for potential projects and indicative timescales;
- Assessment of existing grant programmes and initiatives in operation to inform potential funding scenarios, including the need for complimentary grant funding as part of the two funds, both for capital expenditure and also technical assistance to develop projects in the pipeline to investment readiness;
- Assess potential sources of public and private investment and investor requirements, including the potential to utilise projected income streams from the 2007-2013 programme and Growing Places fund;

- Consideration of any state aid issues arising, noting the existing NWUIF state aid approval;
- Assessment of value added of proposed funds, including how best to align to existing and prospective funding programmes; and
- Assessment of potential sources of public and private investment and investor requirements, including Green Investment Bank and European Investment Bank, soft market testing where appropriate.

# Appendix B: Summary of GM EU Plan and proposed use of Evergreen II funding

| Priorities | Science, Innovation & Knowledge Economy | Low Carbon |
|---|---|---|
| **Strategic priorities** | 1. Develop, retain and exploit excellence in GM's science/technology/innovation assets<br>2. Grow GM's private sector science/technology businesses base linked to GM's areas of excellence<br>3. Support innovative solutions/emerging technologies to tackle societal challenges on the back of GM's science/technology excellence<br>4. Science & Technology skills | 1. Drive a Low Carbon Economy via development of energy enterprises including a Low Carbon investment vehicle building on the joint work with GIB<br>2. Develop GM's whole place low carbon infrastructure.<br>3. Develop and demonstrate whole building energy efficiency/low carbon energy generation based<br>4. Support growth in GM's SMEs in the low carbon/ environment sector<br>5. Support SMEs across all sectors to increase the energy/resource efficiency of<br>6. Ensure appropriate low carbon skills to support the development of the sector |
| **Funding How Evergreen will be used** | All activities under this priority will be delivered through the use of grant and the Evergreen financial instrument which will be used to support development of sites, premises and infrastructure across GM | Activities will be delivered through the use of grant, a Low Carbon investment vehicle and the Evergreen financial instrument which will make investments in whole place low carbon solutions including investments in sites and premises. |
| **Alignment with ERDF Thematic Objectives** | TO1 and TO10 | TO4 and TO10 |

## *2016 Ex Ante update:*

The table above has been amended to remove columns referencing the 'Competitive Places' and 'Competitive Business' themes.

# Appendix C: Extracts from GM Strategy

| Growth Strategy Priorities | Reform Strategy Priorities | Success measures for the GM Strategy, to achieved by 2020 |
|---|---|---|
| • Diversify the economic base in response to the changing market<br>• Develop a market facing investment strategy<br>• Create a blue-print for town centres, applying creative approaches to redevelopment of the offer<br>• Review land supply to support growth in those locations most attractive to the market<br>• Attract and retain talent by creating places where people want to live through stimulation of the housing market and delivery of a high quality residential offer<br>• Masterplan and deliver the investment necessary in the existing and critical infrastructure required to support growth<br>• Improve Greater Manchester's connectivity locally, nationally and internationally<br>• Leverage Greater Manchester's science and technology asset<br>• Strengthen the global distinctiveness and world ranking of Manchester as a place to invest, live and visit<br>• Grow the business base by providing integrated and effective support through the business-led growth hub | • Deliver an employer-led skills system<br>• Broaden the opportunities available to young people to reduce youth unemployment<br>• Implement an integrated and flexible approach to the provision of employment<br>• Co-design with Whitehall a 'shadow' place settlement from April 2013 with the potential for a full settlement a year later or to coincide with the next spending review, based on the following principles:<br>    ○ Taking a GM-wide approach which clearly adds value to reform at district level, particularly to those issues identified in our Community Budget proposals to reduce current and future dependency: early years, troubled families and<br>    ○ Reform of the health and social care system based on significantly improving outcomes from specialist acute services, and delivering a substantial reduction in unplanned admissions to hospital and other care institutions; and<br>    ○ Deployment of common tools and techniques to support cross public service leadership at scale, including cost benefit analysis, investment agreements and data sharing. | • Increased share of total UK full time equivalent (FTE) jobs so that 4.3% are located within the Greater Manchester conurbation; an aspiration that will see an additional 44,000 FTE jobs created.<br>• Increased growth rate to match that of the South East of England (excluding London), exceeding the national average and delivering £3.7bn of additional economic output over and above existing projected growth rates.<br>• Accelerated business start-up rate by more than 29% to overtake the national average; delivering approximately 72 business births per 10,000 people, whilst also improving our rates of business survival at 1, 2 and 5 years to match the national average<br>• Build 61,000 net new homes, tripling the existing levels of new-build development, and retrofitted a further 150,000 homes at a rate of 25,000 a year from 2015<br>• Doubled the rate of reduction of our carbon emissions so that annual direct emissions are less than 11,000 kt of $CO_2$; 48% lower than 1990 levels |

