INVITATION TO TENDER

AND

TENDER SPECIFICATION

Venture Capital Portfolio Management Services

Tender Reference: [ OJEU TBC]

Date: [TBC October 2018]

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**VENTURE CAPITAL PORTFOLIO MANAGEMENT SERVICES**

Thank you for submitting a Selection Questionnaire in response to Contract Notice OJEU [**TBC**] issued by North East Finance (Holdco) Limited ("**NEF**"). You are hereby invited to submit your proposal for the contract in accordance with this Invitation to Tender ("**ITT**").

The purpose of this procurement exercise is to appoint a fund management organisation to take over the management of the investment portfolio of NEF’s Finance for Business North East Technology Fund (**“Technology Fund”**) from the current fund manager and, potentially, to manage other venture capital investments from within NEF’s portfolio. The successful bidder will become responsible for the Technology Fund (by taking ownership of the General Partner entity) and will be required to manage, and to realise value from, its portfolio and then to wind-up the Technology Fund, in the period from completion of the contract (targeted for 1 January 2019) to 30 June 2021 (which period may be extended by up to a year, to 30 June 2022).

The contracting party to the fund management agreement will be North East Technology Fund LP ("**NETF**") a Limited Partnership entered into between North East Technology (GP) Limited and NEF. NEF is the limited partner invested in the Technology Fund and is also the contracting authority in control of the public monies committed to it. NEF is therefore solely responsible for this procurement process. The current manager of the Technology Fund, Top Technology Ventures Limited (**“TTV”**) (including its parent company, IP Group plc), has had, and will have, no role in the procurement process other than the provision of information regarding the Technology Fund and its management of it to date. It will not be made aware by NEF of the identity of the organisations which participate in the procurement process and will not have any input whatsoever to the process, other than to engage with the successful bidder, following the conclusion of the procurement process, to facilitate the transition of the management of the Technology Fund.

You are advised to read this Invitation to Tender and the accompanying documents carefully to ensure that you are fully familiar with the requirements of the contract and of the procurement process.

This document sets out the background to the Technology Fund and summarises the specification of the contract and what will be required of the successful bidder. The appendices to this document are equally important and so please review them and ensure that you follow the instructions and provide all of the information requested. The appendices are:

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| **Appendix 5** | Draft Fund Management Agreement | Separate File |

Further information relating to the Technology Fund can be found in the data room, which can be accessed following the instructions in Appendix 1. Please review the information in the data room, to inform your responses to the Tender Proposal Questionnaire.

**This ITT and the information referred to in it has been compiled and is made available in good faith. No warranty is given as to the accuracy or completeness of the information contained to or referred to herein or in the data room and any liability for any inaccuracy or incompleteness is therefore expressly disclaimed by NEF and its advisers.**

1. Summary of Background and of Services Required
   1. NEF was established in late 2009, when it secured funding from the European Regional Development Fund (**ERDF**), the European Investment Bank (**EIB**) and the UK government (via the regional development agency One North East, which has been succeeded as the government’s representative by the British Business Bank). It was established under the auspices of the EIB/EU’s JEREMIE programme, with NEF being the holding fund manager responsible for appointing and overseeing the managers of seven different funds in its portfolio. The funds, their managers and the capital invested by each fund in the period from 2010 to 2016 are as follows:

|  |  |  |
| --- | --- | --- |
| **Fund** | **Manager** | **Capital Invested** |
| Proof of Concept Fund | Northstar Ventures | £21m |
| Technology Fund | Top Technology Ventures | £31m |
| Accelerator Fund | Northstar Ventures | £34m |
| Angel Fund | Rivers Capital Partners | £11m |
| Growth Plus Fund | FW Capital | £24m |
| Growth Fund | NEL Fund Managers | £30m |
| Microloan Fund | Rivers Capital Partners | £7.5m |
| Total |  | **£158.5m** |

* 1. The investment phase of each fund was originally due to end in December 2014, but NEF secured additional capital in the subsequent two years and, by agreement with its funders and the fund managers, extended the investment phase of each fund to the end of 2016. The additional capital was provided by ERDF, the EIB, the Regional Growth Fund (via the North East Local Enterprise Partnership) and North East Access to Finance, as the steward of capital returned by previous regional investment funds. The EIB’s funding has been provided to NEF as a loan, which is almost fully repaid, and all other funding has been provided to NEF as ‘repayable grant’ funding – with surplus returns belonging to the grant providers.
  2. No further investment capital has been made available to the funds since 2016, and the terms on which the investment capital was provided to NEF does not permit reinvestment of investment returns, which are remitted to NEF and used to repay its EIB loan and to pay fund management fees. All surpluses not required for these purposes will belong to the funding providers, who will direct how it is to be used in future (anticipated to be in similar SME finance initiatives).
  3. All funds in NEF’s portfolio have therefore been in their realisation phase for c.19 months, having had their investment phases extended from 5 to 7 years. They are all currently projected to be fully realised and wound-up by April 2020, or to have their management contracts re-procured at that time. For the reasons summarised in the following section, the management contract for NEF’s Technology Fund is being re-procured at this time (and the new contract will run until at least 30 June 2021), with the ability to transfer additional assets from NEF’s portfolio into the Technology Fund being included as a contingency measure.
  4. Responsibility for management of the Technology Fund will be transferred to the successful bidder on the conclusion of this procurement process. This will involve the current fund manager, Top Technology Ventures (**TTV**), transferring the entire issued share capital of the Technology Fund’s general partner (North East Technology (GP) Limited) (**NETGP**), for nominal consideration, to the successful bidder. This will be accompanied by a short share purchase agreement in which TTV will give warranties as to its title and capacity to sell the shares and regarding the activities and liabilities of NETGP. Information regarding NETGP is also available in the data room for bidders to review.
  5. The successful bidder will then own and operate the general partner entity and enter into the Fund Management Agreement with the North East Technology Fund Limited Partnership. TTV will, at no cost to the successful bidder, provide reasonable assistance in the three month period following the transfer, to facilitate a smooth transition to the new manager and to ensure that all relevant documents and records in TTV’s possession relating to the Technology Fund, its portfolio and management are received by the new manager.
  6. The services required, to which the fund management contract to be entered into pursuant to this ITT relate, are set out in section 3 and in the Fund Management Agreement. They principally require the successful bidder to manage the realisation of the Technology Fund portfolio, by assisting its portfolio companies to grow and by identifying prospective purchasers of the companies, or securing the refinancing or secondary purchase of the Technology Fund’s investments in those companies. NEF would like to engage a manager which has the ability to successfully do this and would like to engage it on terms which substantially link the manager’s remuneration to the value of realisations which it achieves in the period to 30 June 2021.

