

# VC CATALYST

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**Request for Proposals**

## Objective

The objective of VC Catalyst is to support the UK's venture and growth capital infrastructure by investing in commercially viable funds that might otherwise fail to reach an optimum size and where our investment will unlock additional private capital.

## Overview

VC Catalyst is an initiative of British Business Bank Investments Limited ('BBBIL') and aims to support smaller businesses in the UK. This request for proposals sets out the criteria for those organisations interested in seeking commercial investment from VC Catalyst.

Further background on BBBIL can be found on the website [www.bbbinv.co.uk](http://www.bbbinv.co.uk).

BBBIL invests into equity capital funds on terms that are at least identical or more favourable to those of other private sector investors. Normal commercial manager selection criteria apply with BBBIL looking to invest in funds led by good quality investment teams with attractive and viable proposals, which represent the best overall value for money in achieving VC Catalyst's objectives. Fund management fees and charges are compared to ensure that no more than the market rate is paid for those services.

Selection is competitive. BBBIL cannot invest in every proposal received and so will look to take forward only the strongest proposals at each stage of the process.

It is not intended that VC Catalyst will compete with the British Business Bank's other initiatives such as Enterprise Capital Funds, which have incentives for private investors and act to encourage investment activity within the recognised equity gap. Those funds have restrictions on the size of investment they can make and have sector and stage restrictions that will not apply to VC Catalyst investments.

### **The funds must meet the following criteria:**

- Strong and capable management team with the ability to work together cohesively, a verifiable track record and relevant sector and stage experience.
- Evidence that a commitment from BBBIL could leverage significant private sector investment and is material in helping the fund achieve first (or, where there is good evidence that this requirement is being met, a subsequent) close.
- Evidence that the fund already has strong indications of interest from private sector investors who are investing for profit.

- Investing predominantly in UK-based SMEs<sup>1</sup> or likely to invest more than the VC Catalyst investment in UK-based SMEs.
- Making predominantly Venture Capital and / or Growth Capital investments.

In addition, VC Catalyst investment will:

- Be up to 33% (or up to 50% where there is a particularly strong case for doing so and it is commercially justifiable) of the total fund size at any point.
- Generally be in the range of £5-£50m (however, a VC Catalyst commitment may be in excess of this if there is a particularly strong case for doing so and it is commercially justifiable).
- Not usually be made in funds or fundraisings of less than £50m at first close.
- Not be made in funds that receive any form of subordinated or subsidised public sector support.
- Only invest in funds which are consistent with the British Business Bank's tax policy.
- Only invest on at least as favourable terms as private sector investors, and preferably on terms in line with those set out in the International Limited Partners Association's 'Private Equity Principles'.

## Selection Process

### Investment Memorandum and initial meeting

Fund managers are normally expected to provide an approved Investment Memorandum. However, prior to this, BBBIL recommends that Managers meet with BBBIL in order to provide an outline of their fund and capabilities (a pitch meeting). Following this meeting BBBIL will be able to provide some feedback, including whether the proposed fund is likely to meet the criteria set out in this document.

### Due diligence

For proposals which progress following the initial meeting, BBBIL will review the proposal. In addition to a review of the materials prepared by the manager of the fund and shared with investors as part of a 'data room', it is also likely that our team will visit the manager at their offices, undertake background and reference checks on the manager's team, verify the team's track record and review the legal documentation for the fund, including the proposed terms. We will also wish to speak

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<sup>1</sup> Eligible SMEs for BBBIL comprise small or medium sized businesses with an annual global turnover of less than £100m.

with other potential investors in the fund. Managers will be asked to warrant the information provided during the due diligence process.

### **Investment committee and final approval**

Based on the Investment Memorandum, data room materials and due diligence undertaken, the team will make a recommendation to BBBIL's investment committee which will consider, and if thought fit, formally approve the terms of the BBBIL investment.

BBBIL reserves the right to vary or supplement the selection process described above.

### **Further information**

Further information on the selection criteria of VC Catalyst is set out below. Should you have any questions about VC Catalyst or wish to set up an initial meeting, the investment team can be contacted at:

[VCCatalystFund.Proposals@bbbinv.co.uk](mailto:VCCatalystFund.Proposals@bbbinv.co.uk)

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**Please note that requests for business advice, direct investment or other support cannot be answered.** Businesses looking for such advice should contact their professional financial advisors in the first instance.

### **Selection Criteria**

This section outlines the criteria against which BBBIL will assess prospective funds.

#### **A strong and capable management team with the ability to work together cohesively, a verifiable track record and relevant sector and stage experience**

Prospective managers must be able to demonstrate that the proposed fund's management team is suitably qualified, and collectively possesses the knowledge, experience and capability needed to successfully build, manage and exit a portfolio of relevant investments. Prospective managers will also need to demonstrate that the team will be able to work together effectively for the life of the fund. Teams will need to be authorised to carry out investment activity in the UK.

**Evidence that a commitment from BBBIL could leverage significant private sector investment and is material in helping the fund achieve first (or, where there is good evidence that this requirement is being met, a subsequent) close**

VC Catalyst is designed to be significant in a manager's fundraising efforts. VC Catalyst will only invest where its participation in the fund is expected to unlock additional private sector capital. This objective will normally be met by VC Catalyst investing at or around first close, but proposals for investment subsequent to that point will be considered on a case by case basis. There is no cap on the maximum size of fund VC Catalyst will invest in. However, BBBIL is looking to ensure that its investment is material in catalysing additional private sector capital.