# Appendix D: EU themes

| EU Themes |
|---|
| TO1: Strengthening research, technological development and innovation |
| TO2: Enhancing access to and use and quality of information and communication technologies |
| TO3: Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and fisheries and aquaculture sector |
| TO4: Supporting the shift towards a low-carbon economy in all sectors |
| TO5: Promoting climate change adaptation, risk prevention and management |
| TO6: Protecting the environment and promoting resource efficiency |
| TO7: Promoting sustainable transport and removing bottlenecks in key network infrastructures |
| TO8: Promoting employment and supporting labour mobility: |
| TO9: Promoting social inclusion and combating poverty |
| TO10: Investing in education, skills and lifelong learning |
| TO11: Enhancing institutional capacity and an efficient public administration |

# Appendix E: Summary of people consulted during study

| Name | Organisation |
|---|---|
| Laura Blakey | Greater Manchester Combined Authority |
| Sean Davies | Greater Manchester Combined Authority |
| Mark Duncan | GM ERDF Team Manager |
| Will Church | CBRE |
| Peter Morris | Tameside Metropolitan Borough Council, Head of Pensions |
| Emily Smith | European Investment Bank |
| Frank Lee | European Investment Bank |
| Desmond Gardner | Transport for Greater Manchester |
| Eamonn Boylan | Stockport Metropolitan Borough Council, Chief Executive |
| Paul Creed | Homes & Communities Agency |
| Deborah Mcloughlin | Homes & Communities Agency |
| Ben de Boulay | Carlyle Group |
| Eric Day | Lloyds Bank |
| Andy Allan | Bruntwood |

# Appendix F: Comparison of Fund Design Options

| Options | Advantages | Disadvantages |
|---|---|---|
| **Option 1: Internal investment manager** | • Potential to avoid re-procurement of UDF and investment management support - timetable & establishment cost benefits.<br>• Potential to align fund with other GM funding activities (e.g. GPF) which could create synergies. | • Geography more likely to be limited to GM only.<br>• Fund costs may be higher in absence of competitive procurement and fee caps.<br>• Unlikely to secure fund level private sector 'match' / complementary funding<br>• May lack knowledge/ expertise offered by an independent fund manager<br>• Potentially less incentive to develop pipeline than independent fund manager<br>• Potential regulatory and vires implications |
| **Option 2: External non-discretionary investment manager** | • Potential to avoid re-procurement of UDF - timetable & establishment cost benefits.<br>• Through governance & investment management alignment with Evergreen Fund I, fund costs could be minimised to incremental costs only.<br>• Offers robust investment management capability.<br>• Fund manager will have strong financial incentives to drive pipeline<br>• Independent fund manager likely to better attract private investment<br>• Fund managers will be appointed based on their track-record and experience in developing pipeline and managing funds | • Timetable & cost implications of procuring external investment management services. |

# Appendix G: Strategic sites

***Regional Centres***

- The Regional Centre sites encompass Manchester and Salford. The Manchester Regional Centre has 18 individual strategic sites identified, many of which involve plans for office buildings over the medium to long term 5 to 10 years plus. The Salford Regional Centre has identified 5 individual strategic sites all of which have been targeted as development of office space and one of which expands upon the existing Soapworks development which has already benefitted from £6m of Evergreen funding.

- The potential quantum of investment is unknown – however, applying the simplistic assumption that they are of comparable size to the Soapworks development of between £10-£15m, potentially this could be in the range £180- £270m.

Information has been sourced from the Greater Manchester Core Investment Team.

***Airport City***

- Manchester Airport is identified as having a major impact on the economic growth of the local community. It is recognised as an economic driver, adding value and attracting both indigenous businesses and inward investment.

- Airport City will be a landmark property provide 5million sq ft of development over a 10 -15 year period. It will be a mix of offices, hotels, advanced manufacturing, logistics and warehousing.

- The estimated cost is £800m and is expected to be one of the largest regeneration schemes in the UK since the 2012 Olympics redevelopment in East London.