1. Summary of the North East Technology Fund To Date and of New Management Contract
   1. Top Technology Ventures Limited (**TTV**), the wholly-owned FCA-authorised fund management subsidiary of IP Group plc (**IPG**), was appointed as the manager of the Technology Fund in 2010 and has managed it since then. It continues to do so, and will continue as manager in the event that this procurement process does not successfully result in the appointment of a new manager. However, due to its decision not to tender for management contracts from The North East Fund (the successor to NEF’s funds), TTV has agreed with NEF that it will better suit the interests of all parties to transfer responsibility for the Technology Fund to a new fund manager at this time.
   2. Between 2010 and December 2016, the Technology Fund invested £31m in 70 companies via investments ranging from £5k to £2.1m, including follow-on investments. The investments have in aggregate leveraged £38m of additional private investment into the Fund’s portfolio. All investments were made in technology-oriented SMEs based in the North East of England (comprising Northumberland, Tyne & Wear, County Durham and Tees Valley). A summary of the principal assets in the portfolio is given in the table at section 2.5, below. The largest investments are in the following companies:

|  |  |
| --- | --- |
| **Investee** | **Sector / Activity (Principal Location)** |
| Applied Graphene Materials plc | Materials / Manufacture of graphene. (Redcar) |
| Atlas Cloud Limited | SAAS / Hosted desktop services. (Newcastle upon Tyne) |
| Avid Technology Limited | Clean Tech / Electrified powertrains (Cramlington) |
| Datum360 Limited | SAAS / Asset management software for the oil and gas and processing industries (Stockton on Tees). |
| Glythera Limited | Biotech / Novel biotherapeutics (Newcastle upon Tyne) |
| Ibex Innovation Limited | Meditech, Process / Enhanced x-ray detection (Sedgefield) |

* 1. To date, the Technology Fund has returned in total c.£9.5m and, as a result of exits, investee failures and write-offs, its portfolio now consists of 25 active investments. TTV’s projections indicate that these are capable of generating further returns sufficient to, at least, return all capital invested by the fund (i.e. a further £21.5m+) but TTV does not expect the Fund to make sufficient returns to trigger payment of any carried interest.
  2. For this reason, and to assist the smooth transition of responsibility for the Technology Fund to the new manager, the entity which is the carried-interest nominee in the partnership will resign as a limited partner prior to the new manager being appointed. The performance-related remuneration for the new manager will therefore be structured as a potential ’bonus / success’ fee which will be payable to the fund management company and not as carried-interest payable to individuals, or otherwise.
  3. The principal equity assets in the Technology Fund are shown in the following table. In addition to these, the Fund holds three debt-based investments with aggregate outstanding capital balances of c.£1.3m, and holds 11 further equity investments which are smaller than those detailed below or have had material provisions applied to them.



* 1. Complete details of the above investments and of the entire Technology Fund portfolio is available in the online data room and includes: completion bibles for all funding rounds; the business plan and latest management information packs from all investee companies; detailed share capital tables and current information on any anticipated fundraisings which portfolio companies expect to undertake.
  2. NEF is seeking to appoint a new fund manager with relevant capabilities and experience of managing and realising venture capital investments in technology-oriented SMEs. As part of their tender proposals, each bidder is required to review the detailed information in the data room regarding the Technology Fund portfolio and to provide a summary of the approach it will take to managing, and realising value from, each asset.
  3. As further detailed in Section 7, below, NEF will contract with the successful bidder on the basis that its remuneration will comprise:
     1. A core fund management fee – i.e. a fixed amount (not determined or expressed as a percentage of assets under management), payable quarterly in advance; and / or
     2. A ‘bonus / success’ fee – being a percentage of all returns generated by the Technology Fund portfolio in excess of a minimum threshold or hurdle. Both the percentage and the minimum threshold will be proposed by bidders, subject to the maximum ‘bonus / success’ percentage being 10% and the minimum ‘threshold’ above which the bonus becomes payable being an additional £5m of returns. Current returns generated by the Technology Fund are £9.5m, and the ‘threshold’ relates to quantum of *additional* returns, over and above £9.5m, which the successful bidder proposes; and
     3. Monitoring fees which are paid by investee companies. TTV has contracted with investee companies on the basis that monitoring fees are due to the Technology Fund and not to TTV, and the new manager will be permitted to retain all monitoring fees paid to the fund once it has taken ownership and control of the Technology Fund’s general partner entity. The monitoring fees currently being paid are c.£65k per annum.
  4. NEF would like to keep the level of core fund management fees (item 2.8.1, above) payable to the successful bidder as low as possible and to align the interests of the new fund manager and of NEF and its stakeholders by the majority of remuneration being contingent on the successful growth and realisation of the portfolio. Accordingly, the scoring methodology applicable to the “Remuneration and Alignment of Interests” award criteria (as detailed at section 7 of this Invitation to Tender) will result in the bidder(s) which proposes the lowest core-fee and bonus percentage and the highest bonus threshold achieving the highest scores for those award criteria.
  5. By way of illustration, the bonus arrangement will operate as follows:

*If the successful bidder proposes a bonus/success fee of 5% above a threshold of £15m of additional returns then it will receive, as bonus fee payment, 5% of all returns generated by the Technology Fund in excess of £24.5m (being the £9.5m already returned plus the £15m hurdle of additional returns required to trigger the bonus). If ultimate returns are £30m, then £275k will be paid to the manager as bonus fees, being: £30m - £24.5m = £5.5m x 5% = £275,000.*

