

UK GREEN INVESTMENTS

Managed Account/s for Investments in Waste Infrastructure in the UK

Call for Expressions of Interest from Fund Managers

WITHDRAWN

Issue Date: 12 December 2011

Due Date for Expressions of Interest: 04 January 2012

Due Date for Proposals: 01 February 2012

12 December 2011

Process and Selection Criteria for Investment Fund Managers for Waste Infrastructure

1. Objective

The UK Government is seeking to promote investment in green infrastructure including energy efficiency across the UK. In order to demonstrate the strength of its commitment to this sector, government is prepared itself to make certain investments, on commercial terms, in the UK's green infrastructure.

The waste infrastructure sector has been identified by the UK Government as a sector which at present has limited access to funding.

The UK Green Investments ("UKGI") unit within the UK Government's Department for Business Innovation and Skills ("BIS") is launching a call for Expressions of Interest ("EoIs") from qualified investment fund managers ("Fund Manager/s") with the aim of identifying Fund Manager/s to receive committed funding through a Managed Account from UKGI ("Managed Account") in order to execute agreed business plans for investment in waste infrastructure.

2. Mandate for a Managed Account

The identified Fund Manager/s will receive up to GBP 100 million of equity capital from the UKGI to deploy, on behalf of the UK government at market terms, *on a pari passu basis*, into investments in waste infrastructure projects across the United Kingdom.

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

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

- Identification of a pipeline of eligible projects that meet the (to be) agreed business plan including environmental goals and financial return targets;
- Securing additional of at least a matching amount of private sector equity *pari passu* with the UKGI's investment at the investee level (in addition to debt finance at the project level);
- Negotiation, structuring and management of investments in the waste infrastructure projects, on both a strategic and operational basis;
- Ensuring that the managed account delivers an appropriate balance of risk and return;
- Providing institutional quality monitoring, reporting and risk control; and
- Identifying and managing appropriate exit strategies for the investments in projects.

3. Business Plan, Eligible Projects and Output Targets

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

The pipeline within the Business Plan should include:

- Investments comprising waste infrastructure projects in the UK where there is currently a gap in available funding;
- Limit on scale to be agreed after discussion with Fund Manager/s on project pipeline, in addition to a requirement to offer risk diversification; suggested target project capitalisation up to £30 million;
- A preference for projects in the development or construction phase, rather than projects in the completed or operating phase;
- Projects addressing the capacity gap right across the UK, within the established waste hierarchy, and with a technical focus on:
 - Value adding re-use, recycling, or waste re-processing facilities;
 - Energy efficient waste-to-energy facilities;
 - Other waste facilities displacing fossil fuels;
 - Rollout of waste technology (with proven reference) across the UK.
- The process for securing private sector equity pari passu with UKGI's investment at the investee level, and debt finance at the project level;
- Requiring commitment / funding by Q1 2015.

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

- Carbon dioxide equivalent greenhouse gases reduction;
- Diversification / reduction of waste from landfill (by reference to the established waste hierarchy);
- Contribution to improvement in resource efficiency; and
- MWh of energy saved / created, where applicable (e.g., for Energy from Waste projects).

Prospective Fund manager/s should be guided in developing the Investment Strategy by the following principles and in accordance with the established waste hierarchy:

- Treatment of waste streams with particularly high carbon impacts, both in terms of embedded carbon (food, metals, plastics, textiles) and direct emissions from landfill (food, paper and card, textiles, wood);
- Promotion of the use of life cycle thinking in waste policy and waste management decisions;
- Reporting of waste management in carbon and/or energy efficient terms, as an alternative to weight-based measures; and
- The ability to provide accurate reported data regarding such environmental targets.

UKGI is seeking to invest on terms and with a financial return that would also be attractive to private investors. The proposed Business Plan should set out the Fund Manager's range of expected/target returns.