- It is unlikely that Evergreen will be required to fund the core part of this development as the commercial nature of the scheme has attracted commercial private sector investment. There may however be a need for smaller scale developments to be funded.

Information has been sourced from the Greater Manchester Core Investment Team and the project website - http://www.airportcity.co.uk/

***Port Salford***

- Port Salford plans to develop the UK's first tri-modal (road, rail, short sea shipping) inland port facility and distribution park on the Barton site, adjacent to the Manchester Ship Canal.

- The development will include a 153,000 sq. m. warehousing facility and is estimated to generate 858 gross permanent jobs.
- It will enable direct barge access to the river terminal at the Port of Liverpool and will reduce the environmental impact of the terminals expansion by reducing freight levels on the road.
- The estimated cost is in the region of £130m.
- The Evergreen I pipeline includes an initial project at Port Salford

Information has been sourced from the Greater Manchester Core Investment Team and the project website - http://www.peel.co.uk/projects/portsalford

***Cutacre***

- Cutacre is an opportunity for the development of 100 hectares of land across 3 GM local authorities providing up to 3.5m sq. ft of office, manufacturing and warehousing space plus a hotel on the site of a former opencast coal mine.
- The proposed scheme is at the planning stage and will be a phased plot by plot development over 10 years. According to information provided by the Greater Manchester Core Investment Team, once fully developed and occupied, Cutacre is expected to deliver approximately 7,750 gross permanent jobs and support 118 construction jobs on site each year over a ten year period
- It is estimated to take 10 years to fully develop the site at a cost of over £150m.

Project detail provided by New Economy for Bolton Council and web sources including: (www.tfgm.com/journey_planning/LTP3/Documents/LocalpinchPointFunds/GM_03%20Bolton%20Cutacre%20Appendices.pdf)

***Kingsway***

- Based in Rochdale, the Kingsway Business Park is a 350 acre and £315m investment opportunity set for development over the next 10 years.
- It is expected to generate significant new inward investment into the borough and create over 7,000 direct jobs and 1,250 indirect jobs.

Information has been sourced from the Greater Manchester Core Investment Team and the project website - www.kingsway-business-park.com

***Horwich Loco***

- Based in Bolton, this site will be redeveloped over a 10 to 12 year period with outline plans for the entire site submitted in 2013. The site will contain 1,600 new residential properties and 11 hectares of employment and mixed use development. It is being developed by Bolton Council and private sector partner Horwich Vision Limited which is a joint venture between developer Bluemantle and Orbit Developments.

- The development has an estimated project cost of £33.5m and has already attracted a £4.7m loan from the Growing Places fund.

Information has been sourced from by the GM Core Investment Team.

***Carrington***

- The site is being developed by Trafford Council and Peel Holdings and could see up to 180 acres of commercial development as part of a wider residential scheme on the former Shell Chemicals site. The area is likely to be favoured by logistics operators.
- Phase 1, residential, is planned to run from 2013 to 2016 and phase 2, employment, from 2017-2020. It is thought it could help deliver an additional 10,000 new jobs over the next 25 years.
- In the period through to 2026 (the period covered by Trafford's emerging Core Strategy), the Carrington site is expected to deliver:
  - 1,560 residential units
  - Up to 75 hectares of land for employment activities;
  - Contributions towards a scheme to mitigate the impact of traffic generated by development on the Strategic, Primary and Local Road Networks;
  - Significant improvements to public transport infrastructure;
  - Community facilities, including convenience retail, school, health provision and recreational facilities of a scale appropriate to the needs of the new community.
  - High quality green infrastructure.

- The combined quantum of investment is unknown.

Information has been sourced from by the GM Core Investment Team and websites including :
http://www.publications.parliament.uk/pa/cm201012/cmselect/cmcomloc/1014/1014vw57.htm

***Hollinwood***

- Oldham Council have entered into a Strategic Partnering Agreement with Langtree Plc to bring forward 15 acres of council owned land for high quality business/employment led uses at this location. The proposals result in the development of a new 6.32 ha quality Business Park immediately adjacent to J22 of the M60 for a variety of employment generating uses along with quality public open space.

- There is opportunity to develop 5,750 m2 of offices, 5,450m2 of industrial/trade space and 8,250m2 of industrial warehousing space.

Information has been sourced from by the GM Core Investment Team and websites including http://www.oldham.gov.uk/info/200714/wider_borough_sites/1086/hollinwood_junction

***Trafford Park***

- There is opportunity to develop 1,214 ha of space in Trafford Park, Europe's largest industrial park.