* 1. North East Finance believe that this contract represents an attractive opportunity for fund managers, both as a potentially profitable contract and also as a way of acquiring exposure to a number of interesting and fast-growing businesses. By becoming the general partner of The North East Technology Fund Limited Partnership, the new manager will come within the group / permitted transferee provisions of some investees' articles of association – and so could benefit from pre-emption rights on further funding rounds, should these occur and if the new manager has capital available from other sources to invest.
  2. It is not currently anticipated that NEF or its funders will be able to make any additional capital available to the new manager of the Technology Fund to invest. NEF will however maintain a dialogue with the new manager regarding the follow-on funding requirements of the Technology Fund portfolio. Should some additional capital become available, it is possible that it could be made available to the Technology Fund to make a small follow-on investment in a portfolio company, in circumstances where that will help to minimise the dilutive effect of a further funding round. Bidders should however assume that no further investment capital will be available to the Technology Fund.
  3. This contract is expected to relate solely to the managing-out of the Technology Fund portfolio and the winding up of the fund. The contract will include the ability for NEF to transfer other assets from NEF’s portfolio (on an individual basis, from other the funds identified in section 1.1, above) into the Technology Fund and for these then to be managed by the new manager. This ability is not expected to be used but is being included as a contingency and could be a mechanism through which any additional capital which becomes available for follow-on funding could be deployed into portfolio companies – something which the procured terms of the contracts of NEF’s other funds no longer permits.
  4. The transfer of any additional assets into the Technology Fund portfolio will be subject to the agreement of the new manager. Bidders are requested to quote a fee for managing additional assets as part of their response to section 2.1 of the tender questionnaire. This will be the maximum permissible annual charge per asset, with the actual charge to be agreed between NEF and the new manager (subject to the tendered maximum) with reference to the circumstances and anticipated requirements of any such additional asset which it is proposed be transferred into the Technology Fund. As this is not currently expected (and is included solely as a contingency measure for NEF’s benefit), the figure quoted by bidders as the maximum annual fee for managing additional assets will not be included in the evaluation of pricing proposals. Should such transfer be affected, the returns generated by the transferred asset after its transfer into the Technology Fund will not be included in the calculation of the ‘bonus / success’ fee.
  5. TTV will continue to actively manage the Technology Fund portfolio until the new manager assumes responsibility and it will provide reasonable assistance to the new manager as required to aid the transition. The resourcing of the portfolio has been managed during the course of the past year in a way which means that only one member of TTV’s staff is expected to have the right under the TUPE legislation to transfer (should they wish to do so) to the new manager. That is an Office Manager, who performs administrative and support functions, and full details of their employment terms and conditions are available in the data room, together with additional information on why both NEF and TTV believe that no other individuals will have rights under TUPE which they will seek to invoke to transfer to the employment of the new manager.
  6. Duncan Lowery has been the fund manager of the Technology Fund since its creation and continues to oversee its portfolio. Since March 2018, he has done so as an independent consultant through his own business, D J Lowery Consulting Limited (**DJLC**), and not as an employee of TTV / IPG. The services provided include: acting as the Fund appointee on a number of portfolio companies; information provision and preparation of reports and associated investment/divestment documentation. Duncan holds one Investor Director position, in Datum360 Limited; all other appointments are observer status only. The contract between DJLC and TTV will terminate on the appointment of the new fund manager. Should the newly appointed manager wish, DJLC will be available to continue to provide services, subject to contract.
  7. TTV also use the services of another consultant to assist with the management of the Technology Fund portfolio: Michael Hunt (**MH**). He operates under contract with TTV and acts as the Technology Fund’s board observer for Continuous Retorts Limited and Eco Tyre Disposals Limited and the Fund’s Investor Director for Ibex Innovations Limited and Avid Technology Group Limited. He will resign from each of these positions on or before the date on which the successful bidder assumes responsibility for the Technology Fund, but would be available to provide portfolio services to the new manager, subject to contract.
  8. For the avoidance of doubt, none of TTV, IPG, DJLC or MH will have a role in this procurement process other than, on its conclusion, to effect the transfer of the general partner entity to the new manager and, subsequently, to provide such information and assistance as is reasonably requested by the new manager to help facilitate a smooth transfer of responsibility for the portfolio. TTV, IPG, DJLC and MH will not be made aware by NEF of the parties who participate in the process (except the successful bidder), will not have sight of any documentation submitted by bidders and will have no role in the evaluation of submissions or the award of the new contract. Other fund managers which have invested in Technology Fund portfolio companies (including those identified as co-investors in the table at section 2.5, above) will be permitted to participate in this procurement process and will not be deemed to have any unfair advantage or conflict of interest as a consequence of any such investment or interest in Technology Fund portfolio companies.