**Evidence that the fund already has strong indications of commitment from private sector investors who are investing for profit**

VC Catalyst will be operated on a fully commercial basis (including in respect of fund manager fees and charges). Therefore applicants must demonstrate they already have strong indications of commitment from private sector investors investing for profit on commercial terms. VC Catalyst will not be a majority of funding committed at any point of the fundraising cycle.

**Investing predominantly in UK-based SMEs or likely to invest more than the VC Catalyst investment in UK-based SMEs**

BBBIL's funding has been earmarked for investment in UK-based SMEs. This does not preclude investment in funds with a wider geographical remit, or investing in larger portfolio businesses, but BBBIL will be looking for a strong commitment from managers that a multiple of the VC Catalyst's investment will be invested in UK-based SMEs. Other things being equal, BBBIL will favour funds with greater UK content.

**Targeting Venture Capital and /or Growth Capital investments**

VC Catalyst's objectives are best met when BBBIL's investments are in funds that are predominantly aimed at companies wanting to scale-up who require risk capital investments.

**Up to 33% (50% in certain cases) of the total fund size**

VC Catalyst is designed to be significant in a manager's fundraising efforts and it will commit to invest up to 33% of the total fund size. In certain cases, where there is a particularly strong case for doing so and it is commercially justifiable, we will consider committing to invest up to 50% of the total fund size.

**Investment of £5-£50m into any fund**

VC Catalyst commitments will generally be in the range of £5-£50m. However, a VC Catalyst commitment may be in excess of this amount if there is a particularly strong case for doing so and it is commercially justifiable.

**Investing in funds targeting at least £50m at first close**

Research suggests that funds need to reach a certain minimum size in order to produce good returns and there is a consensus that £50m is about the right minimum level. BBBIL will only consider investments into smaller funds where the prospective manager is able to clearly demonstrate that the fund size is viable given their proposed investment strategy.

**Not investing in funds that receive any form of subordinated or subsidised public sector support**

VC Catalyst is not intended to compete with other forms of public sector support for investment into SMEs. VC Catalyst will not invest in any funds which receive subordinated or subsidised Government, public sector or European Structural Fund investment. A similar prohibition applies to investing in tax advantaged funds such as VCTs or EIS funds.

**Consistent with British Business Bank's tax policy**

The proposed fund must also be consistent with British Business Bank's tax policy, a copy of which can be found on the 'Transparency' page of the British Business Bank website at <http://british-business-bank.co.uk/transparency/>. Typically, funds located in the UK or EEA and managed by a UK or EEA based manager will be eligible. Other overseas structures may also be acceptable.

**Fund terms**

We will give greater weight to proposed investments where fund terms are in line with the best practice described in the International Limited Partners Association's Private Equity Principles. BBBIL maintains its right to seek to negotiate any improvement in terms that it thinks reasonable. BBBIL will only invest on terms as to risk and reward that are identical to or more favourable than those accepted by private investors.

Funds eligible for investment may include the raising of fresh capital into any pooled investment vehicle including, without limitation, limited partnerships and limited companies.

## Legal Notice

British Business Bank Investments Ltd ('BBBIL') reserves the right to reject any and all proposals.

BBBIL may request clarification of information and additional information regarding any response to this request for proposals on and may request face to face meetings. Refusal to provide such clarification, information or meetings may cause the proposal to be rejected. Where no reply to a request for information or for clarification is received within a reasonable period, BBBIL may assume that the proposal has been withdrawn.

Any award made by BBBIL as a result of this process will be subject, *inter alia* to completion of satisfactory due diligence, necessary approvals and the prompt and satisfactory agreement of legal terms.

This request for proposals has been prepared for information and discussion purposes only. It is not a legally binding document and should be treated as indicative only. No representation, express or implied, is being made as to the completeness or accuracy of any facts or opinions contained herein. Recipients should seek their own independent legal, financial, tax, accounting or regulatory advice before making any decision to proceed.

Respondents should note that information received by BBBIL and its affiliates may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 ('FOIA') the Data Protection Act 1998 ('DPA') and the Environmental Information Regulations 2004 ('EIR'), In view of this, should respondents consider that any information should be treated as confidential and/or commercially sensitive, it would be helpful if respondents could set out why they consider this to be the case in each instance. Automatic confidentiality disclaimers generated by IT systems will not, in themselves, be regarded as binding.

If BBBIL or other members of the British Business Bank ('affiliates') receive a request for disclosure of information full account will be taken of any explanation, but no assurance can be given that confidentiality will be maintained in all circumstances. Decisions on disclosure remain the responsibility of BBBIL and its affiliates and ultimately the Information Commissioner and courts. Personal data will be processed in accordance with the DPA.

Please note that BBBIL is acting as an investor for the purposes of this programme and therefore this request for proposals does not require approval under financial promotion legislation or corresponding rules.

BBBIL is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales, registration number 09091930, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. It is not authorised or regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA).

British Business Bank plc is a public limited company registered in England and Wales registration number 08616013, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. As the holding company of the group operating under the trading name of British Business Bank, it is a development bank wholly owned by HM Government which is not authorised or regulated by the PRA or FCA.

British Business Bank plc and its subsidiary entities are **not** banking institutions and **do not** operate as such.

A complete legal structure chart for British Business Bank plc and its subsidiaries can be found at [www.bbbinv.co.uk](http://www.bbbinv.co.uk).

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