Information has been sourced from by the GM Core Investment Team

# *Appendix H – Ex Ante Checklist*

| Requirements | CPR Reference | Ex Ante Reference |
|---|---|---|
| Identification of market problems existing in the country or region in which the FI is to be established. | Art. 37 (2) (a) | Section 4: Complementary funding sources & Section 6: Market gaps and failures |
| Analysis of the gap between supply and demand of financing and the identification of suboptimal investment situation. | Art. 37 (2) (a) | Section 4: Complementary funding sources & Section 6: Market gaps and failures |
| Quantification of the investment (to the extent possible). | Art. 37 (2) (a) | Section 8: Project pipeline review |
| Identification of the quantitative and qualitative dimensions of the value added of the envisaged FI. | Art. 37 (2) (b) | Section 6: Market gaps and failures & Section 7: Strategic and market needs |
| Comparison to the added value of alternative approaches. | Art. 37 (2) (b) | Section 7: Strategic and market needs |
| Consistency of the envisaged FI with other forms of public intervention. | Art. 37 (2) (b) | Section 10: Evergreen Fund II design |
| State aid implications of the envisaged FI. | Art. 37 (2) (b) | Section 8: Project pipeline review |
| Identification of additional public and private resources to be potentially raised by the envisaged FI and assessment of indicative timing of national co-financing and of additionality contributions (mainly private). | Art. 37 (2) (c) | Section 11: Non-financial outcomes |

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| Estimation of the leverage of the envisaged FI. | Art. 37 (2) (c) | Section 11: Non-financial outcomes |
| Assessment of the need for, and level of, preferential remuneration based on experience in relevant markets. | Art. 37 (2) (c) | Section 8: Project pipeline review |
| Collation of relevant available information on past experiences, particularly those that have been set up in the same country or region as the envisaged FI. | Art. 37 (2) (d) | Section 1: Background to EU structural funds, Section 2: Background to Evergreen Fund I & Section 5: Key findings from existing relevant UK FEIs |
| Identification of main success factors and/or pitfalls of these past experiences. | Art. 37 (2) (d) | Section 5: Key findings from existing relevant UK FEIs |
| Using the collected information to enhance the performance of the envisaged FI (e.g. risk mitigation). | Art. 37 (2) (d) | Section 7: Strategic & market needs |
| Definition of the level of detail for the proposed investment strategy (maintaining a certain degree of flexibility). | Art. 37 (2) (e) | Section 9: Evergreen Fund II investment strategy |
| Definition of the scale and focus of the FI in line with the results of the market assessments and value added assessment. | Art. 37 (2) (e) | Section 3: Strategic priorities, Section 8: Project pipeline review & Section 9: Evergreen Fund II investment strategy |
| Selection of the financial product to be offered and the target final recipients. | Art. 37 (2) (e) | Section 9: Evergreen Fund II investment strategy |
| Definition of the governance structure of the FI. | Art. 37 (2) (e) | Section 10: Evergreen Fund II design |
| Selection of the most appropriate implementation arrangement and the envisaged combination of grant support. | Art. 37 (2) (e) | Section 10: Evergreen Fund II design |
| Set up and quantification of the expected results of the envisaged FI by means of output indicators, result indicators and FI-performance. | Art. 37 (2) (f) | Section 11: Non-financial outcomes |

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| Specification of how the envisaged FI will contribute to deliver the desired strategic objectives. | Art. 37 (2) (f ) | Section 3: Strategic priorities (for background) & Section 9: Evergreen Fund II investment strategy |
| Definition of the monitoring system in order to efficiently monitor the FI, facilitate reporting requirements and identify any improvement areas. | Art. 37 (2) (f ) | Section 10: Low Carbon Investment Fund design |
| Definition of the conditions and/or the timing in which a revision or an update of the ex-ante assessment is needed. | Art. 37 (2) (g) | Section 9: Evergreen Fund II investment strategy & Section 10: fund design: key findings |
| Ensure that this flexibility, and trigger points, is reflected in the monitoring and reporting provisions. | Art. 37 (2) (g) | N/A |
| The ex-ante assessment is submitted to the monitoring committee for information purposes and in accordance with Fund-specific rules. | Art. 37 (3) | N/A |
| Publication of summary findings and conclusion of the ex-ante assessment within three months of their date of finalisation. | Art. 37 (3) | N/A |