1. Contract Requirements
   1. The successful bidder will be required to enter into a Fund Management Agreement substantially in the form of the annexed draft. This draft will be tailored to reflect the proposals from the tender of the successful bidder and may be subject to change if necessary to reflect the requirements of NEF's funders or regulatory requirements. The successful bidder will not be permitted to negotiate any of the terms of the contract, which will remain substantially as drafted. The successful bidders' tender will be annexed to, and form part of, the Fund Management Agreement.
   2. North East Technology (GP) Limited (**NETGP**), which acts as the general partner of the NETF, is currently owned by Top Technology Ventures Limited and the successful bidder will be required to enter into a Share Purchase Agreement in order to take ownership of the general partner. The Limited Partnership Agreement which constitutes the fund limited partnership and to which NETGP is a party, with NEF as a limited partner, will be also be amended to reflect the proposals from the tender of the successful bidder.
   3. The contract requirements are:
      1. Taking-over from Top Technology Ventures (**TTV**) the management of the North East Technology Fund Limited Partnership (the **Technology Fund**), including becoming the owner of the company which is the General Partner of the Fund (North East Technology (GP) Limited).
      2. To quickly develop an understanding of the position of the Technology Fund portfolio as a whole and of its underlying portfolio companies, from information which will be made available in the data room and, subsequent to the contract award, from liaising with TTV and taking-over possession and management of all TTV files relating to the Technology Fund and its portfolio.
      3. Managing the Fund for the remainder of its realisation phase, in accordance with the terms of the Limited Partnership Agreement and Fund Management Agreement, and winding-up the partnership at the end of the contract term (30 June 2021, extendable by up to 1 year).
      4. Within 28 days of completing the Fund Management Agreement, agreeing with NEF a Technology Fund Business Plan which sets out the financial returns which the new Manager forecasts the Fund will achieve in the period covered by the plan, and will commit the Manager to remitting a specified minimum quantum of financial returns to the Holding Fund during the period to 31 December 2019. Updates to this Business Plans must also be prepared and agreed by 31 January 2020 and 31 January 2021, and include updated forecasts for the period to be covered by each plan.
      5. Working with the management teams of investee companies and with co-investors in investee companies to agree strategies which will facilitate the growth and expansion of the investee companies and which will maximise the financial return on the Fund’s investment in the portfolio companies.
      6. Sourcing relevant contacts for investee companies which will assist their growth and development, for example: individuals within organisations which are prospective customers, suppliers, collaborators or investors; sources of services or human resources which will benefit the investee companies.
      7. Where appropriate, assisting the Fund’s investee companies to identify and access new sources of funding / investment.
      8. Where appropriate, participating in the management of investee companies by appointing observers and/or non-executive directors to their boards.
      9. In general, managing the Fund’s investment portfolio to add value to investee companies and to maximise the financial returns to the fund, while minimising the operational costs.
      10. In the event that additional investment capital can be provided by the existing investors in the Fund (which is not currently anticipated), negotiating and completing a small number of follow-on investments in the Fund’s portfolio, with a view to aiding investees’ commercial progress and to maximising the financial return to the Fund by minimising any dilutive effect from investment rounds in which the Fund does not participate.
      11. Where appropriate, negotiating exits from under-performing investments, if doing so represents the best prospect of avoiding the total loss of the Fund’s investment and will assist achieving partial returns and, ultimately, the winding-up of the Fund.
      12. Ensuring that all of the Fund’s performance metrics are monitored and continue to be collected and, where necessary, evidenced in accordance with the requirements of the European Regional Development Fund, in particular as regards the monitoring, reporting and evidencing of new employment positions created by the Fund’s investees and former investees, during the term of the contract.
      13. Performing all necessary investment management, corporate governance, finance and accounting functions for the Fund, including: establishing and maintaining appropriate Investment/Portfolio Committee(s); taking-over responsibility for pre-existing records; maintaining and keeping all proper accounting records; preparing fund accounts; preparing semi-annual valuations of individual investments and of the fund portfolio as a whole.
      14. Maintaining complete and accurate records of the Fund’s activities and retaining them for the prescribed period (until at least 2025), in accordance with the requirements detailed in the Fund Management Agreement.
      15. Performing administrative functions on behalf of the fund, including the services of the general partner of the limited partnership; representing the fund/partnership in engaging auditors, accountants, solicitors, custodians, agents etc.
      16. Monitoring the investment portfolio and providing regular reports on its performance across all KPI metrics, in accordance with the requirements detailed in the Fund Management Agreement.
      17. Providing information regarding the Fund and its investee companies in response to any ad hoc requests from North East Finance.
      18. Meeting regularly with representatives of North East Finance to provide regular updates on the performance of the Fund’s portfolio and its future prospects.
      19. Giving presentations on the Fund’s performance on a quarterly basis to the supervisory boards of North East Finance.
      20. Cooperating with any auditors engaged by or on behalf of any of the investors in the Fund (including the European Investment Bank and European Regional Development Fund), in relation to any audits which may be undertaken on the Fund.
      21. Undertaking any or all of the above services in respect of other investee companies from within the North East Finance portfolio but not currently held by the Fund, should any such assets be transferred into the Fund’s portfolio by agreement with the company to which the Fund management contract is awarded.
2. Legal Structure of North East Technology Fund LP; NEF's Role
   1. The North East Technology Fund Limited Partnership (the **Fund**) is a limited partnership incorporated in accordance with section 8A of the Limited Partnerships Act 1907.
   2. Please see Appendix 4 for an illustration of the structure of the Fund and its current partners. As stated above, the current carried-interest entity will be resign as a limited partner prior to the new fund manager being appointed, and the Fund will then operate with North East Finance (Holdco) Limited as its sole limited partner, and with the new fund manager taking ownership of, and fulfilling the duties of, the general partner entity.
   3. All activities relating to the operation of the fund, as set out in the preceding section 3 and the draft Fund Management Agreement, will be undertaken by the new fund manager.
   4. The principal functions which NEF performs as the holding fund manager are:
      1. monitoring the performance of its fund managers against the requirements of the fund management contracts;
      2. reporting on the performance of the portfolio of funds to, and liaising with, the funders (the Ministry of Housing, Communities and Local Government, in relation to ERDF; the European Investment Bank; the Department for Business, Energy and Industrial Strategy / British Business Bank; the North East Local Enterprise Partnership and North East Access to Finance Limited);
      3. monitoring investments to check compliance with the eligibility rules, state aid regulations and other compliance related issues and providing guidance to fund managers in relation to these rules where appropriate;
      4. reviewing the management of any conflicts of interest which a fund manager has in respect of any individual investments.
   5. NEF liaises with its fund managers on a regular basis and aims to work with each of them on an open and cooperative basis.
3. Transition of Contract from Current to New Fund Manager
   1. This procurement process is expected to conclude in early December and therefore NEF and the current fund manager (TTV) will seek to effect the formal handover of responsibility for the Fund with effect from 1 January 2019, or as soon as possible thereafter.
   2. TTV will provide reasonable information and assistance, at no cost, to the new manager during the first quarter of 2019 to help facilitate a smooth transition. All relevant documentation and records relating to the current portfolio will be passed to the new fund manager following completion of the new fund management contract.
   3. The attention of Bidders is drawn to the Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended ("**TUPE**"). In some cases, where work carried out by one contractor is subsequently awarded to another organisation, such a transfer of work may constitute a "transfer of an undertaking" for the purposes of TUPE.
   4. TUPE provides that where there is a transfer of an undertaking, the new employer takes over any employment liabilities and the responsibility for the employment contracts of the employees, who then transfer on their previous terms and conditions of service.
   5. NEF expects that TUPE will apply to the following member of staff who remains employed by the current fund manager and who has devoted all, or the majority, of their working time to the North East Technology Fund contract:

|  |  |
| --- | --- |
| **Job Title** | **Date Employment with TTV Commenced** |
| Office Manager | 29 March 2010 |