4. Award Criteria

UKGI will award the Managed Account/s to the selected Fund Manager/s based on the following criteria, and proposals ("**Proposals**") from interested Fund Manager/s should address, inter alia, items in each bullet point:

- I. Proven and Capable Management Team:

- Fund Manager/s and its principals/partners highly regarded by participants within and from outside their sector / focus;
 - Strong evidence that Fund Manager/s have the experience, performance and access to relevant projects / deal flow in the waste infrastructure sector;
 - Fund Manager/s must have the appropriate level of analytical and reporting / compliance support in-house and the capability to report environmental and financial metrics alongside wider economic metrics (e.g. impact on jobs); and
 - Fund Manager/s are authorised by the Financial Services Authority (“FSA”) or an equivalent body if registered in a different jurisdiction, and will have the necessary authorisations to operate in the UK.
- II. Track Record:
- Strong evidence of Fund Manager/s track record in the waste infrastructure investment management sector;
 - Fund Manager/s should be able to provide:
 - A description of funds managed;
 - A history and timeline of such funds;
 - The amount of funds raised for investment;
 - The investor types from whom funds have been raised;
 - Number of investments in the UK (and overseas) and GBP (or currency) amount invested;
 - Realised and unrealised values / returns including a description of realised exits;
 - Detailed performance data; and
 - Case studies for the above where applicable;
 - Strong evidence of Fund Manager/s having met underwriting and projected return expectations over an extended period (previous investment memoranda for investment opportunities and performance versus such underwritten targets shall be requested); and
 - Fund Manager/s should have experience in operating managed / separate accounts.
- III. Investment Strategy and Business Plan:
- Investment pipeline focused on waste processing and energy from waste infrastructure projects and adding or creating new capacity across the UK;
 - Business plan proposal to UKGI should be in line with the financial and environmental targets (as described herein) and consistent with the Government’s strategy for the UK to achieve the EU Landfill Directive, Renewable Energy Directive and EU Waste Framework Directive targets ;
 - Providing a balance of geographical, project and counterparty diversification;
 - Financial projections / budget forecast until 2022 (in an excel-compatible format), including relevant sensitivity analysis;
 - Fund financial model and underlying assumptions including target returns;
 - A variety of viable / realistic exit strategies and specific proposals as to the financial structures envisaged to ensure in due course liquidity for UKGI capital;
 - Strong investment pipeline (and indication of waste sub-sectors in which investment opportunities are likely to arise) covering the period to Q1 2015; and
 - Term of up to 10 years (including the initial three years for investment); existing fund arrangements with existing investors should be compatible with UKGI’s end date.
- IV. Governance and legal structure:
- Dedicated management team, with both waste infrastructure sector and investment experience;

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

V. Competitive terms:

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

5. Process and Timing

The selection of the Fund Manager/s will be by an open competition and follow a three-stage process expected to last 15 weeks.

Phase I – Call for Eols

Interested potential Fund Manager/s should submit an Eol by no later than 12.00 noon on 4 January 2012 which details the potential Fund Manager/s ability to meet the Award Criteria described in Section 4 (above) with particular regard to sub-sections I, II, Appendix 1 and an outline and key components of the proposed Business Plan. The procedure to be followed is explained in paragraph 6 below.

UKGI will answer questions from applicants that are received by it prior to 12.00 noon on 15 December 2011 to UKGI_competition@bis.gsi.gov.uk. Answers that are relevant to all applicants will be made available to all of them.

Phase II – Selection of Short List of Potential Fund Managers

Upon receipt and evaluation of all Eols, UKGI will identify, by 11 January 2012, a shortlist of potential Fund Manager/s to provide to UKGI a Proposal including the Business Plan, primarily addressing sub-sections III, IV, and V of Section 4 above. UKGI will notify Fund Managers that have not been shortlisted but will not provide feedback on unsuccessful Eols.

Proposals from short-listed Fund Manager/s are to be received by UKGI by no later than 12.00 noon on 01 February 2012.

UKGI will answer questions from shortlisted potential Fund Manager/s received prior to 12.00 noon on 20 January 2012 to UKGI_competition@bis.gsi.gov.uk. Answers that are relevant to bidders will be circulated to the shortlisted potential Fund Manager/s.

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

The selection of the Preferred Fund Manager/s will occur by 15th February 2012.

A period of 4 weeks of formal due diligence will follow on Preferred Fund Manager/s. This will include due diligence led by UKGI but also involving external professional advisers to UKGI where appropriate, namely in business plan/operational/finance/legal/compliance/tax aspects.