* 1. At the time when this Invitation to Tender was published, NEF expected that the above individual will be entitled to transfer in accordance with TUPE to the new fund manager following its appointment. It will of course be for the individual to decide if he or she wishes to do so.
  2. Full details of the terms of employment of the above North East Technology Fund team member is provided in the data room and will allow bidders to reflect the anticipated financial implications of TUPE in their tenders. Bidders are solely responsible for taking this information into account when submitting their proposals. NEF does not give any warranty as to the accuracy or completeness of this information, and will not indemnify the successful bidder against any liabilities which arise as a consequence of the operation of TUPE.
  3. The application of TUPE is a matter for each bidder to clarify with their legal advisers.

1. Instructions for Bidders
   1. Please review the below instructions and those set out at Appendix 1 carefully.
   2. **Appendix 2 (Tender Proposal Questionnaire) contains a series of questions which bidders must respond to in order to outline their proposals for delivering the contract, and their suitability to perform the role of fund manager**.

The questions cover the following areas:

**1. Approch to Portfolio Management** – which requires bidders to provide a summary of how they manage a venture capital portfolio to increase and realise its value, how they will rapidly take-on responsibility for the Technology Fund portfolio and the corporate governance framework within which they will work, and to provide specific proposals regarding the Technology Fund portfolio companies.

**2. Remuneration and Alignment of Interests** – which requires bidders to propose a fixed-fee component which they will charge for delivering the services and a performance-related fee, being an amount of bonus payment which will become payable if financial returns in excess of a threshold are generated by the Technology Fund portfolio following the new manager’s appointment.

* 1. Bidders must prepare a single 'Tender Proposal Document' which provides responses to each of the questions in Appendix 2. The document must follow the order of questions set out in Appendix 2, with the response to each individual question presented clearly under the wording of each question, which should be reproduced in your Tender Proposal Document.
  2. The Tender Proposal Document must be submitted together with the duly completed and signed Form of Tender (in the form set out at Appendix 3) to: [tenders@northeastfinance.org](mailto:tenders@northeastfinance.org), by the deadline set out at Appendix 1.
  3. The Tender Proposal Document should be submitted as a single MS Word or PDF document, which should be named using the following format:

‘NEF Portfolio Management Tender - (insert your organisation's name) - (insert date)'

* 1. If due to excessive file size, it is necessary to submit more than one file, each file should be clearly named by including "File 1", "File 2" etc. as appropriate in the file name.
  2. You must supply only the information and documents requested specifically in these instructions and at Appendix 1. Do not submit additional supporting information which has not been requested. It will not be taken into account during the tender assessment process.

1. Criteria For Contract Award
   1. NEF intends to award the contract to the proposal that is most economically advantageous
   2. The assessment will be made against the following contract award criteria.

| **Award Criteria** | **Sub-Criteria Weighting** | **Section Weighting** |
| --- | --- | --- |
| **1. Approach to Portfolio Management** |  | **55%** |
| 1.1 General Approach to Portfolio Management | **10%** |
| 1.2 Ability to Rapidly Assume Responsibility for and to Resource the Contract | **5%** |
| 1.3 Approach to Assisting Investees Raise Further Finance | **5%** |
| 1.4 Approach to Managing and Realising Value from the Principal Assets in the Technology Fund Portfolio | **25%** |
| 1.5 Approach to Realising Value from Remaining Portfolio | **5%** |
| 1.6 Fund Governance Including Conflicts of Interest | **5%** |
| **2. Remuneration and Alignment of Interests** |  |  |
| 2.1 Fund Management Fee | **20%** | **45%** |
| 2.2 (a) Performance Related Fee – Hurdle Level of additional returns required to trigger bonus fee payment | **20%** |
| 2.2 (b) Performance Related Fee – Bonus fee percentage | **5%** |
| **Total** |  | **100%** |

* 1. The proposals which will be evaluated under each award criteria are those which bidders include in their Tender Proposal Document in response to the question in Appendix 2 which corresponds to the numbering in the above table.
  2. Each response to the questions in section 1 of the Tender Proposal Questionnaire (attached as Appendix 2) will be awarded a score from 0 to 5 (in accordance with the following scoring principles), to which the relevant weighting set out in the above table will be applied.

|  |  |  |
| --- | --- | --- |
| **Assessment** | **Interpretation** | **Score** |
| Excellent | The information provided demonstrates capability which meets all of the contract requirements. | 5 |
| Good | The information provided demonstrates capability which meets most of the contract requirements. | 4 |
| Acceptable | The information provided demonstrates capability which meets some of the contract requirements. | 3 |
| Minor Reservations | The information provided demonstrates capability which fails to meet some of the contract requirements. | 2 |
| Major Reservations | The information provided demonstrates capability which fails to meet most of the contract requirements. | 1 |
| Unacceptable | The information provided demonstrates capability which fails to meet the contract requirements. | 0 |

* 1. Bidders’ responses to the questions in section 2 of the Tender Proposal Questionnaire (Remuneration and Alignment of Interests) will be scored on a formulaic basis, as follows:
     1. Response to Question 2.1, Fund Management Fee: the total of the fees proposed in response to this question will be aggregated. The bidder (or bidders, in the event of equal bids) which proposes the lowest fee will receive the full 20% score and all other bidders will receive a score which is proportionately lower, i.e:

Amount of Lowest Bid ÷ Amount of Higher Bid x 20.

To enable this formulaic approach to work in the event that a bidder proposes zero (£0) fixed fee, NEF will assume that all bidders receive the £65k per annum of monitoring fees which are currently being paid by Technology Fund portfolio companies. As such, a proposal to charge zero (£0) fees in response to question 2.1 will, for evaluation purposes, be treated as an annual fee of £65,000. (See further at section 7.6, below).

* + 1. Response to Question 2.2(a): Performance Related Fee – Hurdle: each bidder will propose one number in response to this question, being the amount of *additional* returns (additional to the £9.5m already returned by the fund) which are achieved by the Technology Fund during its period of management. For this question, the bidder which proposes the *highest* hurdle or threshold will receive the maximum score (20%) (or bidders, if two or more propose equal-highest hurdles) and other bidders will receive proportionately lower scores, i.e:

Amount of Lower Hurdles ÷ Amount of Highest Hurdle x 20

* + 1. Response to Question 2.2(b): Performance Related Fee – Bonus Percentage: this will be scored on the same basis as Question 2.1, with the lowest percentage proposed by a bidder (or bidders) being awarded the maximum score (5%), and other bidders being awarded a score which is proportionately lower, i.e:

Amount of Lowest Bonus % ÷ Amount of Higher Bonus % x 5.

* 1. NEF acknowledges that the £65k of monitoring fees referred to in section 7.5.1, above, may not in practice be received by the new fund manager for the duration of the contract due to the portfolio companies which pay the fees being sold, or failing. It is included as an assumed level of fee for the purposes of the fund management fee calculation because it is the level currently being paid to the fund manager and also to ensure that a formulaic approach to evaluation of that award criteria works even if a bidder (or bidder) proposes zero fees in response to that question, with its proposed remuneration being solely the performance related ‘bonus’ fee (determined by its response to questions 2.2(a) and (b)), and the monitoring fees.

1. Timetable
   1. The timetable for the procurement process is set out in Appendix 1. NEF expects the successful bidder to begin managing the fund as soon as reasonably practicable following the award of the contract, and ideally with effect from 1 January 2019.
   2. As detailed in Appendix 1, the contract award may be subject to the final approval of the European Investment Bank – which is a precondition of NEF's ability to award the contract and not a further evaluation of the fund manager.
2. Queries
   1. Any queries in connection with this tender should be submitted by email to: [alastair.smith@northeastfinance.org](mailto:alastair.smith@northeastfinance.org).
   2. To ensure a fair and transparent tender process no approach of any kind in connection with this tender (other than as identified above) should be made to any person within, or associated with, NEF. Failure to comply may result in disqualification from the process.
3. Incomplete Tenders
   1. Tenders must be submitted in accordance with the instructions in this ITT and its appendices. NEF may not consider tenders submissions that do not contain all information, documents and particulars requested.
4. Tender Validity
   1. Tender submissions should remain open for acceptance for a minimum of 90 days from the tender submission deadline.
5. Right to Reject Tenders and Cancel Tender Process
   1. NEF reserves the right to cancel the tender process and reject all tenders at any time prior to the appointment of the successful bidder.
6. Tenders Prepared and Submitted at Cost of Bidders
   1. NEF shall not accept any liability for any costs resulting from the cancellation of this process nor for any other costs incurred by those tendering, who do so at their own expense.

Appendix 1  
Important Information and Instructions for Bidders

NEF is operating the procurement process to appoint the new portfolio manager in accordance with the 'restricted procedure', under regulation 28 of the Public Contracts Regulations 2015 (Regulations).

NEF is committed to the principles enshrined in the Regulations: to treat all bidders equally and in a non-discriminatory way and to act in a transparent and fair way.

To help ensure that all bidders are treated equally and fairly, all queries in relation to the procurement process or the ITT documents must be submitted to NEF by email, to: [alastair.smith@northeastfinance.org](mailto:alastair.smith@northeastfinance.org). Any responses to queries which NEF intend to issue and which may be relevant to all bidders will then be circulated simultaneously to every party which supplies an email address to NEF for this purpose. If you want to receive this information, please send an email with the subject "Tender Clarifications" to [alastair.smith@northeastfinance.org](mailto:alastair.smith@northeastfinance.org) and state in the email which email address NEF should use to inform you of such clarifications.

**NEF reserves the right to cancel this procurement process and/or to reject all tenders at any time prior to the award of the contract. NEF shall not accept any liability for any costs resulting from the cancellation of this process nor for any other costs incurred by those tendering, who do so at their own expense.**

**Submission of Tenders**

Tender submissions must be submitted no later than 13:00 (1pm) on [**TBC** – Friday 30th November 2018) to NEF by email to: [tenders@northeastfinance.org](mailto:tenders@northeastfinance.org)

The documents which must be included with all tender submissions are:

1. your Tender Proposal Document response to the Tender Proposal Questionnaire (Appendix 2);

2. the Form of Tender (Appendix 3), duly completed and signed.

Any tenders which are received after the deadline or which are incomplete may be rejected and not considered by NEF. NEF may, at its sole discretion, extend the closing date – on the basis that the extension would apply (and be communicated to) all prospective bidders.

**Data Room**

[*Details of how to access the Data Room will be included in the final version of this Invitation to Tender document which is issued to those bidders which pass the Selection Questionnaire stage. The Data Room will include detailed information on the Technology Fund portfolio and regarding the North East Technology Fund Limited Partnership, its general partner and information relevant to potential TUPE rights of individuals currently involved in the delivery of the Technology Fund.*]

**Contract and Timetable**

The form of contract which the successful bidder will be required to enter into is being provided as a separate file accompanying this ITT, as Appendix 5. Some provisions of the contract will be derived from the successful bidder's tender, in particular as regards remuneration.

The successful bidder will be required to execute the contract within 14 days of award (or such later date as decided by NEF); no negotiations on contract terms are permitted under the Regulations. NEF does however reserve the right to amend the contract to take into account any terms and conditions applied by NEF's funders and/or which are required by any regulatory changes.