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

The indicative timetable is described in Table 1.

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

Table 1 – Indicative Timetable

Activity	Timing
UKGI issues Call for Eols	12 December 2011
Deadline for receipt of questions about Eol	12.00 noon on 15 December 2011
Deadline for submission of Phase I Eol	12.00 noon on 04 January 2012
Notification to applicants of outcome of Phase I Eol	11 January 2012
Deadline for receipt of questions about Phase II Proposals	12.00 noon on 20 January 2012
Deadline for submission of Phase II Proposals including the Business Plan	12.00 noon on 01 February 2012
Notification of Preferred Fund Manager/s	15 February 2012
Phase III Commencement of formal due diligence / start of negotiations of binding agreement/s	15 February 2012
Closing	21 March 2012

6. Delivery of Eol and Phase II Proposal

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

All Expression of Interest submissions should be delivered by midday on 04 January 2012 and Phase II Proposals should be delivered by midday on 01 February 2012 to:

- Hard copies:

UKGI
Joanna Lima
cc. Ian Nolan
Department for Business, Innovation & Skills
1 Victoria Street
London SW1H 0ET



**UK Green
Investments**

- Electronic copies:

UKGI_competition@bis.gsi.gov.uk.

7. Terms and Conditions

- i. UKGI reserves the right at any time not to award a mandate and/or to cancel or withdraw from the process at any stage. Any costs or expenses incurred by a bidder will not be reimbursed by UKGI or BIS and neither UKGI, BIS nor any of their representatives or advisers will be liable in any way to a bidder for costs, expenses or losses incurred by the bidder in connection with this process.
- ii. UKGI reserves the right to reject any and all proposals.
- iii. UKGI reserves the right to request clarification of information submitted and to request additional information regarding any or all proposals. Refusal to provide such information upon request may cause the proposal to be rejected. Where no reply to a request for information or for clarification is received within 5 working days, UKGI will consider that the Proposal has been withdrawn.
- iv. The legal agreement resulting from acceptance of a Proposal shall be in a form supplied or approved by UKGI and shall reflect the specifications in this request for Proposals.
- v. All information provided by Fund Managers to UKGI will be treated as commercially confidential. Save to the extent set out in paragraph 6 below or where required by law or where the consent of the Fund Manager has been obtained, such information will not be disclosed to third parties other than those involved in assessing or advising on UKGI Managed Account/s or in other aspects of the management or evaluation of UKGI Managed Account/s. UKGI will retain the submissions after a mandate has been awarded, for example to support any evaluation of the UKGI Managed Account/s selection process. This may involve passing certain details to carefully selected external researchers, who would be bound by confidentiality provisions.
- vi. The Freedom of Information Act 2000 ("FOIA") and the Environmental Information Regulations 2004 ("EIR") apply to UKGI. Fund Managers should be aware of UKGI's obligations and responsibilities under FOIA or EIR to disclose, on written request, recorded information held by UKGI. Information provided by Fund Managers in connection with this process, or with any contract that may be awarded as a result of this exercise, may therefore have to be disclosed by UKGI in response to such a request, unless UKGI decides that one of the statutory exemptions under the FOIA or the exceptions in the EIR applies. If Fund Managers wish to designate information supplied as part of this response as confidential, or if Fund Managers believe that its disclosure would be prejudicial to any person's commercial interests, Fund Managers should provide clear and specific detail as to the precise information involved. UKGI will have regard to such representations when responding to an information request but such designation is not a guarantee against disclosure if in UKGI's reasonable opinion publication is necessary under FOIA or EIR or disclosure is ordered by the Information Commissioner or the First-tier Tribunal (Information Rights), or otherwise required by law or court of competent jurisdiction.
- vii. Offering an inducement of any kind in relation to obtaining this or any other contract with UKGI will disqualify Fund Managers' EoI or Proposal from being considered and may constitute a criminal offence.



viii. Fund Managers must not:

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

Failure to comply with any of these conditions may disqualify Fund Managers' EoI or Proposal.

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

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Appendix 1 – Additional Information Required from Fund Managers

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

Please include the following information:

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