It may also be necessary for the successful bidder to provide a formal legal opinion from its solicitors confirming that it has the capacity and authority to enter into, deliver and perform the contract, and any such further information or documentation as may be required by the European Investment Bank.

NEF would like the successful bidder to begin managing the North East Technology Fund as soon as reasonably practicable following the award of the contract. In the Tender Proposal Document, bidders are asked to describe their approach to rapidly assuming full operational management of the fund.

An indicative timetable for completing the procurement process is set out below:

| **Event** | **Date / Approximate Date** |
| --- | --- |
| Contract Notice Sent to OJEU | Monday 17 September 2018 |
| Deadline for Submission of Selection Questionnaire Responses | 13:00, Thursday 18 October 2018 |
| Selection Questionnaire Evaluation Concludes; Successful Bidders issued with Invitation to Tender | [Thursday 25 October 2018] |
| Deadline by Which Tenders Must Be Submitted to North East Finance | [Friday 30 November 2018] |
| Final Selection of Successful Bidder and Start of Mandatory Standstill Period | [Friday 7 December 2018] |
| Contract Completed – With Effective Date to be 1 January 2019. | [Week commencing 17 December 2018 or asap thereafter] |

**Basis of Contract Award**

NEF will award the contract to the bidder which achieves the highest score when the award criteria set out in the ITT document are applied to bidders' responses to the Tender Proposal Document.

Any decision by NEF to award a contract to a fund manager may be subject to the approval of the European Investment Bank, which may undertake or instruct due diligence on bidders. The final decision to award the contract to the fund manager may therefore be subject to the fund manager successfully completing the EIB's due diligence assessment. Any such due diligence assessment would not represent a further evaluation of the fund manager but, as it would be necessary to avoid NEF breaching covenants in its facility agreement with the EIB, it would represent a precondition to NEF's ability to award the contract.

Appendix 2  
Tender Proposal Questionnaire

Please prepare a Tender Proposal Document, which sets out your answers to the questions in the below table – following the order of the questions below, and observing the maximum word limits which are stated. NEF has set the word limits relatively high, to make it easier for bidders to provide as much information as they would like without having to spend undue time tailoring responses to word limits. It is not necessary to fully utilise the word limits if complete responses can be given using fewer words.

|  |  |
| --- | --- |
| **Tender Questions / Award Sub-Criteria** | **Weightings** |
|  |  |
| **1. Approach to Portfolio Management** | 55% |
| **1.1 General Approach to Portfolio Management**  Please summarise the general approach you will adopt when managing the Technology Fund portfolio, detailing how you will deliver the Contract Requirements and providing a summary of the individuals who will undertake the work for your organisation and an indication of the time they will devote to the Technology Fund portfolio. You must name one of the individuals referred to in your response to this question as the Key Person for this contract, who will be identified as such in the Fund Management Agreement. Word Limit: 2000 words. | 10% |
| **1.2 Ability to Rapidly Assume Responsibility for and to Resource the Contract**  Please describe how you would approach taking-on responsibility for the Technology Fund portfolio and for delivering all of the Contract Requirements within four weeks of being advised that you are the preferred bidder. In your response, please include a summary of the availability of the individuals to be deployed on the contract and of the timescales within which any recruitment processes required will be concluded. Word limit: 1500 words. | 5% |
| **1.3 Approach to Assisting Investees Raise Further Finance**  Please summarise how you will assist the Technology Fund investees, where appropriate, to secure additional funding / investment and any steps you would take to reduce any dilutive effect of such further investment on the value of the Technology Fund’s investment. Word limit: 1500 words.  *Relevant Contract Requirements for the purposes of this question are those numbered: 5, 6, 9 and 10.* | 5% |
| **1.4 Approach to Managing and Realising Value from the Principal Assets in the Technology Fund Portfolio**  The 15 principal assets in the portfolio are identified at section **TBC** in the Data Room. Please detail the approach you will take to managing each of these, outlining the strategy you would take to maximise value and financial returns, and the individual(s) from your organisation who would principally work on each asset. You do not have to provide separate responses for each asset, e.g. if you will adopt the same or similar approach to two or more then one response (stated to cover multiple, specified assets) is acceptable and the word limit for a combined response is 500 words per assets covered in that response. Word limit: 500 words max per asset.  *Relevant Contract Requirements for the purposes of this question are those numbered 4 to 10 (inclusive), which should be interpreted with reference to the sector, circumstances and requirements of each of the relevant investments.* | 25% |
| **1.5 Approach to Realising Value for Remaining Portfolio**  Please summarise how you will realise value from the remaining assets in the portfolio, as detailed as section **TBC** of the Data Room. Word limit: 1,500 words.  *Relevant Contract Requirements for the purposes of this question are those numbered 4 to 10 (inclusive), which should be interpreted with reference to the sector, circumstances and requirements of each of the relevant investments.* | 5% |
| **1.6 Fund Governance Including Conflicts of Interest**  Please detail how important decisions regarding Technology Fund investees will be made by your organisation (e.g. investor consent requirements regarding further investment), and by whom.  Please detail how any potential conflicts of interest in relation to the Technology Fund will be dealt with by your organisation, e.g. should it consider investing in a Technology Fund portfolio company from other sources of capital under its management.  *Relevant Contract Requirements for the purposes of this question are those numbered 3, 6 7, 9 and 12.* | 5% |
| **2. Remuneration and Alignment of Interests** | **45%** |
| **2.1 Fixed Fund Management Fee**  Please state a fixed amount (not a percentage of capital under management), if any, which you propose charging for providing the services required. Any fixed amount(s) proposed must be broken down and provided as follows:  1. Initial Period (from contract completion to 31/12/19, i.e. c.12 months): **£A**  2. Second Year: (from 1/1/20 to 31/12/20): **£B**  3. Final Period (from 1/1/21 to 30/6/21); **£C**  4. Monthly Charge for Any Extension (post 30/6/21, if extension agreed): **£D**  5, Set up costs: **£E**  [*Note: this criteria will be scored by aggregating the total of £A+£B+£C+£D+£E and the lowest total amount tendered will receive the full 20%, with other proposals receiving a score which is lower, proportionately, to the lowest amount tendered. A minimum fee of £65k will be assumed for all bidders – see section 7.6 of the ITT].*  6. Fee to manage additional assets: **F%** of acquisition cost per annum, being the maximum which can be charged per annum for each asset.  [*Note: the fee for additional assets (F%) will not be included in the evaluation of price calculation, as it is not expected to be used but is included to provide a basis for pricing should this contingency be utilised. The percentage proposed is the maximum annual fee per asset which is transferred by agreement between the successful bidder and NEF into the Technology Fund. It must be proposed as a maximum annual fee per asset, expressed as a percentage of the acquisition cost paid by the NEF Fund for the transferring asset. For example, if NEF proposed to transfer an asset which had been acquired for £1m to the Technology Fund and the successful bidder had proposed 1% as its response to Q6. F%, above, then the maximum annual fee it could charge to take that asset under management would be £10,000 per annum, charged pro rata quarterly in advance. The actual charge would be subject to agreement between the manager and NEF, in the absence of which the transfer would not be effected. As stated in section 2.14 of the ITT, returns generated by any assets transferred into the Technology Fund portfolio will not be included in the performance-related fee arrangement referred to in Question 2.2, below.*] | 20% |
| **2.2 Performance Related Fee**  2.2(a) Propose a threshold of *additional* returns generated by the portfolio from the point which you take on the contract, being the quantum of returns above which your bonus fee becomes payable: £Xm. [Note: *minimum threshold is £5m; if you propose an amount lower than that, it will be deemed to be £5m*]  2.2(b) Propose a ‘bonus’ fee you will receive, being a percentage of all returns over and above the amount proposed in response to 2.2(a), which will be paid to you if you exceed that threshold: Y%  [Note: *maximum bonus percentage is 10%*; *if you propose an amount above that level, it will be deemed to be 10%*]  [*Note: NEF will inform all parties which are invited to tender of any material changes to / disposals by the Technology Fund during the tender process and afford bidders an opportunity to adjust proposals if any material changes occur prior to the deadline for tenders to be submitted. If any material changes to / disposals by the Technology Fund occur subsequent to the tender submission deadline then the response to Q.2.2(a), above, will be adjusted by removing the relevant amount from the figure proposed (£Xm), based on the actual change/disposal(s) which occurs and the assumption made by the successful bidder regarding the contribution which the disposed asset was expected to make to returns relevant to the performance related bonus payment. For example, if Company A is sold by the Technology Fund for £1m before conclusion of the contract with the new manager and the new manager had assumed in its calculations for 2.2(a), above, a £1m contribution from Company A then the amount which will be included in the contract as the returns threshold / hurdle will be the £Xm proposed by the bidder less £1m. Any changes to/disposals by the Technology Fund following the submission of tenders will be disregarded for the purposes of tender evaluation.*] | 20%  5% |

Appendix 3  
Form of Tender

To: North East Finance (Holdco) Limited

First Floor

33 Grey Street

Newcastle Upon Tyne

NE1 6EE

For the Attention of: **Alastair Smith**

We the undersigned, hereby tender and offer to provide the contract as listed below as more particularly referred to in the Invitation to Tender and Tender Specification Document supplied to us for the purpose of tendering for the provision of the contract and upon the terms thereof.

We confirm that if we are successful we will provide the services in accordance with the contract which consists of:

* + 1. the Fund Management Agreement;
    2. the Tender Proposal Document and any other information supplied in our tender or subsequently agreed in accordance with the Fund Management Agreement to be incorporated in the contract.

We also confirm that if we are successful we will enter into the Share Purchase Agreement.

The contract will be created by North East Finance when it notifies us of the acceptance of our offer as constituted by our tender submissions in relation to the contract.

We undertake in the event of acceptance of our offer:

* + 1. to supply the Services in accordance with the contract;
    2. to execute the Fund Management Agreement within 14 days of such acceptance;
    3. to execute the Share Purchase Agreement and any associated documents referred to in that document; and
    4. that this offer is made in good faith and that we have not fixed or adjusted the amount of the offer by agreement, or in accordance with any agreement or arrangement, with any other person.

We hereby certify that we have not (and that no organisation associated with us has) and we hereby undertake that we will not:

* + 1. communicate to any person other than the person inviting these offers the amount or approximate amount of the offer, except where the disclosure, in confidence, of the approximate amount of the offer was necessary to obtain quotations required for the preparation of the offer, for insurance purposes or for a contract guarantee bond;
    2. enter into any arrangement or agreement with any other person that he or the other person(s) shall refrain from making an offer or as to the amount of any offer to be submitted;
    3. canvass any member, Director, employee or adviser of NEF in connection with the proposed award of the contract by NEF and that no person employed by us or acting on our behalf, or advising us, has done any such act.

We agree that NEF may, in consideration of our offer, and in any subsequent actions, rely upon the statements made in this Form of Tender.

We confirm that the prices in our offer will remain firm for 90 days.

We understand that NEF reserves the right to accept or refuse this offer, or any part of this offer, whether it is lower, the same, or higher than any other offer.

We understand that any decision of NEF to award the contract to us may be subject to the European Investment Bank being satisfied with the outcome of a due diligence assessment on us. We hereby agree to participate in such due diligence exercise and to promptly supply such information as is reasonably requested as part of the due diligence exercise.

We confirm that the information supplied to you and forming part of this offer was true when made and remains true and accurate in all respects. We confirm and undertake that if any of such information becomes untrue or misleading that we shall notify you immediately and update such information as required.

Signed by

Name……………………………………… Position……………………………………………..

and

Name……………………………………… Position …………………………………………….

for and on behalf of **[FUND MANAGER]**

in the presence of:

Witness signature …………………………………

Full Name of Witness …………………………………

Address………………………………………………………………………………………………....

Date:……………………………………………………………………………………………….…..

**Appendix 4**

**Current Structure of North East Technology Fund Limited Partnership**

